

THE FREEMAN

IDEAS ON LIBERTY

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Income "Distribution"

Despite a voluminous and often fervent literature on "income distribution," the cold fact is that most income is *not* distributed: It is *earned*. People paying each other for goods and services generate income. While many people's entire income comes from a salary paid to them by a given employer, many others collect individual fees for everything from shoe shines to surgery, and it is the sum total of these innumerable fees which constitutes their income. . . .

To question the "fairness" or other index of validity of the existing statistics growing out of voluntary economic transactions is to question whether those who spent their own money to buy what they wanted from other people have a right to do so. To say that a shoe shine boy earns "too little" or a surgeon "too much" is to say that third parties should have the right to preempt the decisions of those who elected to spend their money on shoe shines or surgery. To say that "society" should decide how much it values various goods and services is to say that individual decisions on these matters should be superseded by collective decisions made by political surrogates. But to say this openly would require some persuasive reasons why collective decisions are better than individual decisions and why third parties are better judges than those who are making their own trade-offs at their own expense.

—THOMAS SOWELL
The Vision of the Anointed

Harassing Business

The only viable definition of monopoly is a grant of privilege from the government. It therefore becomes quite clear that it is impossible for the government to *decrease* monopoly by passing punitive laws. The only way for the government to decrease monopoly . . . is to remove its own monopoly grants. The antitrust laws, therefore, do not in the least "diminish monopoly." What

they do accomplish is to impose a continual, capricious harassment of efficient business enterprise. The law in the United States is couched in vague, indefinable terms, permitting the Administration and the courts to omit defining in advance what is a "monopolistic" crime and what is not. Whereas Anglo-Saxon law has rested on a structure of clear definitions of crime, known in advance and discoverable by a jury after due legal process, the antitrust laws thrive on deliberate vagueness and *ex post facto* rulings. No businessman knows when he has committed a crime and when he has not, and he will never know until the government, perhaps after another shift in its own criteria of crime, swoops down upon him and prosecutes. The effects of these arbitrary rules and *ex post facto* findings of "crime" are manifold: business initiative is hampered, businessmen are fearful and subservient to the arbitrary rulings of government officials, and business is not permitted to be efficient in serving the consumer.

—MURRAY ROTHBARD,
Power and Market

What Was Lost

I saw in State Rights the only availing check upon the absolution of the sovereign will, and secession filled me with hope, not as the destruction but as the redemption of Democracy. . . . Therefore I deemed that you were fighting the battles of our liberty, our progress, and our civilization; and I mourn for the stake that was lost at Richmond more deeply than I rejoice over that which was saved at Waterloo.

—Letter from Lord Acton to
Robert E. Lee, November 4, 1866



1995–96 Olive W. Garvey Fellowships

Since 1972, the Garvey Fellowship program has awarded financial fellowships to advance the higher education of outstanding young academics around the world through a competitive essay contest on the meaning and significance of economic and personal liberty. Olive W. Garvey Fellows have since become some of the finest of scholars, business leaders, and journalists, applying and advancing public knowledge and appreciation internationally for the ideas of individual liberty and personal responsibility.

The Independent Institute, the sponsor of the program, has announced the following recipients of the 1995–96 Olive W. Garvey Fellowships: *First Prize, \$2,500*—*Bryan Caplan* (Department of Economics, Princeton University); *Second Prize, \$1,500*—*Jeffry W. Duffy* (London School of Economics); and *Third Prize, \$1,000*—*Michael Huemer* (Department of Philosophy, Rutgers University).

This year's Olive W. Garvey Fellowships have been awarded to the authors of the top three essays on the topic, "The road to prosperity and human welfare: free markets or government controls?" Mr. Caplan's first-prize essay, "Freedom and Happiness," appears on pages 37–41 of this issue. Excerpts from the second- and third-prize winning essays start on page 42.

All entries were reviewed by a panel of three distinguished scholars: Gerald Gunderson (Professor of Economics, Trinity College), Daniel Klein (Professor of Economics, University of California, Irvine), and John Morehouse (Professor of Economics, Wake Forest University).

For further information on the Olive W. Garvey Fellowships program, please contact Ms. Theresa Navarro, Director of Program Services, The Independent Institute, 134 Ninety-Eighth Avenue, Oakland, CA 94603; Phone: (510) 632-1366; fax: (510) 568-6040; E-mail: independ@dnai.com.

Why Mass Media Mergers Are Meaningless

by Adam D. Thierer

Time Warner Inc.'s \$8 billion acquisition of Turner Broadcasting System Inc., along with other recently announced alliances of media giants—Walt Disney and Capital Cities/ABC Inc., Westinghouse Electric Co. and CBS Inc.—has observers of all political stripes wondering whether an already mediocre television programming menu is about to become even less appetizing.

While one can argue the merits or demerits of the mergers on program quality, more disturbing arguments are being put forward that such mergers and alliances should not be allowed to go forward in the first place. The Department of Justice has already said it may challenge elements of the Time Warner-Turner deal and is now looking into the Disney-ABC merger.

This would be a mistake. Prohibiting such alliances from occurring would be *anti-competitive* and an utter waste of regulators' time. There simply is no credible evidence that these mergers will hurt consumers. The old days of mass-media monopolies and shovel-fed couch-potato fare are over. These corporations will compete in a radically modernized media marketplace that is eroding their traditional advan-

tages while forcing them to further improve the quality of their own offerings.

Today's communications, entertainment, and computer markets are becoming increasingly demand-driven. That is, consumers are now, more than ever, being provided with the tools to tailor-make programming to meet their own tastes. A critical juncture is about to be reached in the history of these three distinct sectors as they merge into one new larger industry: the information sector. The digitalization of information—its coding and distribution in a more efficient and cost-effective fashion—has facilitated this process. As it continues, the costs of information processing, storage, and distribution will continue to fall rapidly. Consequently, countless new sources of information and entertainment will make their way into American homes and workplaces, especially via the computer.

It's already happening. Internet surveyists Matrix Information and Directory Services (MIDS) estimate that roughly 13.5 million people currently use the Internet, and that the number is doubling every year. If Internet access continued to grow at that rate (as it has for the past six years), everyone in the world would be wired by 2003! Of course, that won't happen, but such remarkable growth bodes unfavorably for the older media moguls, whose idea of viewer empowerment is a remote control with more buttons.

Mr. Thierer is the Walker Fellow in Economic Policy with The Heritage Foundation in Washington, D.C., and author of the series, "A Policy Maker's Guide to Deregulating Telecommunications."

No Uncompetitive Advantage

The merging media giants may gain some programming advantages in the short run via their combined pool of investment capital. But, they certainly will have no *uncompetitive* advantages since they will be just one of many providers consumers can request service from in the near future. With consumers calling the shots, the idea that programmers like ABC, CBS, Turner, Time Warner, and Disney will have a serious advantage over all other information-entertainment providers is unrealistic.

Indeed, one must wonder if the television itself will survive the digital storm. Technological visionaries like George Gilder and Nicholas Negroponte warn of the impending death of TV and its eventual overthrow by the more intelligent, programmable personal computer along with its many on-line, consumer-driven services. If the Internet revolution continues apace, they may be right. No wonder the broadcast industry is currently begging Congress to give them additional broadcast licenses *free of charge* to make their transition into the digital world.

This is the real meaning behind the new mergers. Older firms are looking to merge as the world around them becomes less certain. In reality, Americans should feel somewhat sorry for these firms that feel they must “merge or die,” so to speak. In essence,

their actions are a signal to the world that the old media empires are modern-day dinosaurs headed for extinction. Scholars like Harvard Business School professor Michael Porter have noted that alliances “proliferate in industries undergoing structural change or escalating competition, where managers fear they cannot cope. They are a response to uncertainty, and provide comfort that the firm is taking action.” In other words, the merger or alliance is often the last refuge of a desperate corporation, a lifeboat to grab hold of while the bigger ship is sinking. For America’s mass-media firms looking to buy competitive advantages both upstream and downstream, they have to hope this strategy works. Meanwhile, pesky information-age entrepreneurs will continue to chip away at the broadcast empire by continuing to offer more innovative services.

But regardless of whether these media merger experiments succeed in the long run, there is no need for policy-makers to intervene and micromanage their transitional efforts. As Negroponte notes: “The combined forces of technology and human nature will ultimately take a stronger hand in plurality than any laws Congress can invent.” Being that this is undoubtedly already the case, legislators and regulators can rest easier knowing Disney’s Mickey Mouse and his new broadcast buddies won’t be monopolists any time soon. □

Op-Ed Watch

The Foundation for Economic Education continues to expand in its efforts to spread the message of liberty. Part of our important work is our newspaper editorial program. Special versions of our best *Freeman* articles are appearing in newspapers across the country—and around the globe. You can help us to monitor our work. If you see one of our articles in your paper, drop us a line or give us a call.

Seizure Fever: The War on Property Rights

by James Bovard

Mass confiscation has become politically fashionable. Politicians and the courts have created an overwhelming presumption in favor of the government's right to seize control over private land, private homes, boats, and cars, and even the cash in people's wallets. While the dispute over property rights is often portrayed as merely an economic contest, the power of government officials to seize private property directly subjugates citizens to the capricious will of those officials.

Once upon a time, possession was nine-tenths of the law. Nowadays, gossip is sometimes nine-tenths of possession. Thousands of American citizens are being stripped of their property on the basis of rumors and unsubstantiated assertions made by the government's confidential informants.

Beginning in 1970, Congress enacted legislation to permit government to seize property of Mafia organizations and big-time drug smugglers.¹ In succeeding decades, other forfeiture laws were enacted, and federal agents can now seize private property under more than 200 different statutes.² From 1985 to 1991, the number of federal seizures of property under asset forfeiture laws increased by 1500 percent—reaching a total of \$644 million.³ State and local

governments have also seized hundreds of millions of dollars of property in recent years.⁴ According to Steven Kessler, a New York lawyer who authored a three-volume 1993 study on federal and state forfeiture, "The use of forfeiture has probably increased a hundred-fold in the last ten years."⁵ Thousands of Americans have had their property confiscated thanks to the forfeiture laws.

Unfortunately, the more forfeiture laws legislatures enacted, the less attention police seem to pay to major criminals. Representative Henry Hyde of Illinois noted in June 1993 that 80 percent of the people whose property is seized by the federal government under drug laws are never formally charged with any crime.⁶ Representative John Conyers of Michigan declared at a June 1993 congressional hearing: "A law designed to give cops the right to confiscate and keep the luxury possessions of major drug dealers mostly ensnares the modest homes, cars and hard-earned cash of ordinary, law-abiding people."⁷

Legalized Theft

Willie Jones of Nashville was flying to Houston on February 27, 1991, to purchase plants for his landscaping business. Because Jones was black and paid cash for his plane ticket, the ticket clerk reported him to nearby Drug Enforcement Agency officers,

Mr. Bovard is the author of Shakedown (Viking, 1995) and Lost Rights: The Destruction of American Liberty (St. Martin's, 1994).

who presumed Jones was a drug courier. DEA officers at the Nashville airport approached Jones, checked his identification, and asked permission to search him. Although Jones refused to grant permission, the officers searched him anyway and found \$9,000 in cash. The DEA agents then announced that they were “detaining” the money. Jones observed: “They said I was going to buy drugs with it, that their dog sniffed it and said it had drugs on it.” (A 1989 study found that 70 percent of all the currency in the United States had cocaine residue on it.)⁸ Jones never saw the dog. The officers didn’t arrest Jones, but they kept the money. When Jones asked the officers for a receipt for his money, they handed him a receipt for an “undetermined amount of U.S. currency.” Jones objected and asked the officers to count the money out, but the officers refused, claiming that such an action would violate DEA policy.

Federal judge Thomas Wiseman, in an April 1993 decision, concluded that “the officers’ behavior at this point was casual and sarcastic . . . they believed that the seizure of the currency was all but a *fait accompli* . . . they cared little for Mr. Jones’s feelings of insecurity.”⁹ Judge Wiseman concluded that the DEA officials’ testimony on the seizure was “misleading,” “unconvincing,” and “inconsistent” and ordered the money returned—after a two-year legal battle. Jones observed: “I didn’t know it was against the law for a 42-year-old black man to have money in his pocket.”¹⁰

A married couple in Ottsville, Pennsylvania, had their \$250,000 home confiscated after police found marijuana plants inside the house; the couple and their three children were effectively evicted from their own home. District Attorney Gary Gambardella, who filed the motion to confiscate the home, observed: “People say that selling drugs is a victimless crime, but the children are the real losers here.”¹¹

Asset forfeiture increases the power of local policemen over people they do not like. In Washington, D.C., police routinely stop black citizens and “confiscate small amounts of cash and jewelry on the streets

and in parks—even when no drugs are found or charges filed.”¹² Ben Davis, a resident of Washington, complained, “I’ve got money in both pockets, but I don’t know how much. The assumption is, if I can’t tell you exactly how much I have, it must be from criminal enterprise.”¹³

Increasingly, the mere suspicion of a government official is sufficient proof to nullify all claims that a citizen legitimately owns his property. The Volusia County, Florida, sheriff’s department set up a “forfeiture trap” to stop motorists traveling Interstate 95 and seized an average of over \$5,000 a day from motorists between 1989 and 1992—over \$8 million dollars total. In three-quarters of the seizures, no criminal charges were filed. An investigation by the *Orlando Sentinel* revealed 90 percent of those seizure victims were black or Hispanic.¹⁴ When confronted with this statistic, Volusia County Sheriff Bob Vogel said, “What this data tells me is that the majority of money being transported for drug activity involves blacks and Hispanics.”

People whose cash was seized by the deputies received scant due process of law; as the *Sentinel* noted, one deputy told two blacks from whom he had just confiscated \$19,000: “You have the right to follow us back to the station and get a receipt.” Even citizens who provided proof that their money was honestly acquired (including a lottery winner’s proof of his lottery receipts) were treated like drug dealers. Volusia County officials routinely offered “settlements” to drivers whose cash they seized, offering to return a percentage of the seized cash if the drivers would sign a form promising not to sue.

Asset forfeiture laws are turning some federal agents into the modern-day equivalent of horse thieves. Ranchers are being victimized by seizures based on allegations of violations of environmental laws. On March 10, 1992, U.S. Fish and Wildlife Service and state agents trespassed 15 miles onto Richard Smith’s Texas ranch, accused him of poisoning eagles, and seized his pickup truck. The agents later tracked down Smith’s 75-year-old father, W.B. Smith, and

seized his pickup truck—threatening to leave an old man who had had five heart bypass operations ten miles out of town with no transportation.¹⁵ The agents produced no evidence to support their accusation and returned the trucks nine months later without filing charges.¹⁶ W.B. Smith complained: “The Fish and Wildlife Service is out of control, and the Endangered Species Act has given them the tools to destroy the ranching industry.”¹⁷

Lawyer Nancy Hollander told the House Government Operations Committee in June 1993: “All too often, in my practice back in Albuquerque, I see cases where someone loses the family pick-up truck at the time of arrest for a non-money related, non-drug federal crime. These persons frequently give up the criminal case, even when the prosecution has little merit, to negotiate the release of a vehicle which provides their livelihood.”¹⁸

Confiscation based on mere suspicion is the essence of contemporary asset forfeiture. In Adair County, Missouri, local police seized Sheri and Matthew Farrell’s 60-acre farm based on an unsubstantiated tip from a paid drug informant who claimed that Farrell had a vast field of marijuana and used tractors outfitted with special lights to harvest it at night. Police made no effort to investigate the allegations before seizing Farrell’s farm. The case against Farrell and 34 other local defendants collapsed when the informant refused to testify in court—first because he claimed he had laryngitis, and then because he claimed a total loss of memory.¹⁹ Despite the collapse of the prosecution’s case, the police refused to return Farrell’s farm. They had a change of heart after the *Pittsburgh Press* exposed the case, although they required that the Farrells sign an agreement promising not to sue before giving back the farm. The case cost the Farrells over \$5,600 in legal fees.

Distorted Law Enforcement Priorities

Asset forfeiture distorts law enforcement priorities; instead of chasing violent crimi-

nals, some police target wealthy citizens. Early in the morning of October 2, 1992, a small army of 31 people from eight law enforcement agencies smashed their way into 61-year-old Donald Scott’s home on his 200-acre Trail’s End Ranch in Malibu, California. The raiders were equipped with automatic weapons, flak jackets, and a battering ram.²⁰ Scott’s wife screamed when she saw the intruders, Scott came out of the bedroom with a pistol in his hands, and police gunned him down. After killing Scott, the agents thoroughly searched his house and ranch but failed to find any illicit drugs.

Ventura County district attorney Michael Bradbury investigated the raid and issued a report in 1993 that concluded that a “primary purpose of the raid was a land grab by the [Los Angeles County] Sheriff’s Department.”²¹ Bradbury revealed that at a briefing before the raid took place, government agents were informed that the ranch had been appraised at \$1.1 million and that “80 acres sold for \$800,000 in 1991 in the same area.”²² The law officers at the briefing were told that if they discovered as few as “14 marijuana plants” on the ranch, the entire property could be seized.²³ Bradbury also concluded that a Los Angeles sheriff’s deputy had lied to obtain a search warrant and declared: “This search warrant became Donald Scott’s death warrant. This guy should not be dead.”²⁴ Los Angeles officials claimed that a confidential informant told them that marijuana was being grown on Scott’s ranch, but the informant denied ever making such a statement.²⁵

In Pittsburgh, federal prosecutors last year devastated Jane Ward after she had fully cooperated with them in testifying to help solve the murder of her husband, John Ward. Prosecutors decided that John Ward had been a drug dealer and that all of his previous income was drug-related. They proceeded to confiscate almost all of the assets of the widow (who had her own legitimate business); federal officials arrived with a truck at the Ward’s home and carted off all the family’s furniture. Prosecutors even sought to confiscate all the proceeds from Ward’s life insurance; Jane Ward and

her three children were forced to go on welfare, according to Terrance Reed, Ms. Ward's lawyer and one of the nation's leading authorities on forfeiture law.

Asset forfeiture property grabs are sparking fights across the nation—even in states known for giving government a long leash, such as Maryland. In Frederick, Maryland, police seized a 1988 Toyota pickup truck from a local resident after he bought \$40 worth of a drug placebo from an undercover cop at an open-air drug market. Under Maryland law, local police and prosecutors have effectively unlimited power to confiscate any vehicle they suspect was involved, or that the owner intended to be involved, in transporting drugs. Maryland police have confiscated thousands of autos and trucks in recent years, often based on mere accusations.

After Maryland Delegate John Arnick proposed a law to reform the forfeiture procedure to shore up defendants' rights, state officials went berserk. Harford County State's attorney Joseph Cassilly denounced Arnick's proposal: "It's a crazy law. Absolutely crazy. . . . It's just going to inconvenience the hell out of everybody" by requiring police officials to testify in court to explain why cars were confiscated.²⁶ Frank Charles Meyer, an assistant state's attorney in Baltimore County, justified the existing law: "It hurts the bad guy, it benefits the good guy and it doesn't really cost."²⁷ Police sometimes "settle" the forfeiture cases by allowing the auto owners to buy back their car for half the car's value.

Government by Gossip

The Justice Department's 1992 annual report on asset seizures declared, "No property may be seized unless the government has probable cause to believe that it is subject to forfeiture."²⁸ In reality, government officials are seizing people's property based solely on "hearsay"—rumor and gossip—from anonymous informants.²⁹ (Hearsay evidence is held in such low esteem in the American judicial system that it cannot be introduced into court in criminal pro-

ceedings.) Police routinely refuse to reveal their source of a rumor about the forfeiture target; some policemen have likely invented anonymous informants to give them a pretext to take private property they covet. In Fort Lauderdale, Florida, police seized the \$250,000 home of a dead man from his heirs who had cared for him while he was dying of cancer. The justification for the seizure? A "confidential informant told police that [two years earlier] the owner . . . took a \$10,000 payment from drug dealers who used a dock at the house along a canal to unload cocaine. The informant can't recall the exact date, the boat's name or the dealers' names, and the government candidly says in its court brief it 'does not possess the facts necessary to be any more specific,'" as the *Pittsburgh Press* reported.³⁰ Although the police had no evidence that the deceased homeowner was involved in drug dealing, an informant's vague, uncorroborated assertion was sufficient to evict the owners and seize the property. While government agents can use hearsay evidence to justify a seizure, property owners are usually prohibited from offering hearsay evidence to support their claims.

Law enforcement officials are also seizing apartment buildings to punish the landlords for not eradicating drug dealing in the apartments. (If the same standard were applied to inner-city public housing projects, almost every public housing project in the country could be seized *from* the government; in 1993 Baltimore Mayor Kurt Schmoke blamed maintenance problems at one public housing project on drug dealers who refused to let city workers enter the buildings.)³¹

In Florida, the Dade County Commission revised county laws in 1989 to allow county officials "to demolish a nuisance building within 30 days after the police report drug activity at the property. Proof of drug activity is defined in the ordinance as one arrest."³² The owner of a 36-unit apartment building in Milwaukee sought to placate the police by evicting ten tenants suspected of drug use, giving a master key to local beat cops, forwarding tips to the police, and hiring two security firms to patrol the build-

ing. The city still seized the building because, as Milwaukee city attorney David Stanosz declared, "Once a property develops a reputation as a place to buy drugs, the only way to fix that is to leave it totally vacant for a number of months. This landlord doesn't want to do that."

The owner had encouraged the police to send undercover agents into the building—but the police claimed they were too short of officers.³³ In July 1992, several Cleveland landlords informed the police of drug dealing in their buildings; the city responded by quickly seizing the buildings and evicting all tenants, even in a building where drug-dealing occurred in a single apartment.³⁴ Apparently, the worse the police fail to control crime, the more power police acquire to seize law-biding citizens' property.

The Long Arm of Legal Plunder

Asset forfeiture is spreading like wildfire through the statute books. Some Islamic countries impose draconian penalties on men who approach and talk to women in public. In Washington, D.C., Portland, Oregon, and Hartford, Connecticut, police confiscate the cars of men who drive up and suggest a "capitalist act between consenting adults" to streetwalkers. Customs Service officials in Texas seized a \$138,000 Lear jet after discovering that the owner had made a typographical error on paperwork he submitted to the Federal Aviation Administration.³⁵ (The FAA's usual response to such a mistake is to require the owner to correct the form.)

The Immigration and Naturalization Service has seized over 30,000 cars and trucks since 1990 from either people helping illegal immigrants enter the United States or construction companies transporting illegal immigrants to job sites.³⁶ Customs agents confiscated the \$113,000 that a Vietnamese mother had collected from 20 families in the Seattle area to take back to Vietnam for humanitarian relief for their relatives.³⁷ (Customs officials pronounced the woman

guilty of violating the Trading with the Enemy Act.)

A New Jersey mother's Oldsmobile was confiscated by police after they alleged that her son had used it to drive to a store where he shoplifted a pair of pants.³⁸ One New York businessman was forced to forfeit all of his gas stations because of a failure to pay New York sales tax.³⁹ A New Jersey construction company had all its equipment seized after state officials decided that the company was technically ineligible to bid on three municipal projects that it had already completed.⁴⁰ Suffolk County, New York, legislators considered a law in 1993 to allow local officials to confiscate the "cars, boats and planes used in connection with any misdemeanor."⁴¹

Asset confiscation programs are creating thousands of new police informants. The Justice Department routinely gives monetary rewards to individuals who report information or make accusations that lead to a seizure. The forfeiture program thus turns many airline ticket agents into conspirators with the government, since anyone who pays cash for an airline ticket stands a chance of being reported as a suspected drug dealer or an accomplice to drug dealing.

Perverse Incentives

Forfeiture is the biggest growth area in law enforcement partly because federal and local police agencies usually keep a large amount of the booty they seize. Federal Judge Richard Arnold noted in 1992 that some observers were questioning "whether we are seeing fair and effective law enforcement or an insatiable appetite for a source for increased agency revenue."⁴² In Nueces County, Texas, Sheriff James Hickey used assets from a federal drug forfeiture fund to grant himself a retroactive \$48,000 salary increase just before retirement (\$400 a month for the previous ten years). The sheriff was indicted for embezzlement by a federal grand jury in August 1993.⁴³ Even internal government documents concede that federal agents have gone overboard: a September 1992 Justice Department news-

letter noted, "Like children in a candy shop, the law enforcement community chose all manner and method of seizing and forfeiting property, gorging ourselves in an effort which soon came to resemble one designed to raise revenues."⁴⁴

Prosecutors and legislators stack the deck against property rights. A 1990 Justice Department directive declared, "It is the Department's position that no advance notice or opportunity for an adversary hearing is statutorily or constitutionally required prior to the seizure of property, including real property."⁴⁵

Professor Claudio Riedi noted in 1992 in the *University of Miami Law Review*, "Frequently, the government can meet its burden of proof by simply qualifying one of its detectives as an expert, who then testifies that a particular way of bundling money is typical for drug dealers. Standing alone, such testimony may be enough for a showing of probable cause, and may therefore entitle the government to forfeiture. In contrast, an innocent owner must adduce massive evidence to prove her case."⁴⁶

The *Orlando Sentinel* noted, "Deputies routinely said bills in denominations of \$1, \$5, \$10, \$20, \$50, and \$100 were suspicious because they are typical of what dealers carry. But that leaves few alternatives for others."⁴⁷

In most forfeiture court proceedings, it is up to the owner to prove that his house, his car, or the cash in his wallet was legally obtained—the government has no obligation to prove that the property is guilty. The fact that a government official makes an unsubstantiated assertion that a piece of property was somehow involved in illicit activity effectively transfers the ownership of that property to the government.

Asset forfeiture is proliferating in part because of a technicality in the law that allows the government to claim that it is suing only the item of property, not the property's owner. This is why forfeiture cases often have peculiar titles such as "*U.S. v. 1960 bags of coffee*," "*U.S. vs. 9.6 acres of land and lake*," or "*U.S. vs. 667 bottles of wine*." And since the Bill of Rights

recognizes the rights only of citizens and state governments, not the rights of chunks of land or bottles of wine, there are almost no due process restrictions on government's attacks on property. A federal appeals court recognized this when it announced in August 1992: "We continue to be enormously troubled by the government's increasing and virtually unchecked use of the civil forfeiture statutes and the disregard for due process that is buried in those statutes."⁴⁸ The citizen must show vastly more evidence to reclaim his property than the government did to seize it in the first place.

Government officials routinely refuse to return seized property even after an accused person has been tried and found innocent. The costs of suing the government to recover property are extremely high, routinely exceeding \$10,000, and citizens must post a bond of up to \$5,000 before filing suit. (The bond is required to cover the government's legal costs in having to defend against a property owner's efforts to reclaim his property.) The legal battles required to recover wrongfully seized property often take two, three, or more years. If the property seized is only worth a few hundred dollars, the person cannot possibly break even by suing the government. Most forfeiture statutes deny a private citizen any compensation for his attorney's fees when he successfully reclaims forfeited property.

No End in Sight

Although the number of asset forfeiture actions has skyrocketed in recent years, Justice Department officials apparently believe that the seizure bull market has only just begun. Cary H. Copeland, director of the Department of Justice's Executive Office for Asset Forfeiture, declared at a June 1993 congressional hearing: "Asset forfeiture is still in its relative infancy as a law enforcement program."⁴⁹ The Federal Bureau of Investigation announced in 1992 that it anticipated that its total seizures of private property would increase 25 percent each year for the following three years.⁵⁰ The Supreme Court marginally limited govern-

ment forfeiture powers in several 1993 decisions, but Justice Department spokesman Mark Sakaley indicated that the decisions were not expected to have a major impact on forfeiture programs.

Mr. Copeland declared that asset forfeiture "is to the drug war what smart bombs and air power are to modern warfare."⁵¹ Asset forfeiture basically allows government agencies to carpet bomb the rights of the American people. The Federal Eighth Circuit Court of Appeals complained in 1992 that it was "troubled by the government's view that any property, whether it be a hobo's hovel or the Empire State Building, can be seized by the government because the owner, regardless of his or her past criminal record, engages in a single drug transaction."⁵²

Conclusions and Implications

Law enforcement in the United States is reverting back toward conditions existing in England before the Magna Carta, when rulers almost automatically seized all the property of any person convicted of a felony. Such seizures spurred English barons to force King John to limit his powers in 1215.⁵³ Unfortunately, some federal officials appear to cherish a pre-thirteenth century philosophy of government power. (A 1992 U.S. Solicitor General's brief quoted the Old Testament and praised forfeiture as an "ancient punishment.")⁵⁴ Asset forfeiture provisions presume that government officials should have the power to inflict economic capital punishment on private citizens for the breaking of scores of laws.

Many civil libertarians believed that the liberal Clinton administration and Attorney General Janet Reno would correct some of the most overt abuses in the forfeiture program. However, Reno has continually postponed substantive reform and even derailed a bipartisan liberal-conservative congressional effort to reform the forfeiture law. Instead, Reno's Justice Department has put forward its own "reform" proposal that has been derided as a "prosecutor's wish list" by forfeiture expert David Smith.

The asset seizure controversy redefines the relation between the State and the citizen: what pretext does the State need to claim that a citizen's property actually belongs to the State? Do people have a right to their property only until some "secret informant" tells police something bad about the citizen's use of his property? If Congress proposed to forcibly alter all private deeds and titles in the United States by adding a clause stating that the government acquires automatic ownership rights if any law enforcement official hears a rumor about a property's possible illicit use, the public backlash would raze Capitol Hill. But, increasingly, that is the law of the land. □

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3. Brief of the Institute for Justice in the case of *U.S. vs. James Daniel Good Real Property, et al.*, No. 92-1180.

4. In California alone, more than \$180 million worth of property has been forfeited since 1989 under a state forfeiture law. Gary Webb, "Police lobbying to save state asset forfeiture law," *San Jose Mercury News*, September 7, 1993.

5. Interview with Steven Kessler, September 21, 1993. Kessler's study on forfeiture is titled *Civil and Criminal Forfeiture: Federal and State Practice* (New York: Clark, Boardman and Callaghan, 1993).

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22. Carol Bidwell, "Motives for Raid Questioned," *Houston Chronicle*, April 4, 1993.
23. Michael Fessier, "Trial's End," *Los Angeles Times Magazine*, August 1, 1993.
24. Daryl Kelley, "Block Challenges Critical Report on Malibu Ranch Raid," *Los Angeles Times*, April 9, 1993.
25. Editorial, "Thieves with Badges."
26. Dennis O'Brien, "Prosecutors Want Veto of Forfeiture Bill," *Baltimore Sun*, April 18, 1994.
27. *Ibid.*
28. U.S. Department of Justice, *Annual Report of the Department of Justice Asset Forfeiture Program 1991* (Washington: Government Printing Office, 1992), p. 7.
29. As lawyer Terrance G. Reed noted, "This probable cause standard for seizure allows the government to dispossess property owners based only upon hearsay or innuendo—'evidence' of insufficient reliability to be admissible in a court of law." Terrance G. Reed, "American Forfeiture Law: Property Owners Meet the Prosecutors," *Cato Institute Policy Analysis No. 179*, September 29, 1992.
30. Andrew Schneider and Mary Pat Flaherty, "With Sketchy Data, Government Seizes House From Man's Heirs," *Pittsburgh Press*, August 14, 1991.
31. Mary Pemberton, "Baltimore Public-Housing Tenants Begin a Rent Strike," Associated Press, February 24, 1993.
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39. Reed, *op. cit.*, p. 12.
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52. *United States v. One Parcel of Property Located at 508 Depot Street*, Docket No. 91-2382SD, May 20, 1992.
53. Brief of American Library Assoc. et al., in *Ferris Alexander v. U.S.*, U.S. Supreme Court, No. 91-1526, September 2, 1992, p. 6. "Criminal forfeiture in *personam* arose in medieval England, where, following a felony conviction, the entire estate of the felon was confiscated and any inheritance from the felon was prohibited. In the Magna Carta, forfeiture on the ground of commission of a felony was sharply curtailed, but survived to an extent in the English common law."
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Building Code Blues

by James D. Saltzman

The authority of government,” wrote Henry David Thoreau, “can have no pure right over my person and property but what I concede to it.” But the city of Houston has a different view, that individuals have no pure right over their property except what the government concedes to them. Consider the case of Leonard and Betty Leath.

In September of 1990, the Leaths purchased a dilapidated 47-unit apartment complex in Houston. During the next two years, they spent \$260,000 to repair the building, planning to offer affordable housing to the low-income elderly. In early 1992 city inspectors found the Leaths’ project “as secure as any other construction in the city.”

However, later court evidence indicates that a city councilwoman did not want the low-rent apartment in her district. So in March of 1992, city inspectors issued the Leaths a stop-work order. For the next five months, city officials refused to explain to the Leaths’ attorney why the rehabilitation would not be permitted to continue. And six months after the stop-work order, the city tore down the Leaths’ building and sent them a demolition bill for \$66,000.¹

This tale about the Leaths illustrates the monstrous regulation that cities can impose on property owners through building codes, mandates for safety (and sometimes even for comfort) in new or existing construction.

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In other words, dangers flow from the political management of risk. When issuing and enforcing safety regulations, governments find it all too easy to seize more power over private property than is needed to ensure public safety; too easy to exploit this power for political purposes irrelevant to public safety; and much too easy to exercise this power in ways that actually undermine public safety.

Needlessly Higher Costs

The problem comes from conflicting incentives. Private owners, like the Leaths, benefit financially from improving their property. For the Leaths, that meant restoring the apartments to attract renters. On the other hand, public officials don't own what they control and lose nothing from unnecessarily increasing the cost of maintaining or developing property.

In fact, three federal commissions in the last 30 years have discovered that needless building code provisions have driven up the cost of housing. In 1968 the Kaiser Committee “found that some communities imposed excessive building codes to prevent the construction of low-cost housing, thereby denying local housing opportunities for lower-income groups.” Similarly, in 1982 the President’s Commission on Housing concluded that “unnecessary regulation of land-use and buildings has increased so much over the past two decades that Americans have begun to feel the undesirable consequences: fewer housing choices, lim-

ited production, high costs, and lower productivity in residential construction.”

The findings of the 1982 study reappeared in the report of another presidential commission in 1991: “Local building codes are often not geared to supporting cost-effective construction of affordable housing. They sometimes generate excessive costs by requiring unnecessarily expensive materials, unnecessary safety features, unnecessary building code requirements, or outmoded construction techniques.”²

So efficiency must take a back seat to the whims of politicians and of building officials. In this system, even good-faith efforts to maintain or restore property can fall into a bureaucratic quicksand of confusing, senseless, and unfair procedures:

- In *The Death of Common Sense* (1995), Philip K. Howard tells how a married couple from Brooklyn spent several years renovating the kitchen and bathrooms of their brownstone. Even though they had satisfied all requirements for submitting plans and having periodic inspections, they were refused the closing document, a certificate of occupancy, because the family had been living in the home while renovating it. According to Howard, “[no] inspector, in all their visits, had ever told them of the rule.”

- The city of Angleton, Texas, tried to make a homeless woman of Vivian Barnett, a 69-year-old widow and retired civics teacher.³ Barnett was refurbishing her home and some vacant adjoining apartments when the city cut off her electricity and condemned the entire complex, threatening to demolish it. Incredibly, no inspector had even entered her property; city officials condemned it after only driving by it. Nevertheless, the city would not restore her power for several days, and she had to take the city to court to have her buildings declared safe.

- Dr. Jack Yetiv got stuck trying to rehabilitate a run-down apartment complex to provide low-income housing in Houston. Yetiv had already spent \$200,000 clearing debris when the city stopped his project, claiming he didn’t have the permits needed to continue. To get these permits, Yetiv had to have the city to approve his “cure plan,”

which the city at first falsely claimed Yetiv had failed to submit. Even after “finding” his plan, the city would not approve it until Yetiv got Houston’s chief building inspector to give the property an occupancy inspection.

But the inspector wouldn’t look at the property until the city removed its “administrative hold” on the complex. Then the city threatened Yetiv with daily fines unless he corrected numerous code violations. Yetiv had never before been told of these violations, even though city inspectors had visited his site almost weekly while his project was underway.

To complete his plans to house the poor, Yetiv had to take the city to court. According to *The Houston Press*, Yetiv’s experience with the city revealed a “frustrating process that would discourage most people from going to the trouble of repairing a dangerous building in Houston.”⁴

Weakened Incentives

Excessive regulation weakens the incentives to improve property. In recent years, the city of Houston has been toughening standards for renovating “dangerous” buildings. The result? “Rehabilitation by owners [of such buildings] has been cut from 1,099 units in 1992 to 184 in 1994,”⁵ according to the Citizens’ Housing Coalition of Houston.

As regulation tightens, production slows, becomes more expensive, or moves to a venue with fewer restrictions. In Houston, building code requirements inside the city make it less expensive to construct housing outside the city, in the unincorporated areas of Harris County.

In 1981, one Houston home builder testified to a federal committee that a “1,166 square-foot house built in the city will cost a buyer \$3,300—or 5.5 percent—more than a similar house built in the county.”⁶ But in Houston, such arguments have fallen on political ears deaf to marketplace realities. One 1992 report cited a complaint by the Greater Houston Builders Association that “90 percent of single-family homes in the

Houston area are built outside city limits” because of the city’s “building code and its permitting process.”⁷ As regulatory costs mount, builders flee, restricting the housing supply even further and causing housing prices to rise even faster.

Special-Interest Regulation

But economic common sense hardly reigns in the adoption of building codes. Too often, codes are written and enforced not to serve the needs of consumers, but to appease the demands of organized pressure groups.

For example, building codes give local elites a powerful instrument for discrimination. A *Wall Street Journal* article from May 5, 1992, explained how. In Bell Gardens, California, a cadre of Anglo incumbents was accused of using “the petty enforcement of codes and other tools of activist government to try to remake the community,” which meant driving out a growing Hispanic population.

One alleged method involved sending out city building inspectors to search low-income housing for code violations. These included such hazards as cracked driveways, scratched kitchen sinks, and smudged walls. As aggressive inspections increased, vacancy rental rates also rose among the largely Hispanic immigrant tenants “understandably wary of house searches.” Meanwhile, the city acquired and sold condemned properties for upscale redevelopment.

Using building safety as an excuse to keep out “undesirables” is nothing new. In “Rediscovering the three decker house” (*The Public Interest*, Winter 1990), Howard Husock explained how New England city planning boards in the early twentieth century used fire safety as a phony rationale to check the spread of owner-occupied three-family houses, or “three-deckers.” However, two observers from 1914 noted that “with stairways and piazzas on two ends of the house, it would be practically impossible for people to be burned alive—and thus far losses of life in three decker fires have been infinitesimal.”⁸

So why did local governments oppose the three-deckers? According to Husock, the “reformers [who opposed three-deckers] were clearly uncomfortable with the market processes that were bringing immigrants into the mainstream of American life,” which meant into the communities of the “reformers.” Much to their chagrin, the three-decker houses provided a way out of crowded tenements for blue-collar immigrants, who could rent one of the flats in the building or even purchase the building, live in one flat, and pay the mortgage with the rent from the other two. However, at the behest of local leaders, cities passed ordinances to restrict or prohibit the three-deckers “because of the fire hazard their wooded construction and density was said to pose.”

Just as a code can be strengthened to expel the poor, it can also be relaxed to indulge the well-connected. The safety of children is a frequent reason for toughening codes, but a March 15, 1995, article in the *Houston Post* noted “a pattern of stonewalling fire code enforcement” by the city’s Fire Marshal to avoid inconveniencing certain constituents, including the local school district over code violations at “various . . . campuses.”

The *Houston Chronicle* explained how the Houston Galleria shopping mall won a moratorium from the enforcement of fire code violations relating to the width of exits. The Astrodome got a similar exemption even though it had 30 percent fewer exits than required by the city fire code. Last December, the *Chronicle* reported that the Houston Museum of Fine Arts had been cited for building and fire code violations. MFA officials “balked” at the initial demands of officials. A compromise was later reached.

Undermining Health and Safety

But heaven help the small property owner who “balks” at the demands of city building officials. In fact, the financially weakest consumers of housing—minorities, the eld-

erly, the handicapped—are the chief victims of municipal crusades to toughen codes. Overzealous laws for building safety only hinder the welfare of those least capable of absorbing the added costs of stiffer regulation. Poorer is not healthier.

In December of 1993, Houston beefed up its housing code, allegedly to discipline rich, irresponsible “slumlords” and to speed the demolition of crack houses. However, after monitoring over 200 dangerous-building hearings under the new code, the Citizens Housing Coalition of Houston reported that “the owners who are summoned to the [dangerous-building] hearings would not fit anyone’s definition of a slumlord. They are generally older Houstonians, many are minorities, and many of them are sick or suffer from physical impairment.”

The *Houston Chronicle* (Sept. 20, 1994) traveled to one of Houston’s poorer neighborhoods and found the city threatening to demolish a partly fire-damaged house belonging to Lucille Huey, a 90-year-old woman living in another house she owned across the street. Even before she could make any repairs, the city’s new housing code was forcing her to spend \$1,000 simply to “resecure” the building. This meant Mrs. Huey would have to board up the property according to exacting city specifications, regarding such trivia as plywood thickness and the number of anchoring screws. Then she would have to repair her old house to bring the *entire* structure up to 1994 standards, another costly endeavor Mrs. Huey could ill afford.

Such a financial drain on poor people hardly leaves them healthier or safer. In other words, the thousands of dollars Mrs. Huey would have to spend on “securing” her house and bringing it up to current code simply reduces her outlay for necessities like food, medicine, and transportation.

The city of Dallas tore down the deteriorated home of Mrs. Agnes Gray, 81. A poor widow, she begged a year’s delay to make repairs, but the city refused. They gave her \$850 for moving expenses but billed her \$1,998 for the demolition and offered her no replacement housing.⁹ In effect, becoming

“safe” cost Mrs. Gray her dwelling and a net liability to the city of \$1,148.

Of course, excessive codes don’t just victimize poor property owners; they harm poor renters as well. Recall how codes smothered the efforts of the Leaths and Dr. Yetiv to refurbish apartments for the poor. In the long run, rambunctious code enforcement leaves the poor with fewer and costlier choices for rental housing. As the 1991 federal report concluded, “[c]odes can create serious problems for those in need of housing, the poor and the homeless.”

And as the poor have to spend more on housing, they are forced to spend less to feed and clothe themselves and their families. Or they must delay the purchase of a car and forgo desirable employment that’s too far away. Or they must wait longer to move up to better housing or to a neighborhood with less crime. By driving up housing costs, onerous building codes make health and safety harder to acquire. As the economist Thomas Sowell notes in *The Vision of the Anointed* (1995), the “pursuit of safety in disregard of cost means a degree of sacrifice of economic prosperity—and economic prosperity is one of the key factors in longevity.”

For the poor, building codes have even hindered safety by increasing their risk of homelessness. For example, cities have allowed safety mandates to wipe out dwellings with single room occupancy (SRO) units. “[T]ypically found in rooming houses and residential hotels,” SROs are “one of the last remaining forms of affordable living space available to the inner-city transient and poor,” according to a report in the February 6, 1992, issue of the *Wall Street Journal*. For example, the report explained that in Seattle, “half the city’s [SRO] units (some 16,000) were destroyed for an urban redevelopment plan because they couldn’t comply with a new fire code.” San Francisco lost one quarter (1,247) of its SRO units between 1976 and 1985, yet “tightening fire and building codes . . . made the prospect of building new SROs impractical and unprofitable.” Apparently, local governments believe that the poor are safer

sleeping on the streets than in a building not up to recent codes.

Getting the Incentives Right

It's risky to leave building safety in the hands of government officials. Since they don't suffer the direct costs of their decisions, property controlled by them tends to be abused and wasted.

A better approach to building safety would eliminate the political overhead. That means a greater role for *private* risk management, in which the "regulator" has an incentive to promote the most safety at the lowest cost to the property owner. Thomas Sowell explains in *The Vision of the Anointed* how private insurance controls risk efficiently:

When an insurance company seeks additional customers for its fire insurance, it must determine incrementally how much risk it is prepared to accept in order to get the additional business and how much it must condition its insurance policies on certain actions by the customer in order to reduce the risks of an outbreak of fire. Make the conditions too stringent and another insurance company gets the customer; make them too lenient and losses from fires will exceed premiums paid by the additional customers.

In his 1978 study, *Housing Costs and Government Regulation: Confronting the Regulatory Maze*, Stephen Seidel noted how the absence of "government promulgated building codes" in France led to the presence of privately promulgated building codes. For the French, "codes are written by the liability insurance companies. . . . To protect themselves against possible liability, those in the construction field obtain insurance which is made contingent on their compliance with minimum construction standards as established by insurance companies." In other words, developers don't want to incur liability damages and insur-

ance companies don't want to risk their money on dangerous properties.

Neither do banks. On December 16, 1981, the *Houston Chronicle* explained how the unincorporated area outside Houston in Harris County lacked a government building code. Nevertheless, "lending institutions control[led] construction outside the city by reviewing the plans [themselves], employing outside architects to review the plans, and using outside inspection firms to monitor construction." Inspection firms, which employ qualified building engineers, are also available to smaller investors, such as homebuyers.

So getting the incentives right means allowing building safety to arise from the spontaneously coordinated interests of everyone with a financial stake in the integrity of the property. That includes the insurer, the lender, the builder, and the owner.

The first lesson of building safety is that individuals have a natural inclination to improve their property, a tendency government policies frequently undermine. Over 150 years ago, Henry David Thoreau made a strong moral argument for the right of people to govern what they own. His message makes good practical sense as well. □

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2. "Not in My Back Yard," Removing Barriers to Affordable Housing, Advisory Commission on Regulatory Barriers to Affordable Housing, The Department of Housing and Urban Development, 1991, pp. 3-3 to 3-4.

3. John Tooth, "Woman fights City Hall—and wins; Jury declares home safe after Angleton condemns it," *Houston Chronicle*, May 7, 1994, p. A29.

4. This quotation and the rest of the story about Yetiv come from Brian Wallstin, "Nightmare on Peck Road," *The Houston Press*, December 8-14, 1994, pp. 6-7.

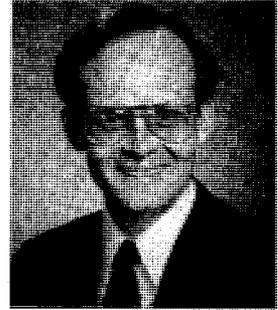
5. Open letter passed out by the Citizens' Housing Coalition of Houston at a news conference on September 19, 1994.

6. Jim Simmon, "Lack of zoning in Houston cited as lead to follow," *The Houston Post*, December 16, 1991.

7. Joan Denkler, "Preservationists voice concern over housing plan," *Houston Business Journal*, August 10, 1992.

8. Howard Husock, "Rediscovering the three decker house," *The Public Interest*, Winter 1990.

9. Craig Flournoy, "City's demolitions called unfair to poor minorities," *The Dallas Morning News*, February 12, 1995, p. 1A.



A Little Erosion of Liberty

Landlords and tenants are not usually on the same side in the courtroom. But in Kalamazoo, Michigan, a group of tenants are standing up for their property rights and supporting their landlord against the City's inspection policy. It's a case with far-reaching implications that should concern every American.

When conducting building code inspections, the City of Kalamazoo demands that landlords provide access to rented apartments, even without tenant consent or a valid search warrant, thereby cutting tenants entirely out of the process. As a result, government inspectors are free to roam through bedrooms and bathrooms while apartment tenants are at work or out shopping.

The intrusive nature of Kalamazoo's inspection policy first came to light in 1994, thanks to the principled stand of Mr. Jerry Speedy. Speedy, the manager of Kalamazoo apartment complexes owned by the firm Edward Rose and Sons, Inc., was criminally charged with violating the City Housing Code when he refused to let inspectors into rented apartments without tenant consent. Fortunately, a judge last October dismissed the charges against Speedy but left the constitutional matter of the inspection program itself up for grabs.

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Most Americans have been brought up to believe that their home is their castle, the one place where government must unquestionably respect their privacy. Indeed, the Fourth Amendment to the U.S. Constitution firmly establishes the sanctity of private property rights by guaranteeing that the "right of the people to be secure in their persons, houses, papers, and effects against unreasonable searches and seizures, shall not be violated, and no warrants shall issue, but upon probable cause."

It ought to be abundantly clear that in America, with rare exception, government officials cannot constitutionally enter a home without either the resident's explicit approval or a valid search warrant issued by a judge who has good reason to issue it. Perhaps the inspectors of Kalamazoo believe that renters don't have the same rights as homeowners or that end-running the Constitution is all right if it's for a tenant's own good. That brings to mind a remark attributed to philosopher Henry David Thoreau more than a century ago: "If I knew for certain that a man was coming to my home to do me good, I would run for my life."

To protect their rights, 13 tenants supported by the prestigious Institute for Justice in Washington, D.C., have filed a federal lawsuit challenging the constitutionality of the City's inspection program. Requiring that the City receive the consent of tenants or a valid warrant, it should be noted, does not nullify the Housing Code (even if good reasons exist to do so). Tenants can still let

inspectors into their apartments if they wish, or contact the inspectors directly if they believe a Housing Code violation exists.

Kalamazoo officials claim that the building code inspections constitute only minor invasions of privacy and therefore they should not be subject to the same judicial scrutiny as police searches in criminal investigations. Scott Bullock of the Institute for Justice responds: "The invasion of privacy and the undermining of private property rights are no less severe when government officials enter a home to check the electrical outlets in one's bedroom or the pipes in the bathroom. Regardless of the nature of a government search, the Fourth Amendment protects an individual's home from unwanted government intrusion."

How Liberties Are Lost

The liberties of a free people, it should be noted, are seldom lost in one fell swoop. They're more often lost via "salami" tactics—one slice at a time. Thus, taking a stand against even a minor assault is critically important. Accepting without objection the little erosions of liberty can foster an avalanche later.

Bullock makes this very point when he notes that "Strengthening property rights against the encroachments of local government is a growing necessity. In New Jersey

and California, private shopping mall owners must allow social activists onto their property to distribute leaflets and demonstrate. Until the U.S. Supreme Court stepped in (*Dolan v. City of Tigard*, 1994), a city in Oregon demanded that a business owner convert 10 percent of her land into a public bicycle path if she wanted a permit to expand her business. And in Minnesota, wetlands laws are being expanded to open privately-owned property to the public." The tenants in Kalamazoo, meanwhile, are seeing their property rights threatened merely because of their status as apartment dwellers.

If the tenants' case goes all the way to the U.S. Supreme Court, there's reason to hope for an affirmation of the Fourth Amendment. In recent years, the Court has declared that "individual freedom finds tangible expression in property rights" (1993), that "property rights cannot be relegated to the status of a poor relation" in comparison to other constitutional rights (1994), and that "the sanctity of the home . . . has been embedded in our traditions since the founding of the Republic" (1980). In 1961, the Court even ruled that a landlord cannot approve a search of a tenant's home without the tenant's consent or a warrant!

It may rankle a few bureaucrats, but nothing in the Constitution suggests that Kalamazoo or Peoria or El Paso or any other city is exempt from its provisions. □

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Predatory Unionism

by Thomas J. DiLorenzo

Many economists have long viewed Unions as essentially cartels of workers which collude to push their wages above free-market levels. As Texas A&M University labor economist Morgan Reynolds has explained: “Unions are fundamentally cartels—groups of producers with sectional interests diametrically opposed to those of consumers. Unions are labor OPECs” whose rallying cries have always been “take competition out of wages” and “take labor out of competition.”¹

Competition and the entry of new (and lower-priced) competitors are the bane of all cartels. Even the infamous OPEC oil cartel collapsed once American and other oil producers significantly increased their oil production and lowered their prices. Unions have always attempted to block competition from nonunion workers through special-interest legislation and regulation, and by committing acts of violence and intimidation against nonunion workers. For the entry of nonunion workers is just as devastating to a union cartel as a new lower-priced competitor is to a business cartel.

The purpose of all cartels is to raise prices above competitive levels and to redistribute income from consumers to cartel members. When unions successfully raise the price of labor above free-market levels, much of the employers’ higher labor costs are passed on to consumers.

America’s struggling private-sector

Dr. DiLorenzo, this month’s guest editor, is Professor of Economics at Loyola College in Maryland.

unions, which today represent no more than 10 percent of the labor force, recognize that in order to increase union membership and, more importantly from the union’s perspective, to increase dues revenues, they must devise new techniques to destroy the threat of nonunion labor in their industries. In the grocery industry in particular, unions have recognized that the key to increased unionization is a new definition of “market share”: the share of a market that is controlled by unionized firms. If the grocery industry, for example, were 100 percent unionized, then there would be no competitive threat from lower-priced, nonunion grocery stores that would take business away from higher-priced, unionized stores by providing consumers better value for their money. This paper examines the implications of recent “corporate campaigns” in the grocery industry.

The Union Imperative to Raise Grocery Prices

It is instructive to listen to what union organizers themselves have said about their self-imposed imperative to either raise the prices of nonunion grocery stores or drive those stores into bankruptcy. Consider a speech delivered by Douglas H. Dority, the executive vice president and international director of organizing of the United Food and Commercial Workers International Union at a 1990 union organizers’ conference.² The biggest problem facing the union, said Dority, is that “nonunion stores grew

faster [during the 1980s] than we organized them" so that "the lesson of the '80s is market share."³

"We must educate our members about market share," said Dority, and explain to them the union's newly designed strategy for cartelizing the grocery market. The key point of advice offered by Dority was: "*When the unionized share of the grocery dollar declines in any geographic area, our ability to produce at the bargaining table is diminished. That is what happens when we fail to organize the nonunion competition.*" (emphasis added)

Dority compared the Washington, D.C., and Tidewater, Virginia, grocery markets, the former being about 90 percent unionized, whereas the latter is only about 10 percent union. The effect is a difference in hourly wages of "about two dollars," which leads to the second most important point, according to Dority: "*When a company expands its nonunion operations—in the same geographic area or elsewhere—it can better withstand a strike to achieve our members' bargaining objectives.*" (emphasis added)

In the eyes of union organizers the existence of nonunion grocery firms is a deadly force against their campaign to cartelize the labor market in that industry. The union imperative, therefore, is to increase "the unionized share" of stores in every market and, especially, to organize doublebreasted companies—ones that have both union and nonunion stores. This strategy, Dority says, represents "a sea change in union thinking."

Perhaps the biggest threat to union cartelization efforts in the grocery industry, according to Dority, are the low-priced "warehouse clubs" and "hypermarkets" which "we have shown we can hurt with picket lines and [bad] publicity." Another "very real threat" to the market share/cartelization strategy is "the nonunion chains—the Food Lions, Price Choppers, and Hy-Vees of our industry." "*Over the long run, we must either reduce these chains' market share . . . or we must put them out of business. There is no other*

option." (emphasis added) Low prices may be a "threat" to Dority's position as a union organizer, but they are a great benefit to consumers, especially lower-income consumers.

Other union executives in the industry have voiced similar sentiments. Joe Crump, the secretary/treasurer of the Grand Rapids, Michigan, local of the United Food and Commercial Workers Union (UFCW), stated in *Labor Research Review* that his union defines successful organizing in one of two ways: "either a ratified, signed collective bargaining agreement with a previously non-union employer or a curtailment of a nonunion operator's business, *including shutting the business down.* Neither of these outcomes will occur by relying on the NLRB."⁴ (emphasis added) A self-congratulatory Crump then boasted that "after a three year struggle, the battle with [the nonunion] Family Foods is over. . . . The company went out of business."⁵ Family Foods' employees lost their jobs and consumers in those areas where its stores had competed with higher-priced, unionized stores began paying higher prices, something this "labor leader" is most proud of.

Clearly, driving one's competitors out of business may be good for aspiring monopolists, but is bad for consumers and those workers at companies like Family Foods who lose their jobs. Low-income Americans will be hurt the most, as they always are when prices rise.

"Organizing is war," says Crump, and that means harassing nonunion employers and "costing them enough time and energy and money to either eliminate them or get them to surrender to the union."⁶ Employers must be made to "pay for operating nonunion."⁷ "If we can't organize [non-union supermarkets]," says Tom McNutt, president of Local 400 of the UFCW, "the best thing to do is to erode their business as much as possible."⁸

Sometimes unionized grocery stores conspire with their unions to try to drive their lower-priced, nonunion competitors from the market. As Crump correctly points out, unionized employers "love to see their non-

union competitors having such a tough time.”⁹ This kind of business/union conspiracy may be directed toward nonunion stores, but the ultimate victim is the consumer.

And union harassment campaigns (discussed in detail below) can bankrupt a grocery store more easily than most people might imagine, given that profit margins in the 3 percent range (as a percentage of sales) are common. As Crump instructs his fellow union organizers: “If a supermarket loses 10 percent of its customers, its profitability is probably eliminated.”¹⁰

The Union Assault on Employee Freedom

The ultimate objective of “corporate campaigning” is to pressure the company to accept a union *without ever permitting its employees to vote on whether or not they want a union*. That is what Crump meant when he said that neither of his two top priorities as a union organizer—to either have a company sign a union contract, or go bankrupt—would ever “occur by relying on the NLRB” and its electoral certification processes. This is a stark admission that, at least in the grocery industry, unionization cannot succeed if employees are allowed to vote on whether or not they want a union. Extortion has replaced organizing.

A most telling document entitled “Developing New Tactics: Winning With Coordinated Corporate Campaigns,” published by the AFL-CIO, describes to union organizers how “United Food and Commercial Workers Local 400 had tried for years to organize the Magruder’s supermarket chain in the Washington, D.C., metropolitan area.”¹¹ After the union picketed the stores and “informed the public” about the store’s allegedly substandard products and labor practices, “Magruder’s voluntarily recognized the union—without an NLRB [National Labor Relations Board] election” because it wanted to avoid “the threat of informational pickets and bad publicity.”¹²

The word “voluntary” here is used in a most peculiar way. When one succumbs to threats and intimidation, which is what the

corporate campaign against Magruder’s was, one thinks of extortion rather than voluntarism.

Crump promotes this tactic by pointing to a kind of history lesson: in 1937 more than 3 million workers joined unions in the United States but “only 2,470 used NLRB elections as the vehicle to gain their collective bargaining rights. The rest employed ‘other means.’”¹³ By using such strategies, Crump advises, “you don’t need a majority or even 30% support among the employees. A few people inside and outside are all that’s necessary. . . . Fired employees are a great source of information.”¹⁴ Organizing employees can be “complex and unpredictable,” says Crump, but “employers are simple and predictable—organize employers, *not* employees.”¹⁵

He recognizes that “waging economic war on an unorganized company” might “turn employees against the union,”¹⁶ but then advises union organizers to forget about that—employees’ opinions need not matter. For “if you had massive employee support, you probably would be conducting a traditional organizing campaign” in which employees were permitted to vote on whether or not they wanted a union.¹⁷

Thus, the essence of the “corporate campaign” strategy is this: Unions cannot convince workers to join their union voluntarily through NLRB elections, so they intimidate and threaten to extort *employers* until they sign a contract with the union *without holding a union certification election*. Despite all the talk in union circles about “workplace democracy,” such tactics are anything but democratic: they are designed specifically to avoid the “inconvenience” of holding union certification elections, which the unions know they will lose.

The “Threat” of Competition

A recent *New York Times* article about national competition in the grocery industry explains why unions are so intent on literally destroying nonunion grocery stores and why, if they are successful, this strategy will greatly harm American consumers. The ar-

ticle contrasts grocery store chains in the heavily-unionized Northeastern states with those in the largely nonunion South and describes how Southern chains are expanding into the Northern states and providing new competition.

In a unionized store in affluent Westchester County, New York, "shoppers squeezed their carts through aisles cluttered with towers of unpacked boxes that blocked the goods on the shelves. Whole shelves yawned empty, unstocked. Customers waited in lines as checkout clerks doubled as baggers. Spilled milk by the dairy cooler had not been cleaned up. The floors were littered with flattened vegetables and packing materials. . . . A clerk maneuvered a broom along the aisles, redistributing the litter instead of cleaning it up."¹⁸ Much of the population of the North "has become inured to poor service" and many Northerners "put up with conditions that people in the South would not accept," observes a retail expert at Smith Barney.¹⁹

A supermarket run by the nonunion firm, Publix, in a middle-class Florida community "offered a startling contrast," according to the *Times*: "clutter free, wide-aisled, spotless" and with helpful employees.²⁰ Publix is part of a "revolution" that is "transforming the supermarket business in the South and West," the *Times* observes, where fierce competition is providing customers with superior service at competitive or lower prices. The Publix chain, for example, enjoys lower labor costs and "uses the tenets of aggressive management and employee ownership to create a culture that values efficiency and service."²¹ The 64-year-old company has been owned entirely by employees, managers, and the family of the firm's founder, the late George Jenkins. (Employees become eligible to purchase stock after working there for one year.)

A 1993 survey of 10,000 readers of *Consumer Reports* magazine rated Publix the best supermarket chain in America over 23 competitors. The service is so good at Publix that the firm has had to advertise that its prices are competitive "because some customers think it is a luxury chain."²²

Publix employees are paid bonuses tied to the revenues of the stores and can make as much as \$300 extra during each 13-week inventory period. They are also not subjected to rigid work rules, such as the ones that exist in unionized supermarkets. In some unionized stores, "if the customer spills a bottle of jelly in the aisle, the rules might prevent a cashier from sweeping up, even if the cashier is idly sitting around with no customers."²³ It is these kinds of rules that have been so detrimental to other unionized industries, such as autos and steel, and are a plague on efficiency. That's why Publix executives recognize that a key to their (and their employees') financial success is a union-free workplace.

Flexible labor relations are a key to the company's efficiency, and such flexibility is rarely—if ever—found in unionized firms. Rigid job descriptions and restrictive work practices ratchet up costs and prices at unionized grocery chains, all to the detriment of the consumer. These higher costs and prices also threaten the job security of unionized employees who work for uncompetitive businesses, as auto and steel workers have learned all too well over the past 25 years.

Not surprisingly, the UFCW has launched a propaganda campaign against Publix, accusing the company of "gender discrimination" on the grounds that "too few" women are managers. But merely claiming that the number of female managers is "too small" does not prove that any discrimination has occurred, any more than claiming there are "too few" white professional basketball players proves that the National Basketball Association racially discriminates against white players. The union obviously hopes that mere repetition of the charge will harm the company's public image and, consequently, its sales.

The Propaganda Campaign Against Food Lion

Unions have not been successful in organizing the employees of companies like Publix or Food Lion because the great

majority of the employees there do not want to be unionized. Having abandoned any pretense of organizing a union at Food Lion, the UFCW has waged a "corporate campaign" against Food Lion designed to force the company out of business or, at a minimum, to preserve the market share of unionized stores. The union assault on Food Lion provides a case study of the anti-consumer conspiracy known in union circles as "corporate campaigning."

One of the first tactics of the campaign against Food Lion was to persuade ABC News to air a story that promoted the outlandish union claim that Food Lion stores routinely sold rotten fish and ham, covering up the spoilage by bathing the meats in Clorox. The show was aired on November 5, 1992. "Diane Sawyer and her producers worked hand-in-hand with the union, and then did their best to pretend that it had little or no role in the broadcast," the *Washington Times* revealed.²⁴ Apparently, the union provided ABC's "Prime Time Live" with a roster of "disgruntled former employees" to interview, which the network did. The UFCW also gave an "undercover" ABC News reporter "minimal training and arranged for a phony letter of recommendation so she could get a job at Food Lion."²⁵

The notion that *any* supermarket could get away with routinely selling ham bathed in bleach in the hyper-competitive grocery industry is absurd. If a grocer were so foolish as to attempt it, customers could certainly detect it, if the grocer's competitors did not do so first. The immediate result would be a loss of sales or even bankruptcy. No grocery chain (all of which, incidentally, rely on repeat sales more than most other businesses) could be as successful as Food Lion has been by selling rotten food that smells of bleach. Consumers are just not that easy to manipulate.

Food Lion was one of the fastest growing supermarket chains in the country before the ABC News segment, opening more than 800 stores from 1983 to 1992, with sales and earnings increasing by 22.5 percent and 23.3 percent, respectively.²⁶ But Food Lion's

earnings fell by 55 percent in the fourth quarter of 1992 and its earnings for the first quarter of 1993 were 56 percent below the first quarter of the previous year. The company also reported that its net income declined by 41.6 percent for the second quarter of 1993 compared to the second quarter of 1992.²⁷ The chain closed 88 stores in 1994, laying off 1,300 full-time and 2,200 part-time workers.²⁸ The closing of these stores also diminished the degree of competition somewhat—at least in some markets—which can only harm the consumer. ABC apparently made no attempt to shoot film footage of some of the filthy and unsanitary supermarket environments of the unionized firms in the Northeast—including the New York City area, where ABC News is located—described by the *New York Times* as "supermarket purgatory."²⁹

Union "Front" Organizations

The attack on Food Lion is so blatantly anti-consumer and so obviously a union scheme, that the union decided it had better set up a front organization to implement its "campaign." It established "Consumers United With Employees (CUE)," a front organization that has the same mailing address as the Food and Allied Service Trades, a subsidiary of the AFL-CIO. Also part of the organization are other, older union front organizations such as the National Consumers League (NCL). For years, the NCL has advocated such anti-consumer but pro-union policies as increases in the minimum wage, bans on "home work," and limitations on the hours teenagers may be allowed to work. The purpose of such front organizations is to fool the public into believing that the attack on Food Lion and other nonunion companies are not motivated by greedy unions, but by selfless and public-spirited "consumer advocates" united with "employees."

The first tactic employed by CUE was to issue a series of headline-grabbing press releases on February 4, 1994, claiming that it had conducted a "study" of Food Lion and had "discovered" the chain allegedly

posed a threat to the health of babies through "sale of outdated infant formula at Food Lion Supermarkets."³⁰ In a letter to CUE members the same day, signed by Robert F. Harbrant, President of the Food and Allied Service Trades Department of the AFL-CIO "on behalf of C.U.E.," Harbrant urged CUE members to "contact your Congressional representatives and urge them to investigate this matter," and "contact your state and local representatives" also.³¹ The organization also contacted the U.S. Food and Drug Administration and urged it to investigate Food Lion (but not any other grocery chain).

The "report" did not mention that "outdated formula" poses no health hazard; only that the manufacturer cannot guarantee the freshness of the ingredients after that date. A spokesman for the U.S. Food and Drug Administration tried to calm mothers who might have been frightened by the CUE "report" by announcing that "outdated baby formula doesn't pose a health hazard."³²

The union also made no attempt to compare sales of outdated formula (and other items) at Food Lion stores with those of other grocery chains, especially unionized stores. There are bound to be "outdated" products to some degree at virtually every grocery store, not just at the nonunion ones. When asked why he didn't examine infant formula dates in unionized stores, Sean Cunniff, a CUE spokesman, pleaded poverty: "It's very difficult in terms of resources. . . ."³³

CUE has specifically targeted Food Lion stores in Virginia with its "inspections," for Virginia is a state in which Food Lion is currently attempting to expand into the highly-unionized Northern Virginia market that is dominated by Giant Foods and Safeway. But a spokeswoman for the Virginia Department of Agriculture stated publicly that "in Virginia, Food Lion's overall compliance rate with state-inspection requirements is among the highest in the state."³⁴ Bob Gordon, director of the North Carolina Department of Agriculture's Division of Food and Drug Protection, called the

"report" a "low blow" by CUE and said that "much has been made about nothing."³⁵

The whole episode is foolish, says Gordon, because "any consumer can pick up a can or bottle and see the expiration date."³⁶ Gordon makes an important point: Even if infant formula—or any other product—is "outdated," the fact that it is indeed outdated is clearly written on the package!

A more comprehensive comparison of all grocery chains in the markets focused on by CUE found that *in every single instance*, the nonunion grocery chains performed *better* than the unionized ones in terms of the number of outdated products found on the shelves.³⁷

Using Regulation to Reduce Competition and Raise Prices

A union organizers' manual published by the AFL-CIO informs its readers that "businesses are regulated by a virtual alphabet soup of federal, state and local agencies, which monitor nearly every aspect of corporate behavior."³⁸ This is a sad but true statement about the American workplace—it is awash in regulations, most of which are impossible for mere humans to understand, let alone comply with. One U.S. Department of Agriculture official candidly stated, for instance, that if all meat-inspecting regulations were actually enforced to the letter, there would be no meat-processor in America open for business.³⁹

Unions—especially the UFCW—have taken advantage of this fact to impose regulatory costs on nonunion firms as another tactic in their corporate campaigns. As the AFL-CIO manual states, "unions can use the regulators to their advantage. An intransigent employer may find that in addition to labor troubles, there are suddenly government problems as well."⁴⁰ The manual then advises union organizers to catalogue the myriad rules and regulations that nonunion companies must comply with and try to determine if they are in total and complete compliance, a virtual impossibility for any

business. If not, they should be reported by the union to the regulators, who are all too happy to be able to justify their jobs. If noncompliance is determined, press releases should be forthcoming so as to impose public relations costs on the nonunion firms as well. As the *Wall Street Journal* has stated, "unions are using regulatory laws as strategic weapons in their organizing and bargaining battles," the purpose of which is to "harass them in the marketplace and blackmail them into voluntarily recognizing unions without a National Labor Relations Board-sponsored election."⁴¹ This tactic has worked in some cases already; in Salt Lake City, Utah, Smith's Food and Drug Centers, Inc. "voluntarily recognized the union at its Phoenix stores" when confronted with the possibility of protracted and expensive litigation instigated by UFCW organizers.⁴²

UFCW organizer Joe Crump has recognized that because of the sheer size and complexity of federal regulation, "virtually all companies are wholesale law breakers. Even 'good' ones, even organized ones."⁴³ Crump knows that it is impossible for businesses to be in compliance with all laws and regulation at all times, even if they sincerely wanted to, for

there's civil rights laws and wage-and-hour laws. Safety-and-health laws and right-to-know. Unemployment compensation and workers compensation requirements, and Social Security, plant closing and pension laws. There's public health and environmental laws. And at the local level, there's zoning and fire codes and various ordinances. At all levels, there are tax laws.⁴⁴

The point here is that regulation is so out of control that any business person in America, at any one time, is most certainly "guilty" of noncompliance with at least some regulations. It is beyond human comprehension to possess knowledge of the tens of thousands of OSHA, EPA, IRS, and other regulations. The unions realize this—indeed, they lobbied for many of the regulations in the first place—and intend to use

regulation as a tool for extorting "concessions" from nonunion employers, i.e., recognition of the union without a representation election. This is yet another reason why deregulation of labor relations—and of the economy in general—is sorely needed if the American economy is to prosper. Far from protecting the consumer, as they are in theory supposed to do, such regulations typically impose great harm on consumers and employees.

Conclusions

So-called corporate campaigns might best be described as the practice of predatory unionism. The purpose of the "campaigns," as stated by the AFL-CIO and its affiliates, such as the UFCW, is to use whatever means necessary—propaganda campaigns, abuse of the regulatory system—either to drive up the costs and prices of nonunion firms or to drive them into bankruptcy.

As cartels of workers, grocery unions cannot succeed if there are lower-priced (nonunion) grocery stores in the same market. Thus, it is imperative to them that, at the very least, grocery prices be raised at nonunion stores.

This kind of predatory unionism is not only anti-consumer; it is also anti-poor. Higher grocery prices impose a greater burden on lower-income consumers than on the more affluent. Informed consumers should take whatever unions and their front organizations say about nonunion businesses—in the grocery industry or elsewhere—with a very large grain of salt. □

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The Proper Scope of Democracy

by Tibor R. Machan

Whenever public programs are cut, those who have their benefits reduced protest loudly and those who feel for them offer compassionate support. Yet whenever public programs are enacted, little sympathy is extended to those whose incomes are reduced by higher taxes. It is contended that it's all part of our collective social life. After all, "we" have decided to fund Social Security, unemployment compensation, the national parks, public broadcasting, or whatnot, haven't "we"? Who cares that some of us suffer losses, that some of us now have to forgo benefits and experience reduced income, which can lead to reduced quality of education, recreation, home life, dental care, transportation safety, and cultural enrichment? None of this is supposed to matter because we have decided to impose higher taxes on ourselves to fund all sorts of public programs.

This is rank duplicity. If some propose to cut federal programs that leave open the possibility that states will not spend money on poor children's lunches, their actions are mean spirited, cruel, and morally insidious. But if others decide to increase taxes to fund Public Broadcasting or the National Endowment for the Arts or farm supports, we are told that this is just the way democracy works. All those who suffer the consequences of higher taxes have no reason to

complain. "We did it to ourselves, so we have no right to fuss."

Why is it acceptable to violate the rights to liberty and property of millions of individuals when the one group of us decides to do this, but unacceptable to reduce the benefits of people when a somewhat different group of us decides to do that? Why may the choices of individuals be ignored and thwarted by democratic decision-making, but not the feelings and lot of others hurt by the same process?

Most people who talk of democracy in this bloated sense—wherein everything is subject to democratic decision-making—like it only when it supports their own agenda. It is fine to use democracy to rob the rich or yuppies or drinkers or smokers—it makes it valid public policy instead of theft. But if the poor or artists or educators or auto workers are the targets, then suddenly democracy is an exercise in meanness!

The reason for this duplicity is that democracy alone is never enough for forging public policy. There must always be some specification of the goals for which democracy is appropriate. It isn't enough to have a democratic process—it can lead to results of widely different quality. Sometimes the majority does right, sometimes wrong. And the task of political theory is, in part, to identify those areas of public life that should be subject to democratic decision-making.

What are those areas? And why are they the ones?

Whether alone or with his fellows, an

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individual may never act in certain ways toward other human beings. In particular, no one may take over someone else's life. This is true whether or not that other person's life is fortunate, well to do, talented, accomplished, beautiful, accepted by others, rewarded.

Taking over another's life entails theft, robbery, assault, kidnapping, murder, battery, rape, and other forms of aggression. And the fact that the numbers of those who do such things (via their representatives or hired thugs) are large or even constitute a majority makes no difference. It is wrong to steal on one's own as well as with the support of millions. It is wrong to enslave, to place others into servitude when they refuse, no matter whether the enslaver is in the minority or the majority.

Nor can majorities authorize their political representatives to carry out such deeds, even if they do it indirectly, by threatening those whom they would rob, steal from, kidnap, assault, or whatever, with aggressive enforcement at the hands of the police. It is wrong, then, even for the government of a representative democracy or republic, to carry out such deeds. Having done it with democratic "authorization" makes it no more right than if there had been no such authorization. There is simply no moral authority for anyone to delegate to another such powers since one doesn't have them in the first place. A government that is supposed to govern with the consent of the governed can only do that which those who give their consent have the authority to do in the first place!

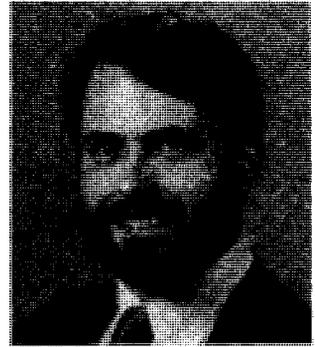
All participants in the debate admit this, more or less directly. This is why even when people vote in one party, members of the

other party claim that what their opponents do is wrong. They argue their case in the various forums of the media and the government itself. So they clearly believe that what the democratic process produces is not the end of the story. Even if a law passes, some will call it heartless, unkind, lacking in compassion—or, alternatively, burdensome, confiscatory, impeding productivity, or encouraging sloth. The fact that such legislation was brought about by way of the democratic process—"we" did it, so it's OK, a matter of society's collective will—is never adequate justification. The violation of the rights of individuals is no less justified by democracy than is collective callousness.

What *can* be done democratically without violating the rights of individuals to their life, liberty, and property? The answer is quite simple. We can elect our political representatives democratically, and decide who should guard over our rights and liberties. The rest is supposed to be done by means of voluntary conduct, not politics.

Once members of a society learn that moral principles and individual rights cannot justly be violated by the democratic process, they also learn that when the proper thing must be done, it has to be done by choice, free of coercion. Help to the poor and needy—as well as to those whose works of art, science, or pedagogy may not enjoy sufficient demand to sustain it as a market phenomenon—should be given at the initiative of the free citizen, via charity, church, philanthropy, and fund-raising. Democracy is no excuse for abandoning basic principles of human social life. When people make it so, that's when democracy has overstepped its proper boundaries. □

Customer Service, Government-Style



One of the defining characteristics of denizens of the nation's capital is their belief that government "serves" the people. This attitude naturally leads to much concern, particularly among the "good government" crowd, for government efficiency. Never mind whether government should be doing one job or another—it should be doing it *effectively*.

Indeed, there is nothing so irritating to the process-minded than someone attempting to put substance before "good" government. Consider the inside-the-Beltway gang's opposition to tax cuts. Some critics are forthright: the money would be better spent on social programs or used to shrink the deficit. Others, however, worry that reducing taxes would, horrors!, burden the IRS and *create more paperwork for taxpayers*. "People will hate the Internal Revenue Service when it's Congress's fault," said Cynthia Beerbower, Deputy Assistant Secretary of the Treasury for Tax Policy. "People are going to just freak out."

For instance, the IRS figured that the proposed cuts in the capital gains tax would add seven lines to Schedule D. A 33-line Schedule W would be necessary for a credit to reduce the marriage penalty. Medical savings accounts would require a two-page form. And so on.

The contention that taxpayers would prefer not to have an option of filling in a few extra lines in order to keep more of their own money is dubious enough. In any case, there is something, well, curious, about IRS officials professing their concern about taxpayer paperwork. Especially since the IRS spent months preparing to carry out more

than 150,000 excruciatingly painful audits as part of the Taxpayer Compliance Measurement Program. The TCMP requires that taxpayers prove every line on their return—by producing a marriage license for their spouse and birth certificates for their kids, for instance. Preparing for such audits, last conducted in 1988, can take days. Naturally, taxpayers, who are targeted at random and not for cause, aren't compensated for their time. The psychic pain is even worse. One doctor calls the process "an autopsy without the benefit of dying." Last year the agency put the TCMP on hold, but only because of budget cutbacks, not concern over taxpayer burdens.

Yet the IRS seems to genuinely view itself as an organization of, by, and for the taxpayers. For instance, Commissioner Margaret Milner Richardson cheerily announced that "The Internal Revenue Service has embarked on several major initiatives that will improve our service to you, the American taxpayer."

We all like to be served, but exactly how does the IRS "serve" us? By taking our money to pay the bills run up by politicians in Washington. The IRS unabashedly seeks to instill fear in people across the land, lest someone think for even one minute that his money would be better spent by him than the government. If anyone has the temerity to act on that belief, the IRS will cajole, threaten, and penalize. This is "service"?

Well, yes, according to Ms. Richardson. "The National Performance Review [NPR], chartered by the President and led by the

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Vice President, conducted an extensive review of the Federal government. Its purpose is to ensure a government that works for people." Which people? The customers, explained Commissioner Richardson.

The customers!?! Yes, indeed. According to the Commissioner: "The NPR recognized the Internal Revenue Service as a leader among government agencies in customer service, but challenged the IRS to make even more progress toward customer service, with emphasis on quality, fairness, and efficiency. Improving customer service is central to the job of reinventing government to make it work better and cost less." Happily, the "IRS accepted the NPR's challenge. Our plans for customer service are a major step toward making better IRS customer service a reality."

Normally no one could complain about a business that tried to make customer service its most important attribute. But the term "customer" implies voluntariness. A Wal-Mart customer shops there of his or her own accord. No one files with the IRS because he wants to. Taxpayers are "customers" of the IRS like convicts are "customers" of prisons.

Nevertheless, Ms. Richardson emphasized that she was serious. "I want you to know that the 'S' in IRS represents a commitment to serve you. We intend to meet your needs and expectations as taxpayers and as customers. If the service you receive from the IRS does not measure up to our Customer Service Standards, please let us know." Well, sure. Taxpayers—er, customers—have no reason to complain so long as IRS agents—er, sales associates—smile as they seize one-third and more of people's earnings. And as long as auditors—er, fiscal engineers—are efficient, customers shouldn't fuss.

Perhaps what is most amazing about the Commissioner's sentiments is that they seem genuine. As such, they help demonstrate why the gulf separating Washington from the rest of America is so wide.

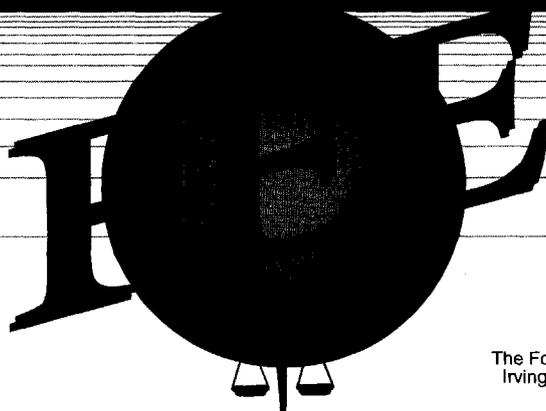
Another bureau that has enthusiastically embraced Vice President Gore's NPR initiative is the Agency for International Development. AID officials proclaim that their bureaucracy has been reinvented and are

now fighting a scorched-earth campaign to defeat attempts to either eliminate their agency or cut back the so-called foreign aid programs which they administer. At some level, of course, it is better for taxpayers that AID not lose a lot of money through administrative waste, corruption at home and abroad, and so on. However, far more fundamental than AID's efficiency or "service" level is whether its programs make sense. Which is precisely the issue agency officials prefer not to discuss.

Enthusiasm for process over substance afflicts more than just incumbent public officials. Commissions (National Commission on the Public Service), academic institutions (Harvard's John F. Kennedy School of Government), foundations (Carnegie), and other groups (Center for Excellence in Government) have all arisen from time to time to argue, in the words of the Center's Mark Abramson, that "whatever government does, it should do well." Most recent in this long line of "efficiency über alles" is Action, Not Gridlock!, which surfaced in Washington in 1994 to issue a slew of press releases denouncing government gridlock, particularly the Senate filibuster and its role in blocking a vote on health-care reform. "Together we represent a wide variety of political views, but we share a common belief in democracy and in its most central principle—the principle of majority rule," explained former Senator Barry Goldwater, a member of Action, Not Gridlock!

But majority rule puts process before the far more important substance. Even if a majority of people want to nationalize the medical system, they have no right to do so. Nothing in the Constitution gives government the authority to dictate how 250 million Americans will receive health care. And for Washington to attempt to do so would be sheer madness.

It has long been said that the rich are different than everyone else. So are members of the Washington elite. They really believe that the government equals the people. Which is reason enough for average people to keep a close eye on elected officials, appointed bureaucrats, and most everyone else in Washington. □



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Ruinous Litigation

In Glendale, California, a couple recently filed a malpractice suit against a church, alleging that incompetent pastoral counseling had led to a suicide. The case was dismissed in the end because the ministers had taken no money for their counseling. But it also suggested that church-sponsored counselors who charge fees may become the targets of such suits. In the future they will need malpractice insurance.

Everyone, it seems, is suing. Workers are bringing suits against employers, customers against businessmen, tenants against landlords, clients against architects, engineers, and attorneys, patients against their doctors, students against their teachers. In just six years federal product-liability suits alone have more than doubled, now exceeding 10,000 every year. Last year, even the weather bureau was sued for having failed to predict a storm.

The American insurance industry is suffering the worst losses since 1906, the year of the San Francisco earthquake and fire. In reaction, it is becoming highly selective in deciding whom and what it will cover. Moreover, it is raising its rates to unprecedented levels that are jarring all other industries. Many business firms, along with individuals, professional partnerships and government agencies, are suffering an insurance crisis. Property, casualty, and liability policies are outrageously expensive or are simply unavailable. Even Lloyds of London, having suffered stag-

gering losses on its business dealings with American clients, is reluctant to deal any more with American insurers.

Huge malpractice suits and staggering insurance premiums are threatening health care. The industry now pays over \$2 billion in malpractice insurance, which visibly contributes to the high cost of medical care. One in every five doctors was sued last year, and can expect to be sued this year. The average award, according to Jury Verdict Research of Solon, Ohio, climbed to \$840,396. Consequently, doctors practice "defensive medicine," spending some \$15 billion to \$30 billion on lab tests and x-rays that are unneeded but deemed necessary for possible malpractice suits.

The rampant increase in insurance costs is changing the tenor of the medical profession. Rather than pay higher and higher insurance bills, some physicians are limiting their practice to relatively safe fields, like general practice or dermatology. Some are retiring early, others are abandoning their specialty altogether. Some are moving from high-risk areas to areas affected less by the litigation mania. Some 25 percent of urban obstetricians have left the city or stopped practicing their profession, another 25 percent plan to stop soon. The effects are obvious: health care in high-risk areas is declining significantly and patients' health-care costs are rising rapidly. The quality of health care is declining in reaction to inordinate cost.

It is futile to search for a scapegoat for this liability and insurance dilemma. It is fruitless to blame patients for turning into "adversaries" eager to sue. The people are not out "to get" their doctors. It is absurd to make lawyers the favorite scapegoats, to deride them as opportunistic parasites preying on the fears of patients and pocketing the lion's share of the awards. Attorneys are no worse than their clients without whom they have no case. Similarly, it is foolish to conclude that every doctor is careless and incompetent. To search for an explanation of the malpractice insurance crisis is to seek for changes in social mores and economic doctrines that distinguish contemporary Americans from their forebears.

Under the influence of liberal political thought, Americans now live by political power and economic entitlement. They are convinced that political power reigns supreme in human affairs, that government as agency of this power can create income and wealth, provide knowledge and education, and care for the sick and dying. Most Americans now hold to a philosophy of economic entitlement that makes government the arbiter, regulator, and provider of last resort. In the field of health care, the entitlement doctrine has given rise to "legal medicine" that is characterized by government responsibility in medical matters, by federal and state rules and regulations, and employer obligations and patients' rights. Legal medicine with its myriad of rules and regulations about entitlement affords countless opportunities for litigation.

Most Americans have come to think that they are morally entitled to transfer benefits just because they are Americans. They believe in "human rights," which they interpret to mean political entitlements created by Congressional vote and defined by bureaucratic edict. They advocate political rights that take income and wealth from some people and give them to others; they call this the supremacy of

"human rights" over "property rights," which in reality means the supremacy of political might over human right.

The entitlement ideology is a transfer and redistribution ideology that is relentlessly pressing its case in the halls of politics and the courts of law. It is confrontational in design and intent, seeking to benefit some people at the expense of others. Entitlement battles never end; they rage in every election and every session of Congress. They are heard in every court of law that is called upon to referee the entitlements.

A society that elevates economic entitlement to its guiding maxim not only breeds social conflict, but also fosters confrontational mores that permeate all walks of life. The confrontation is rather virulent and painful wherever the claims of beneficiaries clash with the complaints of the victims. It is loudest in service industries catering to millions of beneficiaries jealously guarding their rights. After all, entitlements springing from conflict and breeding conflict create classes of victims as well as victors. They give free rein to distrust and suspicion and openly invite litigation between the classes.

The malpractice crisis that is touching the quick of the professions and the product-liability crisis that is crippling several industries reveal a moral crisis that is putting all free societies in jeopardy. They manifest a disease which, in the end, is likely to give rise to a political and economic command system. For the present, they offer a panoramic view of things to come, of federal and state legislation and regulation, patients' rights and doctors' duties, of demagogic politics and ruinous litigation.



Hans F. Sennholz

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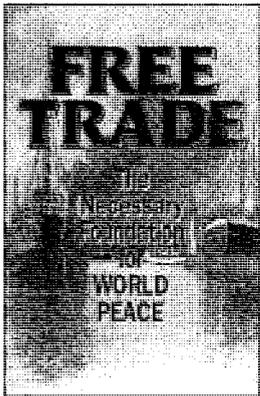
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The Business-Ethics Quagmire

by Karol Boudreaux

Under pressure from accreditation agencies, business schools have begun requiring a class in “business ethics” for undergraduate business majors and MBA students. The ostensible purpose is to familiarize students with potential ethical dilemmas common in the business world.

Is the course necessary? Some critics of professional ethics classes bemoan the fact that schools require such courses. “What does this say about the moral fiber of our society?” they ask. Well, perhaps it says that young people receive less training in ethical standards from their families, places of worship, and peers than they received in the past.

Acceptance of the premise that students typically receive insufficient exposure to moral ideas outside the classroom may diminish one’s aversion to business-ethics classes. Some ethics training is preferable to no ethics training; thus, schools arguably should offer such courses. But an important caveat must be added: training in business ethics is preferable to no training only *if* what students learn is (a) cost effective, and (b) rational.

I accept for purposes of this essay that instruction in business ethics is at least potentially cost effective. That is, I assume that the benefits to students of taking an ethics course are potentially greater than the benefits available from other ways they have to spend this time—such as taking an addi-

tional class in statistics or managerial economics. Whether or not this potential benefit is realized depends, ultimately, on the quality of instruction. And the quality of instruction in a business-ethics class depends largely on the quality of the business-ethics textbooks available to instructors.

Unfortunately, virtually all business-ethics textbooks are commonly driven by a virulently anti-business agenda. These textbooks are inherently irrational and even downright harmful.

Business Ethics: Into the Quagmire

The concept underlying most business-ethics textbooks is straightforward: self-interested behavior leads business people to do the wrong thing. Moral rules, in contrast, require individuals to voluntarily restrain their self-interested behavior, promote cooperation, and make society better off. Therefore, if students are exposed to the evils of greed and told how to behave unselfishly by textbook authors, students will supposedly be better equipped to resolve the countless ethical dilemmas they will face in the business world.

Here’s where the trouble begins. Notice that the holder of the keys for unlocking the mysteries of right and wrong are business-ethics “experts,” in particular, the people who write business-ethics textbooks. Oftentimes these authors say very sensible (if obvious) things, such as cautioning students against lying and theft on the job, and

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advocating decent treatment of employees and co-workers. Too often, though, these textbook authors say things that are much less sensible.

An examination of one popular business-ethics textbook helps illustrate the sad state of these books. In discussing the nature of moral rules, Manuel Velasquez, the author of *Business Ethics: Concepts and Cases*, claims that:

[moral standards] are concerned with behavior that can seriously injure or seriously benefit human beings. The moral norm prohibiting price-fixing, for example, rests on the belief that price-fixing imposes serious injuries upon consumers; whereas the moral principle that employees have a moral right to collective bargaining rests on the belief that this right protects a critical interest of employees.¹

Mr. Velasquez makes the seemingly inconsistent assertion that price-fixing by employers is immoral, while employee price-fixing through collective bargaining is moral. Accept for argument's sake that price-fixing by producers harms consumers; Velasquez is oblivious to the fact that legally protected price-fixing by workers has the same effect. Velasquez's assertion displays a bias in favor of unions and against producers. Further, it is built on the unsubstantiated Marxist belief in the irreconcilably opposed interests of employees and employers.

Unfortunately, this assertion is not an anomaly. Consider Velasquez's discussion of multinational firms: "Environmental laws, for example, which can ensure that domestic companies operate in the responsible manner that a country deems right for its people, may not be effective constraints on a multinational that can simply move—or threaten to move—to a country without such laws." (p. 21)

There are serious problems with this idea. Put aside the question of whether or not environmental laws really reflect majoritarian desires. Mr. Velasquez is worried that multinationals will relocate to countries where people value environmental protection less highly than do people in the United

States. Is this really a moral or economic problem? Suppose Nigeria "deems right for its people" a level of environmental protection lower than that mandated by U.S. standards in order to encourage economic growth and reduce poverty. Can U.S. citizens ethically question Nigeria's decision? Is condemning more Nigerians to dire poverty really moral?

Furthermore, what right do some citizens have to restrict other citizens' ability to move to a "dirtier" country to take advantage of whatever benefits may be derived from being there? Velasquez is apparently unaware that environmental protection is costly, that poor countries must inevitably make trade-offs between some types of environmental protection and development, that private foreign investment might actually help poorer countries by giving their citizens greater access to wealth, and that wealthier countries can better afford to clean up their environments. Apparently, when ethics is involved, problems of scarcity and the necessity of tradeoffs disappear.

By implying that moving to "dirtier" countries is unethical, Velasquez suggests that companies should not make decisions that lower costs. Thus, it is not surprising that Velasquez also questions the morality of multinationals that relocate to take advantage of lower wage rates abroad. Yet he fails to ask an obvious question: if Sally works for Joe and earns \$20,000, and if Lisa offers Sally \$30,000 to do the same work, is Sally violating her ethical duties to Joe by changing jobs? How many people would answer "yes" to this question? Probably not very many. If companies can't shop for labor, why should labor be able to shop for better employers?

Similarly, Velasquez would probably not object to a consumer shopping for the best deal when buying a TV. The consumer might go to a no-frills discount dealer to get her TV, or, if the consumer chose, she might instead go to a store that provides great customer service—for a price. Would Velasquez favor limiting the ability of the consumer to go to the cheap store, where the "environment" is less pleasant? After all,

consumers who choose the discount dealer may harm workers in the fancy store.

Here are a few other examples of the illogical, anti-market "thinking" common in Velasquez's *Business Ethics*:

[P]erfectly competitive free markets impose no restrictions on how much wealth each participant accumulates relative to others, so they ignore egalitarian justice and may incorporate large inequalities. . . . People who have the money to participate in markets may consume goods (such as food or educational resources) that people outside the market, or those with very little money, need in order to develop and exercise their own freedom and rationality. (p. 183)

Presumably, wealth redistribution is the solution to this problem. However, such redistribution necessarily involves infringing the freedom of the person who has the wealth. Why is the freedom of the wealthy less valuable than the freedom of others?

The implication in the quotation above, and in many other parts of this book, is the Marxist notion that business wealth (and much personal wealth) is created only by exploiting the working class. Velasquez gets even worse:

Minimum wage laws, safety laws, union laws, and other forms of labor legislation are used to protect workers from exploitation. (p. 160)

Velasquez does not mention that minimum-wage statutes reduce employment opportunities for young and unskilled workers, or that labor-union support for minimum-wage laws may be prompted by an interest in decreasing the amount of cheap competition union workers face. Contrary to Velasquez's claim, it is legislation such as minimum-wage statutes that exploits the most vulnerable members of society. Who's more ethical: politicians who support laws that harm the poor, or employers who provide jobs for unskilled workers?

As suggested above, the level of understanding displayed by authors of ethics textbooks concerning environmental issues can

only be described as simple-minded. Consider the following assertion by Velasquez:

[P]ollution always imposes "external" costs—that is, costs for which the person who produces the pollution does not have to pay. (p. 239)

This statement would certainly be news to Exxon Corporation, which has paid hundreds of millions of dollars in compensation for the Valdez accident, or to Union Carbide, which likewise has paid hundreds of millions of dollars to compensate victims of the Bhopal incident in India which, as it turns out, was probably caused by regulatory snafus.

The candidate for the "most misleading" statement of the book must be the following:

In a pure free market system, there would be no constraints on the property one could own and what one could do with the property one owns. . . . [s]lavery would be entirely legal, as would prostitution. (p. 141)

Of course, slavery is a denial of property rights, whereas the free market extends and promotes property rights. Furthermore, the slave is thrust into his (or her) position involuntarily. Slavery is not the same thing as indentured servitude. In the latter case, someone agrees to give up personal freedom temporarily, presumably in exchange for something (money or goods) that the indentured servant values more highly. It is perhaps true that a free market would allow people, if they made this decision of their own free will, to become the temporary servants of others. But no one could force another person to become a servant or slave.² The basis of the market is voluntary, consensual transactions; slavery is inherently nonconsensual. Velasquez's use of this crude scare tactic is disingenuous.

I could go on but you probably get the point by now. Such textbooks as *Business Ethics* portray the free market as an evil, scary place full of evil people who will do anything to make a buck. In Velasquez's world these evil exploiters suffer no ill consequences, such as loss of business, as a

result of their wicked actions. Most importantly, Velasquez and other authors of these texts believe that the best way to overcome the forces of evil present in the market is through government regulation. Arguments that the market itself can police against companies that act maliciously are brushed aside as naive:

Market failures, characterized by inadequate consumer information and by irrationality in the choices of consumers, undercut arguments that try to show that markets alone can provide adequate consumer protection. (p. 277)

Instead, consumers must be protected through the legal structures of government and through the voluntary initiatives of responsible businesspeople. (*id.*)

It is silly and misleading to present the business world as devoid of morality. Business people have tremendous incentives to "do good": cheating and lying ruin reputations, treating workers poorly leads to reduced productivity, disregarding safety may result in product-liability claims, and abusing suppliers wrecks profitable relationships. Velasquez recognizes none of this.

Conclusion

Of course, some business people make mistakes and commit breaches of morality. It is valuable for students to investigate these mistakes and to discuss the best ways to avoid them. To argue that a free-market

system would lead to perfect morality is foolish. But to argue that the government is able to prevent selfish behavior, through legislation and regulation, is even more foolish. After all, government is full of the same kinds of self-interested people as those who populate the market. Advocates of the free market do not claim that the system is perfect. Rather, they argue that the market does a far better job of promoting human happiness, morality, and justice than do alternative political systems.

The problem with many classes in business ethics is not the ethics per se. Rather, the problem is that most business-ethics textbooks espouse a naive socialism: those with "sufficient" resources should share these resources; egalitarianism is always the more important end than justice, freedom, and prosperity. Velasquez and his fellow business-ethics authors believe that self-interest inevitably leads to awful outcomes, and that government officials, who have only pure motives, are best able to constrain this behavior. Given the growing importance of business-ethics courses in business schools, there is a dire need for new textbooks written by authors who are in touch with economic and political reality. □

1. Manuel Velasquez, *Business Ethics: Concepts and Cases*, 3rd ed. (New York: Prentice-Hall: 1992), p. 12. Subsequent page references are noted parenthetically.

2. Richard Posner, in his 1995 book *Overcoming Law* (Cambridge, Mass.: Harvard University Press), notes that in the Netherlands it is illegal for any firm to fire a worker (except under exceptional circumstances). Further, it is illegal for workers to quit! Is this desirable job security or slavery?



Freedom and Happiness

by Bryan Caplan

“[F]reedom is undoubtedly the indispensable condition, without which even the pursuits most congenial to individual human nature can never succeed in producing such salutary influences. Whatever does not spring from a man’s free choice, or is only the result of instruction and guidance, does not enter his very being, but still remains alien to his true nature; he does not perform it with truly human energies, but merely with mechanical exactness.”

—WILHELM VON HUMBOLDT,
The Limits of State Action

1. The Varieties of Human Welfare

Let us begin with a thought experiment inspired by Charles Murray.¹ Imagine that you discovered you would be unable to raise your child yourself, and would have to entrust him to the guardianship of someone else. Naturally, your concern with the child’s happiness would be paramount. But what does that actually mean? Your first concern would be for the child’s material well-being; but would that be the only consideration? What if certain wealthier guardians would not instill the same strength of character that other parents of more modest means would provide?

The point here is that human welfare is more than *material* well-being. When we

Mr. Caplan is a graduate student in economics at Princeton University. The essay was awarded first prize in the 1995–1996 Olive W. Garvey Fellowship competition (see page 3).

compare the ability of markets versus government to advance human welfare, we should consider not just their ability to produce consumer goods. It is at least as important to examine the broader effects of these institutions on the human personality.

2. Economic Well-Being

The connection between markets and economic well-being is best illustrated empirically. The recent histories of Germany and Korea provide the equivalent of two controlled experiments demonstrating the link. In both cases, what scientists would call “exogenous” forces suddenly split homogeneous nations into two parts. In both cases, one government adopted market-oriented policies, whereas the other imposed a rigid state-run economy. In both cases, the living standards in the more capitalist nations became so far superior to those in the “control” nations that ruthless emigration restrictions were imposed to prevent a steady population drain.

Korea and Germany offer the best experiments in alternative economic systems that we are ever likely to observe. But other good examples exist, all pointing in the same direction. Both Hong Kong and Taiwan can be profitably contrasted with mainland China (at least prior to China’s move toward market policies). India’s success could be measured against Japan’s, or most of Latin America against Chile. In case after case, we have the spectacle of culturally similar peoples lifting themselves out of poverty

under free-market policies, while stagnating, regressing, and even starving in state-run economies.

Some may doubt the validity of this induction: just because market economies do better than government-run economies, why should we assume that a mixture of the two types of policies won't do even better? Almost every nominally "capitalist" nation has adopted extensive regulations and transfer programs. How can comparisons between Hong Kong and China show something wrong with the modern welfare state?

Nevertheless, it would be a mistake to dismiss such comparisons completely. In statistics, it is well known that you learn more about a population if its members vary significantly in the dimensions in which you are interested. If you want to study the effect of a drug, but the dosage ranges only from .99 mg to 1.01 mg, medical researchers will be unable to figure out how much of the difference is due to the drug, and how much to chance. In contrast, if the researchers observe the whole range of dosages, from none to a lot, it becomes much easier to rationally generalize. In the same way, if we compare hard-core free-market regimes to mildly socialistic regimes, it will be much harder to infer the economic importance of markets than if we broaden the comparison to include economic systems which reject the market altogether.

In any case, many arguments can be turned on the modern welfare state directly. Its most pervasive and expensive policies involve government pension programs and government supply of medical care. What is most curious about these policies is that they generally pay out to *everyone*, rich and poor alike. The result is that in the majority of cases, they tax citizens who could easily have paid for their retirement and medical care by themselves, at least before they were taxed. Similar complaints could be lodged against the regulatory wing of the welfare state, which frequently restricts and prevents competition with one bureau while a second agency tries to correct the market for insufficient competition.

Along the dimension of *economic well-*

being, markets work extremely well, and there are good reasons to think that moderately market-oriented policies are worse than extremely market-oriented ones. To people who live near the subsistence level, this is extremely important: their welfare is primarily a function of their ability to satisfy their daily needs. But does this really matter for the citizens of the industrialized democracies, who live far above this meager level? Summarizing the psychological literature on wealth and happiness, Murray writes that "Happiness is very low until subsistence is reached, rises very steeply immediately thereafter, but quickly levels off as subsistence is left behind."² Later it will be argued that the *indirect* value of wealth, even for affluent nations, is greater than we might expect. But now we shall turn to some other components of human welfare which are apt to be very important in economically well-off countries.

3. Character and Well-Being

People don't just want to *have* things; they want to *be* somebody. To be happy, a person needs to see something valuable about his or her character. This is no easy matter because it is often difficult to develop a virtuous character. Aristotle explains that "Neither by nature, then, nor contrary to nature do the virtues arise in us; rather we are adapted by nature to receive them, and are made perfect by habit."³ We develop a good character by practice, by actually living through difficult experiences and learning to master them. The problem is that in the short run, weakness of will may lead people to develop vices instead of virtues, even though they would be happier in the long run if they developed a character they could be proud of.

But what does this have to do with the relative abilities of government and the free market to promote human welfare? Though not immediately obvious, the connection is interesting. Governments have two sorts of policies with profound effects on the development of virtue. On the one hand, governments typically favor *paternalism*—using

the threat of punishment to discourage self-destructive and vicious behavior. At the same time, governments often take care of people who are suffering because of their own irresponsible behavior. The free-market policy, naturally, is simply the negation of both.

Can one or both of these brands of state action help develop the human character and thereby enrich human well-being in *non-economic* terms? The problem with the paternalistic variety is that at best it merely compels good outward behavior. But *internal* strength of character tends to atrophy due to lack of opportunity to practice self-regulation. For example, if it were possible to successfully ban alcohol, alcohol abuse would cease to exist. But virtues like temperance and moderation would fall into disuse. Despite its association with an emphasis on moral character, paternalism tends to replace the development of virtue with shallow public displays thereof. If people's happiness depends on *actually* developing their character rather than merely seeming to do so the paternalistic route is a dead-end. Or as Thomas Szasz observes: "Paternalism is the mortal enemy of dignity: How can a person feel dignified *vis-à-vis* a medical profession, a judiciary, a government that never says to him: 'I don't know. It's none of my business. It's your problem. You deal with it.'"⁴

Other common government policies aim to shield individuals from the effects of their lapses of character. Of course, many problems are a combination of bad luck and bad choices, but the role of choice—especially habitual choice—is much neglected. The problem with government policies aiming to soften the blows of ill fortune is that it is nearly impossible to do so without rewarding bad character as well. Consider the case of a young man who says he is unable to find work and deserves government help. The difficulty is that *by the time he requests help* it may be impossible for him to extricate himself from his situation.

Just making different choices won't save him now, so it appears that his problem is due to bad luck. And yet, from a broader

perspective, his condition may be largely due to his *habitual* choices—in short, his character. When considering human welfare, it is tempting to consider merely the man's current distress. But this perspective overlooks the harm that this sort of bailout will *prospectively* do to the character of the young man in question as well as others in comparable situations. Lacking the natural guidance of cause and effect, of poor choices gradually leading to intolerable situations, other young men may fail to develop their characters, and in the long run lose the happiness that comes from self-respect.

The market doesn't have any perfect way to develop character either, but at least avoids the pitfalls of these two breeds of state policy. Character won't spring up on demand under *any* system. But the market environment does tend to foster it by simultaneously giving people the freedom to test their strength of will along with the discipline of the natural rewards and punishments of virtue and vice.

4. Autonomy and Well-Being

A close link exists between discontent and government decisions. Every time the government makes a decision, a dissatisfied minority necessarily feels oppressed and ignored. When the government makes a wide range of decisions, almost every citizen is going to frequently land in the position of the unhappy minority.

Consider how the typical consumer feels in contrast to the typical citizen. The jazz aficionado rarely feels "outvoted" by the lovers of opera. The buyer of a luxury sedan doesn't feel that the drivers of compact cars are taking advantage of him. What is it about markets that creates the across-the-board satisfaction that no government policy seems able to evoke?

The crucial difference stems from what we could call a need for autonomy, or self-determination. It is degrading to feel that other people make your important decisions for you; and the happiness of getting to turn the tables and decide for *them* is poor

compensation. When you are in the minority, it might seem as though it would feel glorious to assume the position of control; but attaining it just cements the realization of how precarious your dominant position is. In short, the minority feels humiliated by its powerlessness, and the majority feels threatened by the voices of discontent which will strip it of its power at the first opportunity. Political decision-making—*government* decision-making—fails to respect individuals' autonomy and thus reduces happiness along another non-economic dimension.

The opposite holds for market decision-making. Its crucial feature is that people make decisions for *themselves*, not for others. The objects of choice are not aggregate policies for everyone, but personal decisions for oneself. There is something deeply satisfying about this: one can participate in society while holding one's individuality intact.

Undeniably, many people want to control those who differ from them; but taking aggregate choices away makes it easier to accept the need to respect the rights of others. Thus, when the State determined the lawful religion of all of its subjects, the majority felt it unbearable to leave dissenters in peace. Privatize religion, take it out of the public realm, and gradually the contrary practices of others grow less painful to endure. Tolerance is, as it were, another virtue which we acquire by practice. In contrast, no amount of practice makes it easy to endure the denial of self-determination involved in political decision-making.

Imagine how people would feel if the free market in magazines were replaced with democratic collective choice. No longer do we have a marketplace where widely differing interests can be simultaneously satisfied. No longer can an individual independently decide which periodicals he or she would like to read. The result is that only publications that win majority approval get printed. However intense the preferences of minorities, the majority will ignore them. We can now control others' reading, as we could not under the free-market regime. But this

opens up the ability of others to control *your* reading.

The point of this mental experiment is to show what different economic systems mean for autonomy, and why the destruction of autonomy tends to destroy human welfare in the process. The harm done to autonomy cannot be removed by making collective choice democratic—the harm lies in collective decision-making itself. While this does not show that government action is on balance worse in every case, the need to respect human autonomy is a much-ignored consideration which augments the case for the free market.

5. The Interaction of Economic and Broader Well-Being

The second section argued that free markets are the best system for creating economic prosperity, but added that after a point greater economic satisfaction may not be very important. The third and fourth sections considered other facets of human happiness, and argued that *laissez-faire* principles were just as beneficial from a non-economic perspective. A final issue to consider is the relationship between these two aspects of happiness.

Charles Murray may be correct that greater wealth alone has little effect on happiness after a certain point. But this considers only the *direct* effects of wealth on happiness. Far more important, however, are the *indirect* effects: greater wealth means that we need to spend less time satisfying our physical needs, creating the option to pursue loftier concerns. Philosophy, literature, and art have always flourished in the world's centers of wealth: in Athens and Rome in ancient times, in Italy and Holland during the Renaissance, down to the development of motion pictures in the United States. A priori, you would expect that only *after* people can rest from the desperate struggle for survival would they turn to other activities. The effect of greater economic prosperity is greater comfort, lei-

sure, and surplus wealth which permit the development of the human personality. Of course, wealth only creates the *option* to strive after noneconomic ends, which is why the correlation between prosperity and civilization is imperfect. The point is that wealth is the critical "enabling condition" which makes the development of civilization possible.

Nor are the indirect effects of wealth confined to scholarly and artistic achievement. Prosperity is what allows every individual to develop his unique personality and potential. Imagine a struggling peasant in pre-capitalist society: his trials are so onerous that he lacks the leisure to explore his potential. Even more clearly, since greater wealth leads to a vast extension of the length of the human life, economic prosperity gives us the *time* to find fulfilling work, search for true love, or try to satisfy any other ambition. Before the Industrial Revolution, lifespans of 30 or 40 years were common. After you subtract the years of dependence spent in childhood, just imagine how short your horizon and how limited your goals would have to have been. This indirect effect of prosperity dwarfs the importance of the obvious direct benefits of riches.

Conclusion

Critics of the free market have often correctly pointed out how narrow-minded it is to equate human welfare with material possessions alone. The strategy here has been to accept this insight and show that free markets advance human welfare along non-economic dimensions as well. Whether we consider the raw ability of capitalism to "deliver the goods," its tendency to foster virtue, or its implications for human autonomy, the answer is the same. Moreover, those who belittle capitalism's material achievements are doubly in error; for in addition to its positive, direct effect on non-economic welfare, the free market's seemingly infinite multiplication of primitive man's economic well-being is precisely what has made all of our other cultural, intellectual, and personal accomplishments possible. □

1. In his *In Pursuit: Of Happiness and Good Government* (New York: Simon and Schuster, 1988), pp. 79–82.

2. *Ibid.*, p. 63.

3. *Nichomachean Ethics*, 1103a23-25.

4. Thomas Szasz, *The Untamed Tongue: A Dissenting Dictionary* (La Salle, Ill.: Open Court, 1990), p. 236.

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Liberty, Government, and the Rule of Law (excerpt)

by Jeffrey W. Duffy

Editor's Note:

In his essay, Mr. Duffy makes a critical inspection of the types of social ordering indicated by "free markets" and "government controls" in terms of law.

The experience of the United States in the twentieth century shows, I think, the truth of Friedrich Hayek's contention that the rule of law cannot survive the vagaries of politics once it begins to lose force as a cultural value in people's minds. The mental transformation wrought by socialist ideals has made many people willing to alter the prevailing mixture of freedoms and controls toward totalitarianism (though, of course, they did not see it that way) in the search for "social justice" and security. These may have been noble aims, but in the meantime it is not coincidental that the one area of law which has come into existence almost *ex nihilo* over the last century is the administrative law. The exigencies of the Great Depression made the rule of law vulnerable to politics, and the rule of law eroded accordingly, in favor of a jurisprudence which purports to justify the administrative state and which furnishes it with powers

Mr. Duffy holds a law degree and is pursuing a master's degree in economics at the London School of Economics. He is the second prize winner of the 1995-1996 Olive W. Garvey Fellowship. A copy of the full text of his prize-winning essay is available upon request from The Independent Institute (see page 3).

more extensive and more intrusive than any it held before.

In the 1930s, the Supreme Court of the United States began to allow Congress to delegate extensive legislative authority to agencies located in the executive and legislative branches of government, or "outside" any branch, by virtue of the political independence of the agency heads. In two great cases of 1935, *Panama Refining Co. v. Ryan*, and *Schechter Poultry Corp. v. United States*, the Supreme Court had struck down New Deal legislation on the grounds that Congress had delegated its powers unconstitutionally, but that doctrine fell into disuse with the Court's general acceptance of a New Deal world-view after President Roosevelt's court-packing plan gave them a fright in 1937.

Since then, it has been the norm for Congress to create a federal agency and allow it to legislate its own agenda within statutory guidelines that may be quite vague. The rules and regulations promulgated by these agencies have proliferated to such an extent that no mere citizen can be apprised of them all; specialized law practices are built around the rulings and procedures of a single agency; and compliance with the mass of technical legal requirements by a citizen who cannot employ full-time professional counsel is largely a matter of luck. At the same time, the exercise of police powers by government agents seems to have reached a new pitch of

effectiveness, to the detriment of the traditional liberties of citizens: powers of summary enforcement by means of seizure or monetary penalty are legion, and the prospect of judicial review of an administrative action can only be reassuring to someone who has not read administrative case law and seen for himself how deferential the courts have become to the judgments of government agencies.

We now live in a society where the administrative state exists in great tension with the rule of law, and both are enervated and demoralized. The first task facing classical liberals today is to rehabilitate the rule of law and thereby to subjugate the administration of government firmly to it; for it is only with reference to some political ideal that measures of policy will appear to be movements toward the free market or away from it, and the only political ideal which we know to be compatible with the civilization we inhabit is the rule of law.

If we do not reshape our law and government into a regime which creates and harmonizes market order and justice, we will slide into the slough of failed nations where

so many have gone before us by tyranny, by foreign conquest, by civil war, or by mere creeping decay. Other peoples have known something of what freedom was, but it passed away from them—from the Athenians, from the Romans, from the Italian republics, from England. Let us not think that we will avoid that fate merely by congratulating ourselves on the accomplishments of our past, for which we were not responsible, and which have always been tainted by some evil, like slavery or institutionalized misogyny, of gross inequality under the law. But if we do what the wise have always striven to do, if we revive the ideal which animates the law and bequeath to succeeding generations that true liberty which only true law can provide, then we can say to those generations what Shelley said in 1820 in his “Ode to Naples”:

Thou which wert once, and then didst
cease to be,
Now art, and henceforth ever shall be,
free,
If Hope, and Truth, and Justice can
avail. □

On the Need for Social Coercion (excerpt)

by Michael Huemer

Editor's Note:

In his paper, Mr. Huemer argues that social coercion is unjustified in attempts to solve the tragedy-of-the-commons problem both because it is inadequate and because better solutions to the problem exist.

We are faced with a problem. Supposing that commons situations exist in our society (the management of natural re-

sources is the most likely example), what, if anything, can be done about them, to avert the disaster that ensues if every one acts as a rational egoist? Garrett Hardin suggests this solution: we can agree to establish some central authority which will force us all to

Mr. Huemer, is a graduate student in philosophy at Rutgers University. He was Third Prize winner in the 1995–1996 Olive W. Garvey Fellowship. A copy of his full essay is available on request.

cooperate.¹ This is what he calls “mutual coercion, mutually agreed upon.” Thus, ill-fated ranchers might get together and pick some impartial party to be the “police”; let’s say they pick Bob. They give Bob their guns and tell him, “Now make sure none of us puts too many cattle on the land,” and presumably they pay him some compensation for performing this job. Then they all go home feeling relieved and secure.

But another problem arises, which Hardin recognizes but hasn’t much of a solution for: now that Bob is charged with watching the ranchers, who will watch Bob? If the ranchers cannot be assured that Bob will do the job they have given him competently, or that he will not otherwise exploit them, then they have not found much of a solution to their problem.

Bob might disappoint the ranchers in various ways, once he is given power: (a) He might fail to protect the commons due to ignorance of what was required; he might not know how many cattle was too many to let use the land, for example. (b) He might fail to protect the commons due to lack of interest; after all, if it is not his land, he may not care if it is degraded. (c) He might decide to exploit the commons himself; he might start raising his own animals on the land, and keep off the ranchers’ cows. (d) He might demand exorbitant fees from the ranchers for his services.

How, then, can the ranchers be sure that Bob will not attempt to do these things? Since we have assumed he has sufficient power to force the ranchers to use the commons responsibly, there is reason to suspect that he will also have sufficient power to exploit the ranchers and their land.

Of course, this story is most interesting as a metaphor: if we as a society establish a coercive institution (in particular, a government) to force individuals to behave in ways that are beneficial to the group, how can we be sure that this institution will use its power to serve the interests of society and not rather merely to serve its own interests?

Here’s one solution we might come up with: if Bob does not do his job properly, the ranchers can get together and collectively

oust him. Hopefully, the threat of this will keep Bob in line.

This plan, however, confronts a problem analogous to the original tragedy of the commons. Each individual rancher would have to decide whether to join in the effort to overthrow Bob. By joining in, he incurs a certain risk to himself, but he also increases the chances that the rebellion will be successful. The problem is that the costs involved in his individual decision to help overthrow Bob will be borne by himself, whereas the benefits will redound to the group. So he will not join, preferring to stay at home and let the others take care of Bob; and, following the same reasoning, neither will anyone else.

This result is much clearer if we consider the possibility of overthrowing a government, for in that case it is still less likely that one individual’s decision to join the rebellion will make the difference to whether it succeeds, but it is highly likely that it will result in that individual’s death. We have, then, another tragedy-of-the-commons problem: each person has an action available to him that would harm him individually but would benefit the group; and the logic of the commons predicts that no one will choose that action, even though the group as a whole is worse off in that case than they would be if everyone acted.

A second possible solution to our problem (in the context of the government of society) would be this: we have a democratic government. We can periodically elect leaders to tell us what to do, and we can vote out of office those who do not do their jobs well. Although this proposal is some improvement, it still introduces another form of the tragedy of the commons. Discovering which policies are desirable, which elected officials have performed well, and which candidates will perform well in the future, all requires extensive research. The individual who chooses thus to watch the government takes on all the costs in time and energy of his decision, while the benefits of his action are shared by the group. Under these circumstances, as the tragedy-of-the-commons logic predicts, very few people will expend

their resources becoming informed about and involved in political matters. And, again, the individual who chooses so to expend his time has almost no chance in a large society of noticeably affecting public policy. This, rather than voter "apathy," is the reason why people in a democratic society usually don't vote, and when they do, they are usually ill informed. Voters realize that informing themselves about public policy and voting is a waste of their time.

Perhaps the answer is that we just have to hope for our leaders to be responsible and benevolent. The question then becomes whether this is any more realistic than hoping for ordinary citizens to be responsible and benevolent to begin with (in which case the tragedy of the commons problem would not have arisen). There is, on the contrary, reason to expect leaders of a coercive institution to be *less* altruistic than ordinary citizens. Those who desire as a career making rules that the rest of society are forced to obey, are likely to be those who value *power* and enjoy exercising power. Such individuals, I think, are less likely to be altruistic than the general run of men, and they will have a tendency to extend their own power whenever they can. Furthermore, the *opportunities* for benefitting oneself at the expense of the rest of society are

certainly greater according as one has more power, so it is not clear that we have gained anything by placing power in the hands of a few individuals in order to prevent the others from selfishly harming society.

Is There a Non-Coercive Solution?

The solution to Garrett Hardin's original tragedy of the commons problem is fairly straightforward: the ranchers need a system of private property. If we can suppose the ranchers to be sufficiently coordinated and reasonable to be able to get together and agree to set up a government-like institution, then they ought to be coordinated and reasonable enough to be able instead to agree to divide up the commons into individually-owned parcels of land. Furthermore, they don't need even this degree of coordination if each rancher simply claims a plot of land if he is the first person to find and use it (Lockean fashion). Each rancher then will have an incentive to maintain the quality of the grazing area because only so will he be able to continue to use his land in the future. □

1. Garrett Hardin, "The Tragedy of the Commons," *Science*, December 13, 1968, pp. 12143-8.

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From Liberalism to Tribalism

Occasionally, an event attains culturally symbolic status, crystallizing a nation's identity, values, and conflicts. One thinks of the Lincoln assassination, the Lindbergh flight, the Woodstock Festival, the Apollo 11 lunar landing . . . events that captured the spirit, or torment, of their times.

To these, add the O. J. Simpson verdict.

During the evening before the verdict was announced, I sat watching TV as a succession of lawyers (morphed into "expert commentators") read the tea leaves of the trial. It was like a pre-game show for the Super Bowl. In fact, from its outset—from the football-hero defendant (ever eager to trade autographs for cash), to the cheering bystanders during his famous highway chase ("Run, O. J., run!"), to the courtroom clashes between the celebrity attorneys ("Marcia scored heavily on Johnnie today"), to the unspeakable hawkers outside the courtroom ("Get your Bronco bumper stickers here!")—the Trial of the Century had become a garish new national pastime.

Never mind that the proceedings were supposed to be about justice for two slaughtered individuals. The fate of innocent individuals seemed to weigh as little in that Los Angeles courtroom as they had in any ancient Roman arena.

The blatantly racist appeals by the defense emphasized this. The overwhelmingly black jury was not asked to seek justice for individuals, but exhorted to make a *social*

Mr. Bidinotto is a long-time contributor to Reader's Digest and The Freeman, and a lecturer at FEE seminars. Criminal Justice? The Legal System versus Individual Responsibility, edited by Mr. Bidinotto and published by FEE, is available in a new hardcover edition at \$24.95.



Photo: Sherry Syphard

statement about white racism. The individual defendant was no longer on trial; social institutions were. Justice for individual victims was no longer the point; sending a message to white society, collectively, was.

"Race plays a part of everything in America," Simpson attorney Johnnie Cochran would say later. "Not only did we play the 'race card,'" colleague Robert Shapiro would admit, "we dealt it from the bottom of the deck."

When the verdict of "not guilty" was read, I wept. For the victims. For what I believe was a gross miscarriage of justice. And for the future of my country.

But while millions wept, many others cheered. And the cheers and tears, instantly televised, were overwhelmingly apportioned along racial lines.

It was a stunning moment of national revelation. People sitting in the same rooms were experiencing violently opposing emotions—and looking at each other across a value chasm that seemed interplanetary.

"This is probably a bitter pill for most white Americans to swallow," the president of the Los Angeles Urban League told *USA Today*, "but this trial is about many things. . . . For some, [the verdict] does represent a way of partially vindicating some of the past injustices that have been inflicted upon so many African-Americans. . . ."

But was that the goal of the murder trial? Clearly, the response to the verdict by many had little to do with an objective search for justice for individuals.

For many decades, liberals have denounced individualism as “atomistic” and “polarizing.” They have argued that to hold supreme the rights and well-being of individuals is socially divisive. Only by viewing oneself as a subordinate part of a greater social whole can we have collective harmony. Only by sacrificing individual interests to those of the group can we live in peace and brotherhood.

But the opposite has proved true. Only by respecting the sanctity of *individuals* can social peace and harmony be guaranteed. And it is precisely the obliteration of individualism that is causing our nation to disintegrate into warring tribal gangs.

The United States of America was the first nation constituted to protect individual life, liberty, and rights *as its ultimate goal*. In theory, these protections were to be guaranteed to all, equally and by law. In reality, the battle for equal rights under the law was not won with the framing of the Constitution; there remained serious contradictions in that document (its toleration of slavery being the worst). Over many decades, the struggle to make the law an impartial guarantor of the individual rights continued. During the 1960s, the last legal inequities were eradicated.

But for liberal collectivists, that was not enough. No sooner had the civil rights movement succeeded in its *individualist legal ends*, than it was hijacked and turned toward *collectivist social ends*. The aim of the early reforms had been a “color-blind” legal system, based on *equal rights for individuals*. The goal of the collectivists, by contrast, was *equal status for groups*.

No longer was equality before the law sufficient; the new goal was equality in socio-economic status. And no longer were individuals to be the beneficiaries; groups were. The collectivist hijackers of the civil rights movement now demanded not the protection of individual rights, but the *sacrifice* of individual rights for the sake of group objectives.

By viewing individuals as expendable, sacrificial parts of a greater whole, liberal collectivists divided America into clashing

camp. Decrying inequities of status (instead of rights), they promulgated resentment, envy, and hostility. Extolling group traits (rather than individual virtues), they proclaimed that one should take “pride” in such collective characteristics as one’s racial, national, religious, and ethnic background. Politically empowering groups (instead of individuals), they created legal incentives for people to affiliate in collectives shaped by class, gender, age, and race.

The result of their experiment in collectivization? Not social harmony, but cultural disintegration. The old American “melting pot” and “color-blind law” is long gone. Instead, America is sinking into a violent new tribalism.

Younger working people resent the insatiable political demands of the elderly; the elderly resent their escalating property taxes going into public schools for the younger generation; teenagers demand subsidized college tuition from adults. Residents trapped in urban decay seethe with hostility at people living in protectively-zoned suburbs; suburbanites complain about providing food stamps for inner-city dwellers and crop subsidies for farmers; farmers denounce high taxes for urban mass transit. Men complain about preferential laws for women, women complain about unequal pay *vis-à-vis* men.

But without question, the ugliest collectivist affiliations are those defined along racial and ethnic lines. Physiological differences are the easiest to perceive; and for the mindless, provide the least demanding criteria for group allegiances—or hatreds.

This is the logical consequence of collectivism’s fragmentation of society. The disenfranchisement of the individual inevitably means the empowerment of gangs. The same collectivism that has Balkanized the globe, is now Balkanizing America.

The Simpson verdict, and its aftermath, was a defining moment for our culture . . . and a wake-up call. More than a verdict in a single murder case, it was a symbolic verdict passed on a collapsing culture—and on the murderous collectivist philosophy that is tearing it asunder. □

Thomas Paine—Passionate Pamphleteer for Liberty

by Jim Powell

As nobody before, Thomas Paine stirred ordinary people to defend their liberty. He wrote the three top-selling literary works of the eighteenth century, which inspired the American Revolution, issued a historic battle cry for individual rights and challenged the corrupt power of government churches. His radical vision and dramatic, plainspoken style connected with artisans, servants, soldiers, merchants, farmers, and laborers alike. Paine's work breathes fire to this day.

His devastating attacks on tyranny compare with the epic thrusts of Voltaire and Jonathan Swift, but unlike these authors, there wasn't a drop of cynicism in Paine. He was always earnest in the pursuit of liberty. He was confident that free people would fulfill their destiny.

He provoked explosive controversy. The English monarchy hounded him into exile and decreed the death penalty if he ever returned. Egalitarian leaders of the French Revolution ordered him into a Paris prison—he narrowly escaped death by guillotine. Because of his critical writings on religion, he was shunned and ridiculed during his last years in America.

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But fellow Founders recognized Paine's rare talent. Benjamin Franklin helped him get started in Philadelphia and considered him an "adopted political son." Paine served as an aide to George Washington. He was a compatriot of Samuel Adams. James Madison was a booster. James Monroe helped spring him from prison in France. His most steadfast friend was Thomas Jefferson.

Paine was a prickly pear—vain, tactless, untidy—but he continued to charm people. Pioneering individualist feminist Mary Wollstonecraft wrote: "He kept everyone in astonishment and admiration for his memory, his keen observation of men and manners, his numberless anecdotes of the American Indians, of the American war, of Franklin, Washington, and even of his Majesty, of whom he told several curious facts of humour and benevolence."

Despite his blazing intelligence, Paine had some half-baked ideas. To remedy injustices of the English monarchy, he proposed representative government which would enact "progressive" taxation, "universal" education, "temporary" poor relief, and old-age pensions. He naively assumed such policies would do what they were supposed to, and it didn't occur to him that political power corrupts representative government like every other government.

Yet in the same work containing these proposals—*Rights of Man*, Part II—Paine

affirmed his libertarian principles again and again. For example: "Great part of that order which reigns among mankind is not the effect of government. It has its origin in the principles of society and the natural constitution of man. It existed prior to government, and would exist if the formality of government was abolished."

The "Muse of Fire"

Paine stood five feet, ten inches tall, with an athletic build. He dressed simply. He had a long nose and intense blue eyes. His friend Thomas Clio Rickman noted that "His eye, of which the painter could not convey the exquisite meaning, was full, brilliant, and singularly piercing. He had in it the 'muse of fire.'"

Thomas Paine was born on January 29, 1737, in Thetford, England. His mother, Francis Cooke, came from a local Anglican family of some distinction. His father, Joseph Paine, was a Quaker farmer and shoemaker. Although Thomas Paine wasn't a practicing Quaker, he endured some of the intolerance directed against Quakers.

Paine took a while to find his calling. He left school at age 12 and began apprenticeship as a Thetford corset-maker, but he didn't like it. Twice he ran away from home. The second time, in April 1757, he joined the crew of the *King of Prussia*, a privateer that didn't find much booty. He tried his hand as a corset-maker again, then as an English teacher and independent Methodist preacher. Public-speaking experience surely gave him insights about what it takes to stir large numbers of people.

Paine's most puzzling decision was to become an excise tax collector. He got fired, landed another excise tax-collecting job, and got fired again after writing a pamphlet to promote pay raises. Paine witnessed the resourcefulness of smugglers, resentment against tax collectors, and the pervasiveness of government corruption.

Except for a couple of brief interludes, Paine was a loner. Believing that marriage should be based on love, not social status or fortune, he wed Mary Lambert, a household

servant, in September 1759, but within a year she died during childbirth. In March 1771, he married again—Elizabeth Ollive, a 20-year-old teacher. While trying to earn a living as a grocer and tobacconist, he went bankrupt in early 1774. Most of his possessions were auctioned April 14th. Two months later, Paine and his wife went their separate ways.

Meanwhile, he thrived on discussions about philosophy and practical politics. In Lewes, Paine belonged to the Headstrong Club, a discussion group. It gathered weekly at the White Horse Tavern where Paine relished ale and oysters. One of the members was an ardent republican and defender of libertarian rebel John Wilkes. Paine's radical libertarian views jelled.

Intellectually curious, Paine liked to browse in bookstores, attend lectures on scientific subjects, and meet thoughtful people. He befriended a London astronomer who introduced him to Benjamin Franklin, then working to expand business with England. Franklin seems to have convinced Paine that he could make a better life in America, and Franklin provided a letter of introduction to his son-in-law in Philadelphia.

Arrival in America

Paine arrived November 30, 1774. He rented a room at Market and Front streets, the southeast corner—from which he could see the Philadelphia Slave Market. He spent spare time in a bookstore operated by Robert Aiken. Paine must have impressed the bookseller as a lively and literate man, because he was offered the job of editing Aiken's new publication, *The Pennsylvania Magazine*.

For Paine, this experience was a proving ground. He produced at least 17 articles, perhaps as many as 26, all signed with such pseudonyms as "Vox Populi," "Justice, and Humanity." He edged closer to the controversy of America's future relationship with England. He vehemently attacked slavery and called for prompt emancipation.

Then came the Battle of Lexington, at

dawn on April 19, 1775. British Major John Pitcairn ordered his troops to fire on American militiamen gathered in front of a meetinghouse, killing eight and wounding ten. The outraged Paine resolved to defend American liberty.

Common Sense

In early September, he began making notes for a pamphlet. He probably started writing around the first of November. He worked at a wobbly table, scratching out the words with a goose quill pen on rough buff paper. The manuscript proceeded slowly, because writing was always difficult for Paine. He discussed the evolving draft with Dr. Benjamin Rush whom he had met at Aiken's bookstore. The draft was completed in early December. Paine got comments from astronomer David Rittenhouse, brewer Samuel Adams, and Benjamin Franklin. Paine thought of calling his pamphlet *Plain Truth*, but Dr. Rush recommended the more earthy *Common Sense*.

Dr. Rush arranged for the pamphlet to be published by Robert Bell, a Scotsman who had become a noted Philadelphia publisher, colorful auctioneer, and underground supporter of American independence. Priced at 2 shillings, the 47-page *Common Sense*—written anonymously “by an Englishman”—was published on January 10, 1776. Paine signed over royalties to the Continental Congress.

With simple, bold, and inspiring prose, Paine launched a furious attack on tyranny. He denounced kings as inevitably corrupted by political power. He broke with previous political thinkers when he distinguished between government compulsion and civil society where individuals pursue private productive lives. Paine envisioned a “Continental union” based on individual rights. He answered objections from those who feared a break with England. He called for a declaration to stir people into action.

Common Sense crackled with unforgettable lines. For example: “Society is produced by our wants, and government by our wickedness. . . . The sun never shined

on a cause of greater worth. . . . Now is the seed-time of Continental union. . . . We have every opportunity and every encouragement before us to form the noblest, purest constitution on the face of the earth. . . . O! ye that love mankind! Ye that dare oppose not only the tyranny but the tyrant, stand forth! . . . We have it in our power to begin the world over again. . . . The birthday of a new world is at hand.”

The first edition sold out quickly. Soon rival editions began appearing. Printers in Boston, Salem, Newburyport, Newport, Providence, Hartford, Norwich, Lancaster, Albany, and New York issued editions. Within three months, Paine estimated that over 120,000 copies had been printed. Dr. Rush recalled that “Its effects were sudden and extensive upon the American mind. It was read by public men, repeated in clubs, spouted in Schools, and in one instance, delivered from the pulpit instead of a sermon by a clergyman in Connecticut.” George Washington declared that *Common Sense* offered “sound doctrine and unanswerable reasoning.”

Paine's incendiary ideas leaped across borders. An edition appeared in French-speaking Quebec. John Adams reported that “Common Sense was received in France and in all Europe with Rapture.” There were editions in London, Newcastle, and Edinburgh. *Common Sense* was translated into German and Danish, and copies got into Russia. Altogether, some 500,000 copies were sold.

Common Sense changed the political climate in America. Before its publication, most colonists still hoped things could be worked out with England. Then suddenly, this pamphlet triggered debates where increasing numbers of people spoke openly for independence. The Second Continental Congress asked Thomas Jefferson to serve on a five-person committee that would draft the declaration Paine had suggested in *Common Sense*.

“Thomas Paine's *Common Sense*,” reflected Harvard University historian Bernard Bailyn, “is the most brilliant pamphlet written during the American Revolution,

and one of the most brilliant pamphlets ever written in the English language. How it could have been produced by the bankrupt Quaker corset-maker, the sometime teacher, preacher, and grocer, and twice-dismissed excise officer who happened to catch Benjamin Franklin's attention in England and who arrived in America only fourteen months before *Common Sense* was published is nothing one can explain without explaining genius itself."

When Independence brought war, Paine enlisted as a military secretary for General Daniel Roberdeau, then for General Nathaniel Greene, and by year-end 1776 he was with General George Washington. The untrained, poorly paid Americans, typically serving for a year, were routed by well-trained British soldiers and ruthless Hessian mercenaries.

"The Harder the Conflict, the More Glorious the Triumph"

Paine wondered how he could boost morale. By evening campfire he began writing a new pamphlet. When he returned to Philadelphia, he took his manuscript to the *Philadelphia Journal*, which published it on December 19th as an eight-page essay, *American Crisis*. On Christmas Day 1776, George Washington read it to his soldiers. Paine's immortal opening lines: "These are the times that try men's souls. The summer soldier and the sunshine patriot will, in this crisis, shrink from the service of their country; but he that stands it *now*, deserves the love and thanks of man and woman. Tyranny, like hell, is not easily conquered; yet we have this consolation with us, that the harder the conflict, the more glorious the triumph." Within hours, Washington's fired-up soldiers launched a surprise attack on sleeping Hessians in Trenton, giving Americans a much-needed battle victory.

By the time the Revolutionary War ended, Paine had written a dozen more *American Crisis* essays. They dealt with military and diplomatic issues as Paine promoted better morale. In the second essay,

published January 13, 1777, Paine coined the name "United States of America."

After the British surrendered at Yorktown, Paine was broke, and he didn't know how he would earn a living. He wanted a government stipend for what he had done to help achieve American Independence. New York State gave him a 300-acre farm in New Rochelle, about 30 miles from New York City, which had belonged to a British loyalist. Congress voted Paine \$3,000 for war-related expenses he had paid out of pocket.

Then he came up with an idea for cashing in on the American bridge-building boom. He didn't find American backers, so on Franklin's recommendation, he sought support in France and England. While the project fizzled, it brought him into contact with leading classical liberals of the day. In France, he renewed his friendship with Marquis de Lafayette, who had served the American Revolution. Lafayette introduced Paine to the Marquis de Condorcet, a French mathematician and influential classical liberal. In England, Paine met Parliamentary radical Charles James Fox and Edmund Burke, a Parliamentary defender of the American Revolution and friend of radical John Wilkes.

The outbreak of the French Revolution, in July 1789, horrified Burke who began writing his counterrevolutionary manifesto, *Reflections on the Revolution in France*. It defended monarchy and aristocratic privilege. Burke's book appeared November 1, 1790, and it reportedly sold almost 20,000 copies within a year. French, German, and Italian editions soon followed.

Rights of Man

Meanwhile, Paine, who had been working on a new book about general principles of liberty, learned the gist of Burke's manifesto and decided to revise his book as a rebuttal. He moved into a room at the Angel Inn, Islington, where he could concentrate on the project. He started work November 4th. He worked steadily, often by candlelight, for some three months. He finished the first part of *Rights of Man* on January 29, 1791—his

birthday. He was 54. He dedicated the work affectionately to George Washington, and it was published on Washington's birthday, February 22nd.

While Burke had impressed many people with flowery prose, Paine replied with plain talk. He lashed out at tyranny. He denounced taxes. He specifically denied the moral legitimacy of the English monarchy and aristocracy. He declared that individuals have rights regardless what laws might say. For centuries, people had resigned themselves to tyranny and war, but Paine provided hope these evils could be curbed.

Paine defended the French *Declaration of the Rights of Man and of Citizens*, which included a commitment to private property. "The right to property being inviolable and sacred, no one ought to be deprived of it, except in cases of evident public necessity, legally ascertained, and on condition of just indemnity."

The first printing sold out in three days. The second printing, within hours. There was a third printing in March 1791, a fourth printing in April. Some 200,000 copies sold in England, Wales, and Scotland. Another 100,000 copies were sold in America.

Rights of Man convinced many people to support the French Revolution and dramatic reform in England, and the government reacted with repression. Pro-government newspapers denounced Paine as "Mad Tom." Churchmen delivered sermons attacking Paine. People hanged effigies of Paine across England. On May 17, 1792, the government charged him with seditious libel, which could be punished by hanging. Excise tax collectors ransacked Paine's room. He hastened to Dover and boarded a boat for Calais, France, in September 1792. An arrest warrant reached Dover about 20 minutes later.

An enthusiastic crowd welcomed him. He was offered honorary citizenship of France and elected as Calais representative to the National Convention which would develop reforms. He didn't speak French, and he often failed to realize how fast the political situation was changing. But he knew he was an ideological ally of the so-called *Girondins*

who favored a republican government with limited powers.

His adversaries were the ruthless, xenophobic Jacobins. Incredibly, Paine was considered suspect because he was born in England—even though he could be hanged if he returned there. In the middle of the night before Christmas 1793, Jacobin police hauled him away to Luxembourg Prison. Paine was held without trial in a tiny, solitary cell. On July 24, 1794, the public prosecutor added Paine's name to the list of prisoners who would be beheaded, but he got lucky. Prison guards mistakenly passed by his cell when they gathered the night's victims. Three days later, July 27, 1794, people had had enough of the Terror, and they beheaded Robespierre, the most fanatical promoter of Jacobin violence, and the worst was over.

Age of Reason

Before Paine was imprisoned, he started his most controversial major work, *Age of Reason*, and he continued writing behind bars. While he commended Christian ethics, believed Jesus was a virtuous man, and opposed the Jacobin campaign to suppress religion, he attacked the violence and contradictions of many Bible stories. He denounced the incestuous links between church and state. He insisted that authentic religious revelation came to individuals rather than established churches. He defended the deist view of one God and a religion based on reason. He urged a policy of religious toleration.

Age of Reason had a big impact, in part, because Paine wrote it with his trademark dramatic, plainspoken style which stirred strong emotions. The book became a hot seller in England, and government efforts to suppress it further spurred demand. The book was much sought after in Germany, Hungary, and Portugal. There were four American printings in 1794, seven in 1795, and two more in 1796. People formed societies aimed at promoting Paine's religious principles.

U.S. minister to France James Monroe

demanded that government officials bring Paine to trial or release him. Monroe was eloquent: “the citizens of the United States cannot look back to the era of their revolution, without remembering, with those of other distinguished patriots, the name of Thomas Paine. The services which he rendered them in their struggle for liberty have made an impression of gratitude which will never be erased, whilst they continue to merit the character of a just and generous people.”

By November 6th, gray-bearded and frail, Paine was free at last. In 1801, First Consul Napoleon Bonaparte invited Paine to dinner, hoping for insights about conquering Britain. Paine recommended a policy of peace, the last thing Napoleon wanted to hear, and they never met again.

Paine returned to America on September 1, 1802. He was 65. A Massachusetts newspaper correspondent observed: “Years have made more impression on his body than his mind. He bends a little forward, carries one hand in the other behind, when he walks. He dresses plain like a farmer, and appears cleanly and comfortably in his person. . . . His conversation is uncommonly interesting; he is gay, humorous, and full of anecdote—his memory preserves its full capacity, and his mind is irresistible.”

Paine was subjected to personal attacks from the Federalist press, but he spoke out on controversial issues. For example, after Napoleon gained control of Louisiana in 1800, and the Mississippi was closed to American shipping, Federalists called for war against France. Paine encouraged President Jefferson to propose purchasing the Louisiana territory. While Federalist Alexander Hamilton thought Napoleon would never go for the idea, Paine drew from his firsthand knowledge: “The French treasury is not only empty, but the Government has consumed by anticipation a great part of next year’s revenue. A monied proposal will, I believe, be attended to. . . .” In May 1803, Napoleon sold the Louisiana territory to the United States for \$15 million.

Although Federalist critics savaged Pres-

ident Thomas Jefferson for defending Paine, he courageously invited his friend to the White House. When Jefferson’s daughters Mary and Martha made clear they would rather not associate with Paine, Jefferson replied that Paine “is too well entitled to the hospitality of every American, not to cheerfully receive mine.”

During Paine’s last years, he was desperate for cash as his health deteriorated, and he lived in pitiful squalor. He asked to be moved into the home of his friend Marguerite de Bonneville at 59 Grove Street, New York City, and there he died on the morning of June 8, 1809. Mme. de Bonneville arranged for burial at his New Rochelle farm because no cemetery would take him.

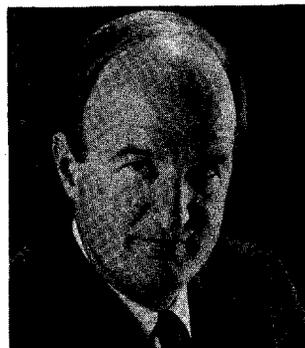
Paine didn’t rest in peace. A decade later, English journalist William Cobbett, a foe of Paine’s who became a disciple, secretly dug up the casket and shipped it to England. According to some accounts, he thought that by making it part of a shrine, he could inspire large numbers of people to push for reform of the government and the Church of England. But people weren’t much interested in Paine’s bones. When Cobbett died in 1835, they were dispersed with his personal effects and lost.

Paine remained a forgotten Founder for decades. Theodore Roosevelt summed up the prevailing view when he referred to Paine as a “filthy little atheist.” The first really comprehensive biography didn’t appear until 1892. There still isn’t an authoritative edition of Paine’s complete work.

The American bicentennial helped revive interest in Paine. Paperback collections of his major writings became widely available for the first time, and at least eight biographies have appeared since then—two within the past year.

Perhaps a new generation is rediscovering this marvel of a man. He didn’t have much money. He never had political power. Yet he showed how a singleminded private individual could, by making a moral case for natural rights, arouse millions to throw off their oppressors—and how it could happen again. □

Good News: Textbook Macro Model Rejected!



“The AS/AD model . . . is seriously flawed . . . a model of the worst type—a model that obscures, rather than clarifies.”¹

—David Colander

Finally, a major academic economist has repudiated the dangerously flawed macro model used in all standard textbooks—the so-called Aggregate Supply (AS) and Aggregate Demand (AD) curves. David Colander, well-respected economics professor and author, has written a devastating critique of AS-AD macroeconomics in the latest issue of the prestigious *Journal of Economic Perspectives*, an official journal of the American Economic Association. What is more remarkable is that he considers himself a Keynesian “and proud of it,” yet he is in the forefront of revamping the way economics is taught.²

The teaching of macroeconomics needs a new approach on college campuses. A million and a half students study economics each year and they are receiving a heavy dose of bad economics, especially in the macro sections. The AS-AD model currently in vogue in virtually all textbooks³ is a fatally flawed assault on free-market economics. To understand why, see the standard diagram of AS-AD analysis at the top of the next page.

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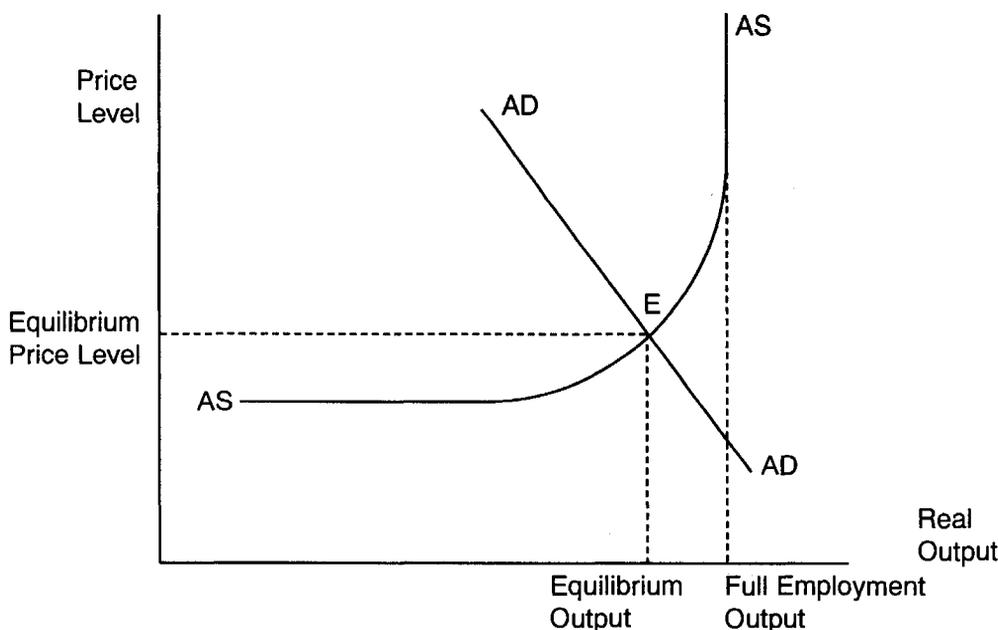
The Fatal Flaw in Macroeconomics

What’s wrong with this model of the economy? First, it is rooted in the Keynesian theory that the free market cannot guarantee full employment. The diagram illustrates how the economy can allegedly be stuck forever at a high level of unemployment and recession. Note that point E, where aggregate demand and supply meet, is at less than full employment. By implication, increased government spending (the Keynesian prescription) can stimulate economic activity and push the AD curve forward until full employment is achieved, where the AS curve is vertical.

However, most economists now recognize that this old-fashioned Keynesian view of stagnation is fallacious. The free market will always achieve full-employment equilibrium as long as wages and prices are flexible and the government doesn’t engage in perverse monetary/fiscal policies.

Another problem with the AS-AD model arises when the economy reaches the point of full employment (where the AS curve is vertical). The model suggests that further deficit spending or inflating the money supply will only drive up prices without affecting real output. Yet numerous studies of countries suffering from runaway inflation demonstrate that inflation causes real output to fall also.

These are just a few of the many problems with the AS-AD model.



Professor Colander doesn't address any of the criticisms mentioned above, however. Instead, he focuses on the inner-contradictions in the AD and AS curves themselves. Essentially, Colander shows how AS-AD analysis is internally inconsistent because it relies on contradictory assumptions. The supply relationships packed into AD are at war with the supply relationships underlying AS. Moreover, the textbook model implies that supply and demand are totally independent of each other in the aggregate economy, a theory that contradicts all common sense.

So what to do? Many of Colander's colleagues favor complete banishment. Reuven Brenner, an economist at McGill University, not only dismisses textbook macro as "pseudo-science" but considers astrology as its closest allied field!⁴

Needed: A New Macro Model

Yet Colander is afraid to scrap AS-AD entirely, and opts to salvage the faulty model in his current textbook, not because he is academically dishonest, but because he doesn't have a legitimate alternative. A bad theory won't disappear until you have a good theory to replace it with.

The problem remains: What can replace

the AS-AD model? Austrian economics comes to the rescue! The stages-of-production model developed by Ludwig von Mises and Friedrich Hayek offers an excellent alternative. My own four-stage macro model provides a graphic representation of the whole economy. It incorporates the two most important variables in the aggregate economy—what Roger Garrison, economics professor at Auburn University, labels "time and money."⁵ Professor Garrison and I are among those free-market economists attempting to develop the graphics of a new macroeconomic model. Stay tuned.

1. David Colander, "The Stories We Tell: A Reconsideration of AS/AD Analysis," *Journal of Economic Perspectives* (Summer, 1995), pp. 169–188.

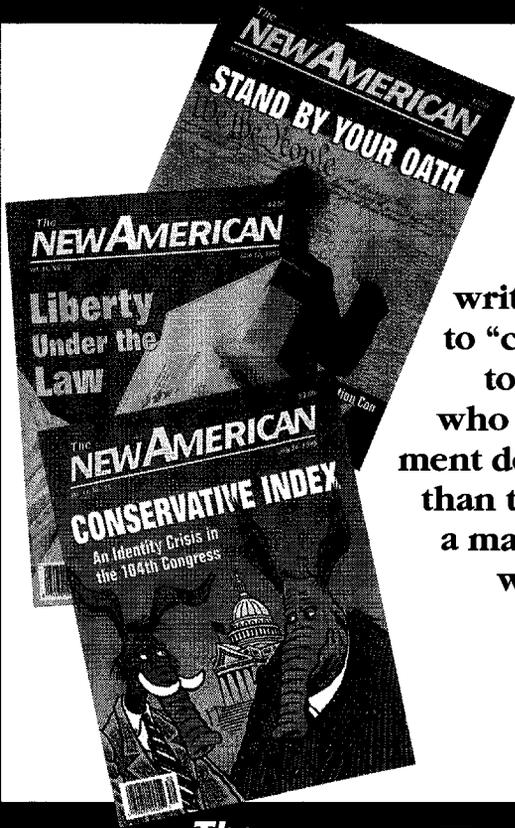
2. Professor Colander has been directly involved in two popular studies, *The Making of an Economist*, co-authored by Arjo Klamer (Westview Press, 1990), and *Educating Economists*, co-authored by Reuven Brenner (University of Michigan Press, 1992), both of which are damning critiques of the economics profession.

3. Paul Heyne's *Economic Way of Thinking* (Macmillan, 1994, 7th edition) is the only exception, and it is regarded primarily as a micro text.

4. Reuven Brenner, "Macroeconomics: The Masks of Science and Myths of Good Policies," *Educating Economists*, pp. 123–151.

5. Garrison has developed a fascinating graphical technique linking Keynesian and Austrian economics with a production-possibility curve. See Roger Garrison, "Linking the Keynesian Cross and the Production Possibilities Frontier," *Journal of Economic Education* (Spring, 1995). For a full exposition of my 4-stage model, see my work, *The Structure of Production* (New York University Press, 1990), Part 2. This book also introduces an alternative form of aggregate supply and demand curves.

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BOOKS

The Lustre of Gold

With an Introduction by

Hans F. Sennholz

Foundation for Economic Education • 1995 •
153 pp.+iv • \$14.95 paperback

Reviewed by Ron Paul

The lustre of gold indeed! Unearth an ancient Roman coin, and it gleams as surely as it did in the Forum of The Republic. Melt down (Heaven forbid) a gold Eagle from the presidency of George Washington, and the gold—shorn of any numismatic value—will buy about what it did then. The paper dollar, on the other hand, has lost almost all of the value it had before the founding of the Federal Reserve and the destruction of the classical gold standard.

Money is a commodity like any other, as Carl Menger and Ludwig von Mises showed, but a commodity that was gradually settled on by market participants as the most liquid commodity, that is, the thing most readily accepted and held by other people for use in economic transactions.

There is one difference, however, as Murray Rothbard pointed out, between a monetary commodity and other commodities. All other things being equal, we are better off with more tomatoes or refrigerators than fewer. But we are not better off with more money. Any amount of money is optimal. It makes no difference, economically, if a loaf of bread costs two cents or two dollars, provided either amount is the same portion of the total. But it makes a tremendous difference if the amount of money in circulation is artificially increased.

Before the invention of paper money, the king's agents would clip the edges off the coins, and demand that the people accept them at their old value. Or the government would call in the coins, melt them down, and reissue them at the old value but with less precious metal.

Things got worse with the invention of paper money, since there was a limit to the debasement of gold and silver coins, and they could not be printed up on a government printing press at will. And things got much worse with the introduction of central banking, perhaps the most

disastrous step in economic policy ever taken. As demonstrated by our own beloved Federal Reserve System, under central banking, the government can inflate until the cows come home, and unlike the more honest forms of crookery dominant in past ages, pass it off as a normal or even necessary part of the economy. Indeed, anti-gold Keynesian economists would claim exactly that.

Former Vice President Walter Mondale was once heard to say, after a briefing by an economist during the 1984 presidential campaign, "Now I finally understand the Federal Reserve." Well, probably not, but it shows another problem. The Fed obfuscates. It's a giant fog machine, designed to fool the victims of its policies, i.e., most of us. In the process, it even fools some of the politicians, as I discovered during my terms in the House of Representatives.

Fed disinformation is politically necessary. After all, although it was founded to inflate, that is, to depreciate the dollar for the benefit of the government and its friends, it can't very well admit to that. Why, the voters might get angry. So instead, we get such howlers as the press telling us that the Fed is "fighting inflation," when all it does *is* inflate, as well as cartelize the banking industry, allowing it to inflate in unison with the central bank.

The Fed also causes the business cycle, recessions, and depressions, as Mises demonstrated, bringing about immense suffering.

The establishment of the Fed also meant the gradual destruction of the gold standard that had made possible the freedom and prosperity of the nineteenth century. (Not that the period was monetarily idyllic. We also had two early central banks and Lincoln's greenback inflation, for example.) When the Fed was established under Woodrow Wilson, another warmonger, in 1913, the gold cover on the currency was reduced to 40 percent. Then our third great warmongering president, Franklin D. Roosevelt, confiscated the people's gold, and took America off the domestic gold standard.

Warmongers Johnson and Nixon finished off even that attenuated gold standard in 1968 and 1971 (did I mention that the Fed makes the funding of war much easier?), and since then, we have been on a pure fiat standard.

A pure fiat money standard is not only economically and politically disastrous, it is also a moral calamity, as the decline of our nation in that sphere has also shown, since—among other things—inflation encourages profligacy and penalizes thrift. Yet, with the weakness of the dollar

on international exchanges, not to speak of people's increasing worries about the future and doubts about the government, I believe we are coming to a time when an alternative can be considered: honest money, hard money, and sound money—the gold standard. Certainly the idea has somewhat more academic and political support than in the past, when Keynesian economics ruled almost unchallenged.

How appropriate, then, is the publication of *The Lustre of Gold*. One of the great things Hans F. Sennholz has done since assuming the helm at FEE is to publish a series called "The Freeman Classics," which collect the great essays from that journal by topic. This is one of the best. Its 17 essays represent an impassioned and eloquent argument for the gold standard as the only money worthy of a free and civilized people.

Five pieces by Henry Hazlitt and three by Dr. Sennholz are the stars, but there are also excellent contributions from such men as Elgin Groseclose, Lawrence Reed, Mark Skousen, and Robert Anderson, with a learned and rousing introduction by Dr. Sennholz as well.

All point to the same conclusion. We, and indeed the entire world, need, in the words of Hazlitt, a "100 percent reserve gold standard." Only this system, and not the watered-down varieties like the gold-exchange standard, can abolish inflation and the business cycle, eliminate the partial barter system of fluctuating fiat currencies internationally, and give to our people the sort of sound economic growth that capitalism promises, but has not delivered since the evil day in 1971 when Nixon removed the last gold restraint on the Fed.

In our most productive periods, money was worth more every year, as its supply increased very slowly through gold mining, and the supply of goods and services exploded through *laissez faire*. It sounds like science fiction now, but savers were rewarded by seeing their savings buy more at retirement than when they were put away. There was no central bank, no welfare state, and no warfare state.

This is how a free market, gold standard America worked. For the sake of our children and grandchildren, and of our liberty and prosperity, may it be so again. □

Former Congressman Ron Paul was a co-founder and member of the U.S. Gold Commission, where he brought about the restored minting of American gold coins. Dr. Paul is also author of Gold, Peace, and Prosperity and co-author of The Case for Gold.

Loving Your Neighbor: A Principled Guide to Personal Charity

Edited by Marvin Olasky

Capital Research Center • 1995 • 146 + vi pages • \$15.00 paperback

Reviewed by Montgomery B. Brown

Loving Your Neighbor is essentially a sequel to *The Tragedy of American Compassion*, Marvin Olasky's highly influential history of efforts to fight poverty in America. The earlier work shows how, over time, the spiritual foundation and personal character of assistance to the needy in our country were largely undermined by expansive government programs. Each chapter of *Loving Your Neighbor* describes a particular organization or program for helping the poor, and each confirms lessons drawn from Olasky's history: the successful ventures are typically spiritually grounded, private, and modest in scale, while the secular and more ambitious public programs are mostly ineffective and often harmful.

Loving Your Neighbor contains a dozen essays previously published in the Capital Research Center's newsletter *Philanthropy, Culture, and Society*. Olasky himself wrote three and co-wrote another. The collection is divided into three sections: one describing efforts to help homeless people, one portraying youth programs, and one on urban renewal projects. (One of the chapters on helping the homeless was written by Gerald Wisz, who profiled the same organization for *The Freeman's* October 1994 issue.) The essays are united by simple principles that Olasky restates in the afterword to *Loving Your Neighbor*: "think small, and think of souls rather than bodies."

Every successful program depicted has a religious, or more precisely, biblical basis that gives it guidance and stability. To begin with, the Bible instructs those working for charities that the needs of the poor go well beyond the financial or material. It teaches that more than wealth is needed to build (or rebuild) a community, more than square meals to nourish a child. A biblical underpinning is also invaluable in sustaining volunteers who labor in a field with small rewards, frequent failures, and strenuous demands for patience and humility.

Successful efforts also draw from the Bible the conviction that true charity cannot undermine the responsibility of those who receive it; on the

contrary it must promote responsibility. In most cases that need is met initially by demanding work and good behavior from those who accept food, shelter, housing, or other goods. In the same way, providing meals that allow addicts to spend more money on drugs or booze is rightly seen not as helping, but harming, the recipients.

Because the problems of the underclass and its neighborhoods are deeply rooted and almost invariably call for changed habits, a small scale is imperative for success. Modest size allows for the moral support as well as the accountability that together can turn around a wayward individual or community. As the size and scope of efforts to help the poor increase, there is a persistent tendency for a misguided set of priorities to take over. The number of people being "served" and the level of help (typically measured in dollars) that each client receives become the standards of excellence. This is the all-too-familiar phenomenon of allowing a process to become more important than the outcome it was designed to bring about.

Loving Your Neighbor will not be a smashing success like *The Tragedy of American Compassion*. But for people who work with the poor it will provide useful examples and illustrations to reinforce the basic principles in Olasky's previous book. □

Mr. Brown is Director of Publications at The Philanthropy Roundtable in Indianapolis, Indiana.

The True State of the Planet

Edited by Ronald Bailey

The Free Press • 1995 • 472 pages • \$15.00 paperback

Reviewed by Matthew Carolan

Those who have studied logic or critical thinking are probably familiar with the informal fallacy of the "false dilemma," a kind of pseudo-argument in which a speaker pushes you into agreeing with him, or accepting an unwanted alternative. For example: if we don't raise taxes to save this program, then (fill in the blank) will be "devastated." This kind of thinking, so common today, also arrogantly sweeps aside any mediating role for the rest of humanity, as the speaker implies that only he or she "cares" enough to "help."

According to recent polls, the public has for the most part bought this fallacy when it is applied to environmental regulation, displaying a remarkable willingness to trade freedom for "a clean environment." This is due perhaps to anecdotal experience with human selfishness, or dead fish. But, this is also due, no doubt, to general ignorance about the way property rights and the free market work to mediate dilemmas affecting the public good. What's more, as we have seen in Congress of late, environmental issues are so complex that even a good number of limited-government advocates have difficulty explaining exactly how the market can protect the environment.

The True State of the Planet makes two major contributions toward greater articulation. First, it makes a common body of evidence available to the reader, to make reasonable environmental judgments and predictions possible. Second, in straightforward language, based on that evidence, the book conveys a remarkable alternative vision of the role property rights and free markets have played, and can play, in enhancing the quality of the planet.

In a series of ten essays, prologue, epilogue, appendix, and tables of environmental standards or "benchmarks," from a variety of scholars, this book reports what is for the most part wonderful, exciting news about dear old Gaia. For example, Nicholas Eberstadt shows, contra Malthus, that population growth has led to an explosion of human productivity and resources. His point is complemented by Dennis Avery's educational survey of the phenomenal success of the Green Revolution. Indur Goklany shows, counterintuitively, that air quality has been steadily improving thanks to technological innovation. Stephen Moore, delving into metaphysics, argues that we must take stock of the non-material or spiritual side of our success with resources, which only suggests unlimited potential for growth. Meanwhile Fred Smith's epilogue provides an excellent wrap-up by explaining how differing worldviews shape the environmental debate. These are but a few of the fine essays.

While there are the occasional speed bumps of technical jargon along the way, and even some dry prose in spots, this book is nevertheless a terrific primer for the man-on-the-street advocate of free markets, who, I suspect, is like me—lacking in intellectual ammunition in this area more than most others. Here, population growth, air and water quality, food, energy, and resource supply, species extinction, and environmental carcinogens, are all discussed, with numerous

photos and charts to assist in understanding. Once you give this book some concerted study, it may turn you into what Fred Smith calls a "cornucopian." A suitable philosophy for those who believe there are a wealth more people around to "care" than government bureaucrats. □

Mr. Carolan is Executive Editor of National Review.

Saving the Planet with Pesticides and Plastic: The Environmental Triumph of High Yield Farming

by Dennis T. Avery

Hudson Institute • 1995 • 432 pages • \$12.95 paperback

Reviewed by E. C. Pasour, Jr.

The media is all too eager to spread the message of "doom and gloom" environmentalists. Pesticides and chemical fertilizers pose an imminent and growing threat both to human health and to wildlife. Population growth is spiraling upward out of control and high tech methods of farming are not "sustainable." The solution in this view is to eliminate or to drastically reduce the use of manufactured chemicals in the production of food and fiber.

Dennis Avery's new work is an effective antidote to this conventional wisdom that high-yield agriculture poses a threat to human health and the environment. Avery, an agricultural economist, spent 30 years in the federal establishment, serving both in the Department of Agriculture and the State Department.

First, the author shows that the doomsday prophets, including Rachel Carson, are often wrong on the facts. Pesticide residues are not a significant health risk. Indeed, the natural chemicals in foods are more dangerous than pesticide residues, according to Dr. Bruce Ames, the noted biochemist and molecular biologist at the University of California at Berkeley.

The use of DDT, contra Rachel Carson, is not a serious threat to humans and did not decimate the population of wild birds. The EPA administrator banned DDT not because there was demonstrated harm but because he feared a political backlash from readers of *Silent Spring*.

World population is not spiraling out of control. The most likely projection is that population

will rise from the current level of 5.4 billion to peak at eight billion people in 2030 and then trend downward for the rest of the century. Moreover, economic conditions are a key factor in the population equation. Birth rates, usually high in poor countries, invariably decrease with economic development.

Second, Avery shows that environmentalists' pleas for chemical-free farming, if successful, would harm both human health and the environment, particularly wildlife. The way to preserve wildlife is to save its habitat. However, the elimination of, or significant reduction in, the use of farm chemicals would mean a substantial increase in land area cropped—and reduction in wildlife habitat. Thus, by preserving habitat, the current system of high-yield farming helps protect wildlife!

Pesticide use, strange as it may seem, is also a boon to public health. Eating more fruits and vegetables can cut cancer risk by 50 percent and markedly reduce heart disease. However, only 9 percent of U.S. consumers eat the recommended five servings of fruits and vegetables per day. Thus, anything that reduces consumption of fruits and vegetables will cost lives. Pesticides are critically important in assuring ample year-round supplies of reasonably priced and attractive fruits and vegetables. Eliminating pesticides would mean lower yields, higher prices and reduced consumption of fruits and vegetables—and higher cancer rates!

The defense of high-yield farming is not a defense of the status quo. Avery explores the environmental implications of protectionist policies that prevent sugar and other farm products from being produced in areas of their comparative advantage. Such policies distort the pattern of production of farm products, create environmental problems, and lead to the use of more farm chemicals. For example, farm programs in the United States and Western Europe create artificial incentives for farmers to increase yields and lead to overuse of fertilizers and pesticides.

This book makes a compelling case that high-yield agriculture and free trade throughout the world are the best ways to protect human health and environmental resources. This approach is not risk-free but is far less risky than the alternatives. □

Dr. Pasour is Professor of Agricultural and Resource Economics at North Carolina State University.



**The Vision of the Anointed:
Self-Congratulation as a Basis for
Social Policy**

by Thomas Sowell

Basic Books • 1995 • 305 pages • \$25.00

Reviewed by Thomas J. DiLorenzo

At a June 1993 luncheon at the Heritage Foundation, I had the privilege of sitting next to Tom Sowell and discussing current events with him. I asked him what he made of the bizarre phenomenon of famous “peaceniks,” such as former Senator George McGovern, publicly calling for the carpet bombing of Bosnia. “The Left always has to be morally one up,” was his response. This statement, it turns out, is the theme of Sowell’s latest book, *The Vision of the Anointed*. A more precise definition of this “vision” is stated in the subtitle: “Self-Congratulation as a Basis for Social Policy.”

The prevailing vision or world view of the intellectual and political elite of our time, Sowell writes, is “a vision of differential rectitude. . . . Problems exist because others are not as wise or as virtuous as the anointed.” All the crusades of the anointed over the past century—from eugenics to environmentalism, Communism, Keynesianism, the welfare-regulatory state, etc.—share several key elements, according to Sowell:

1. Assertions that a great disaster to society is about to occur.
2. Calls for massive government intervention to avert the impending catastrophe.
3. Disdainful dismissal of contrary arguments as uninformed, irresponsible, or motivated by “unworthy purposes.”
4. The policies of the anointed are implemented and are themselves disastrous.
5. The anointed steadfastly refuse to acknowledge mountains of evidence that their policies have failed while accusing their critics of dark motives.

The meat of the book is a careful empirical analysis of dozens of politically-correct policies and theories, from the “war on poverty” to crime, environmentalism, the public school monopoly, affirmative action, and many others. In each case, Sowell shows how the anointed simply ignore evidence (and common sense), invent vocabulary designed to preempt issues rather than debate them (i.e., referring to the U.S. Postal Service, but not your typical grocery

store, as a “public service”), and persistently declare their moral superiority over those who would disagree with them.

Those who maintain this vision tend to be power-hungry egomaniacs who prefer that their own personal preferences “supersede the preferences of everyone else.” Government dictates are to supersede both democracy and markets in order to impose “solutions based on their [the anointed’s] own presumably superior knowledge and virtue.”

This book is must reading for those who wish to understand the mindset of the statists who dominate politics, the media, and academe. It is an excellent companion to Sowell’s earlier book, *A Conflict of Visions*, and I also found it to be quite similar in many regards to Hayek’s *The Road to Serfdom*. Unlike Hayek, however, Sowell accuses his intellectual opponents of considerably more than mere intellectual error. □

Dr. DiLorenzo is Professor of Economics in the Sellinger School of Business and Management at Loyola College in Maryland.

**The Tax Racket: Government
Extortion from A to Z**

by Martin L. Gross

Ballentine Books • 1995 • 319 pages • \$12.00
paperback

Reviewed by Raymond J. Keating

Every tax levied by government somehow distorts economic decision-making and drains resources away from productive private-sector ventures. As Jean-Baptiste Say succinctly observed in his *Treatise on Political Economy*, “Taxes and restrictive measures never can be a benefit: they are at best a necessary evil. . . .”

Living in a misguided century, where big government mistakenly has come to be seen as a benevolent problem solver, individuals often avoid thinking about the many evils of taxation. Thankfully, Martin Gross’ book *The Tax Racket: Government Extortion from A to Z* serves as a stark reminder.

If the reader seeks an academic treatise on the economics of taxation, he should probably look elsewhere. *The Tax Racket* is meant to stir America’s anti-tax spirit. It surely accomplishes this mission. With little subtlety, Gross reveals the many costs and problems wrought by different forms of taxation. From airline levies and

audits to withholding taxes and “zany tax stories,” Gross does indeed explain the evils of taxation from “A to Z.”

Along the way, the author offers some sound reform measures as well. For example, he calls for the elimination of capital gains taxes, the eventual privatization of Social Security as Chile has done, the end of county government and its commensurate tax burden, and believes that the IRS should be held accountable to a document called the Bill of Rights.

The primary target of *The Tax Racket* is the income tax. Gross essentially argues—and correctly I think—that the income tax remains the greatest evil among many evils. By its intrusive nature and legions of government IRS agents, the income tax constitutes an immediate affront to individual liberty. By directly raising the costs of working, investing, and risk-taking, the income tax quells economic growth and opportunity. As it was born by class warfare rhetoric, the income tax continues to feed mistaken and dangerous class-based thinking. As already noted, every tax brings with it many problems, but none seemingly so vast and distasteful as the income tax.

Gross wisely argues for disposing of all income taxes—federal, state, and local. Before getting into what kind of tax should replace the income tax, he first outlines a plan for greatly reducing the size of government. So while Gross calls for the income tax to be replaced partially with a national retail sales tax (bringing with it a different, though less severe, set of problems), Gross understands that the most sound “substitute” for an income tax is substantial government spending reductions.

In the perverse vernacular of today’s public policy debates, a suggestion to cut taxes is met by the question: how will you “pay for” your tax cut? The best answer remains: cut government spending.

When combining *The Tax Racket* with two of his previous bestsellers—*The Government Racket: Washington Waste from A to Z* and *A Call for Revolution: How Washington Is Strangling America—And How to Stop It*—one realizes that Martin Gross may indeed be the Stephen King of the anti-government crowd. That is, he tells horror stories in an entertaining fashion. Fortunately, though, if his advice eventually is heeded on eliminating the income tax and cutting government spending, the story will have a happy ending. □

Mr. Keating is chief economist for the Small Business Survival Foundation.

Dark Rivers of the Heart

by Dean Koontz

Knopf • 1994 • 487 pages • \$24.00

Reviewed by Russell Madden

Had this novel been released after the bombing of the Oklahoma federal building, it would no doubt be condemned by the Washington establishment as paranoid, extremist, hate-filled, and un-American. In its criticism of the abuses committed by those possessing the weapon of government power, *Dark Rivers of the Heart* pulls no punches. Though Koontz’s name is most closely associated with the horror genre, in his latest tale he portrays monsters of a different stripe: the dedicated servants of a secret governmental department which has taken upon itself the roles of judge, jury, and executioner.

The prime mover of this extra-legal organization is Roy Miro, “an equal-opportunity killer.” The portrayal of this “slightly pudgy” yet “appealing, soft-featured” public servant as a “compassionate” man dedicated to moving our culture one small step at a time towards perfection and true equality is chilling in its cumulative effect.

Despite his “tender” disposition, Roy is not above giving a “comeuppance” to those who would thwart his goals or slight his character. He relishes opportunities to even scores against anyone who dares to disagree with his noble vision of “order, stability, and justice.” Captain Harris Descoteaux of the LAPD discovers this to his horror when he is plunged into a continuing nightmare of manufactured charges, planted evidence, and property seizure which leaves him and his family destitute, homeless, and fearing for their lives.

Perhaps most frightening about Roy, however, is the fact that many people in this country would see nothing unusual about his views. For Roy, utopia will arrive when everyone is identical to everyone else, when morality is recognized as a relative guide in which the ends justify the means, when “social security and peace” are more valued than freedom; when it is acknowledged that anyone “obsessed with his privacy [is] an enemy of the people”; when the world envisioned in John Lennon’s song, “Imagine,” becomes a reality.

Exciting and suspenseful as the story is, the truly refreshing aspect of the book is the way in which Koontz takes on the government and

defends freedom, reason, and individuality. Asset forfeiture, environmental zealots, power-hungry politicians, and the dangers and benefits of an overly computerized society all come under his scrutiny.

Dark Rivers of the Heart touches upon a variety of subjects of interest to friends of freedom: the dangers of relying upon a "compassionate" government to solve our problems, how satellite surveillance, interconnecting computer data bases, and other elements of burgeoning high technology can be used to subvert our rights as well as to provide us with the latest in entertainment. Whether he is exploring the na-

ture of the drug war, the excesses of the BATF, EPA, and DEA, or the abuses exhibited in the cases of Randy Weaver and the Branch Davidians, Koontz's ability to dramatize the negative effects of such issues is not only entertaining but educational. Too frequently, discussions of out-of-control government fail to combine emotional with intellectual arguments. With its broad appeal, Koontz's fiction may alarm people enough to ignite discussion of these critical issues on a wide scale. □

Mr. Madden is an instructor in communications at Mt. Mercy College in Cedar Rapids, Iowa.

Attention teachers, parents and high school students

The Free Enterprise Institute announces its 1995-1996 *Economics in One Lesson* Essay Contest. High school students are invited to compete for \$7,500 in college scholarships.

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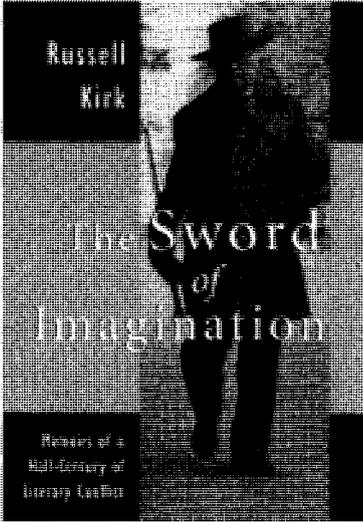
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Once Again, Freedom Is at Fault

"The condition upon which God hath given liberty to man is eternal vigilance," was how John Philpot Curran put it. Sure enough, but there are different kinds of vigilance. My experience suggests that one of the most important forms in a relatively free society such as ours is to unfailingly meet arguments promoting the violation of human freedom.

I thought of this when I came across the book by Cornell University economist Robert H. Frank and Duke University political scientist Philip J. Cook, *The Winner-Take-All Society* (The Free Press, 1995). The authors argue that in many fields of work we sometimes encounter what they see as a disturbing phenomenon: a few superstars taking all the money, leaving everyone else to fight for the leftovers. As they put it, "The incomes of the top 1 percent more than doubled in real terms between 1979 and 1989, a period during which the median income was roughly stable and in which the bottom 20 percent of earners saw their incomes actually fall by 10 percent." Because of this Frank and Cook recommend—you guessed it—a drastic expansion of the system of progressive taxation.

If Michael Jordan, Tom Brokaw, John Grisham, John Silber, Cindy Crawford, Larry King, Sandra Bullock, Rush Limbaugh, George Will, Barbara Cartright, Anne Rice, Michael Jackson, and Arnold Schwarzenegger take home so much of the available money in their respective professions, we must take action. We must take the money from them. This will discourage super-stardom and allow us to redistribute their ill-gotten gain to others—whom we did not elect, by our choices in the free market, to support when spending our money. Politicians and bureaucrats would be authorized, if these authors had their way, to correct our errors, to eliminate this egregious "market failure."

Why are unequal incomes regarded as a market failure? Because the top achievers

aren't really more deserving than those bunched below them. Surely Rush Limbaugh's radio rap isn't so much better than that of the typical local talk show host. Michael Jordan plays superbly, but not well enough to justify all the endorsement contracts he receives. Michael Jackson . . . well, you get the idea, don't you?

I confess that this resonates with me a bit. I am a small-time writer: my 12 books haven't brought in enough to pay for the paper on which they are printed, my columns earn me a pittance compared to what George Will collects, and so on and on. I am envious, at times, of all those who live in the big cities and get exposure on the Sunday morning news programs. Even in my field of philosophy, there are stars whose popularity—manifest in their repeated appearance on the pages of not only the most prominent and prestigious scholarly journals but also of national magazines and Sunday book review supplements—is way out of proportion to their talent and achievement. They are where they are in large measure from bad habit, luck, or knowing the right people—with their superior achievements probably accounting for a fraction of the rewards they reap, not just in money earned but in influence they peddle.

But so what? How dare anyone suggest that this is something that others ought to redress through coercive government intervention? It is an outrage.

I don't know if the scholars who propose this are simply morally obtuse or actually envious of the fame and fortune of a few others in their field—perhaps Nobel Prize winners Gary Becker or Milton Friedman in economics, for example. Their motivation doesn't make any difference. What is clear is that they are proposing yet another phony excuse to increase the power of the State over the lives of citizens in a supposedly free society.

It is perhaps worth noting that the complaint voiced by Frank and Cook applies to an era of American economic history that is hardly characterized by a national economic policy of *laissez faire*. Quite the contrary—our national economic system has become ever more managed by government. Regulation, taxation, nationalization of land, control of wages and labor relations, welfare, and the rest have continually expanded, both at the state and national levels. At most there has been some decrease in the rate of the growth of government interference. Even the current Republican Congress has not managed to reduce government regulation and spending, but only stem proposed increases in some areas.

But even if it were true that a bona fide free market had spawned something akin to the winner-take-all society, so what? If I wish to ogle two or three supermodels and thus increase their wealth beyond what their competitors earn, that is my business. My earnings, my time, and my good or ill fortune are for me to distribute to willing takers, not for the politicians and bureaucrats whose power Frank and Cook are so eager to rationalize.

Frank and Cook can, of course, do some good by letting us know about the trends of which they write. But their proposed remedy is wrong and should be rejected by anyone concerned for the future of our society. Liberty does require eternal vigilance, especially when confronting sophists who would arm the statists with greater power over us.

—TIBOR R. MACHAN

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How High a Price for Civilization?

by Stephen Gold

In the battle over tax reform, skirmishes over the current level of taxation are inevitable. As in the past, supporters of big government will almost certainly complain that taxpayer advocates only focus on one side of the fiscal equation, that is, the revenue side. What about the return on our money? As Justice Oliver Wendell Holmes once said, and high tax enthusiasts are wont to repeat, “Taxes are what we pay for civilized society.”

Of course, when Justice Holmes made this observation in *Compañia de Tabacos v. Collector* (1904) the average American’s total tax burden was about 7.6 percent of his income. Today, federal corporate income taxes alone account for a higher percentage. In all, our nation’s tax burden hovers around 35 percent of total income, not including the cost of tax compliance, future taxes made necessary by deficit spending, or regulation.

Counter tax advocates: So what? More taxes simply mean more (and, by implication, better) government. “Every nickel that goes in comes back in some way or another,” Robert McIntyre of Citizens for Tax Justice has stated. A *Des Moines Register* editorial defended the current level of taxation, pointing to the value of such programs as national defense, public schools, police and fire protection, national parks,

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roads and highways, and safety nets for the unemployed, the disabled, and the elderly.

Yet such *ad populum* arguments, while relevant, leave fundamental questions unresolved—such as, how much government spending is actually necessary? Or, to phrase it in a way Justice Holmes would appreciate, how much tax collection does it take to achieve a “civilized society”?

What Is Civilized?

To answer that, we must first ask: what do we mean by a “civilized society”? In an informal sense, “civilization” simply means a modern society with conveniences, as opposed to life in the middle of the jungle—Webster’s definition. But Justice Holmes probably had in mind a more technical meaning, one centering on a stable system of governance that could protect life, liberty, and property, while providing due process of law for its citizens.

Based on this view, the United States was civilized at its founding. The central government created by the framers of the Constitution was, to say the least, a minimalist national government, with a primary mission of maintaining a military, minting coins, operating judicial and postal systems, and, later, helping to build roads and canals. Throw in some police, courts, and additional roads at the state and local level, and that was about the extent of late eighteenth-

century American government. There were no large transfer payments between generations and between income groups, no regulatory agencies, and no funding of the arts, humanities, or sciences. Nevertheless, society was still civilized.

Indeed, one of its most civilizing aspects was the legal framework that protected property rights and economic freedom. As a result, the economy expanded, people grew steadily wealthier, and living standards rose. All this while federal revenues were a mere \$1 per capita in 1790, almost all of which were collected through duties on imported goods. In today's dollars, that's roughly \$9 per person. So not only was society civilized, but the path to civilization was economical.

A little over a century later, when Oliver Wendell Holmes joined the Supreme Court, government's prime mission remained centered on national defense, law and order, roads, and mail delivery. In addition, the federal government had ventured into such areas as public land management, agriculture, and regulation of interstate commerce. As a result, between 1815 and 1900 federal employment jumped 4,950 percent, compared to U.S. population growth of 880 percent. Meanwhile, state and local government had taken on the responsibility of undertaking such public improvements as street lighting, street cars, and sewage systems. Yet by contemporary standards government was still small, unobtrusive, and cheap. By 1900 the total cost of government had risen to \$21 per capita (about \$380 in today's dollars), a third of which was for federal operations.

Here, then, was Justice Holmes's vision of and price for a civilized society. Maybe it was overpriced, considering that taxes were used to create Jim Crow laws and Supreme Court cases like *Plessy v. Ferguson* (a.k.a. "separate but equal facilities"), which served more to set civilization back. But compared with today's unimaginably large government expenditures, the price was low.

What, then, of our current level of public services? Over the past 90 years the federal

government has aggressively expanded into such areas as income redistribution, business regulation, and education, not to mention a vast array of special interest subsidies. To fund its growing activities, government expanded its ability to collect taxes, most significantly through the addition of an income tax (1913) and a payroll tax (1935)—which, combined, now account for almost two-thirds of all taxes collected. Altogether, total taxes in 1995 average \$8,303 per person, an inflation-adjusted increase of about 2,300 percent over 1900 levels.

More Civilized Today?

Does this dramatic growth over the past century imply that we are more civilized—indeed, 2,300 percent more civilized—than before? In terms of having the ability to uphold democratic principles worldwide (winning World War II and the Cold War come to mind), the answer would seem to be yes, which would confirm Justice Holmes's view of the purpose for taxes.

That said, the increased tax burden has led to few other truly civilized trends. Government's financial generosity to certain segments of the population has only come at the expense of others, and has helped create an underclass of people highly dependent on public handouts. Government's control of private enterprise, through a tangled web of regulations, has come at the expense of economic growth and liberty. Government enterprises, like education, are in disarray. Similar policies internationally, such as foreign aid, seem to have done more harm than good. Big government advocates may call these public policies fair and necessary, but they hardly qualify as civilizing features in the tradition of Justice Holmes.

Indeed, to imply that every dollar in taxes today is necessary to maintain our civilized society is to ignore government's inevitable waste, its bureaucratic inefficiency, and the constant political shuffling of money to favorite targets. How much of today's tax burden has gone to fund programs—started perhaps a century ago (Interstate Commerce Commis-

sion) or a half-century ago (Rural Electrification Administration)—that have outlived their usefulness? For that matter, how much of the money sent to Washington could be more wisely used by the families and individuals if they were allowed to hold onto it?

The current level of taxation in America should be a part of any future debate in

Congress over tax reform. For its part, the American public needs to decide what it expects out of government and how much it's willing to pay. In other words, Americans need to rethink Justice Holmes's observation, and decide what is really needed to make a civilized society in the twenty-first century. □

Original Intent and the Income Tax

by Raymond J. Keating

Entrepreneurs drive the economy. By creating and investing in new businesses, ideas, and innovations, the entrepreneur ensures economic renewal and growth. Unfortunately, the federal government has an economically unhealthy habit of throwing obstacles in the path of entrepreneurs, such as burdensome regulations and inflationary monetary policies. Perhaps the most formidable government barrier, though, is the income tax.

Today's federal income tax system is punitive, complicated, inefficient, intrusive, and impedes entrepreneurship, investment, economic growth, and job creation. Interestingly, however, when initially imposed, the income tax, despite its progressive rates, appeared rather straightforward and not all that burdensome—almost benign. Of course, appearances can be deceiving.

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There were, of course, warnings about the dangers of a progressive tax structure. But people supported the income tax because it was originally meant to impose only very low tax rates on only the highest incomes. Proponents argued that the 16th amendment to the U.S. Constitution would force the so-called "robber barons" to pay taxes. It was not supposed to provide a mechanism for Washington to reach into most Americans' pockets.

Figures 1 and 2 illustrate this point. Figure 1 shows the personal income tax structure as initially imposed in 1913, while figure 2 indicates what this tax system would look like in 1994 dollars.

Original Tax Rates

The original income tax was obviously not meant to be paid by most citizens, nor were rates high enough to significantly undermine the spirit of enterprise. For example, under this system single taxpayers today would

Figure 1:
1913 Personal Income Tax System

Tax Rate	Income Level
1%	up to \$20,000
2%	\$20,000-\$50,000
3%	\$50,000-\$75,000
4%	\$75,000-\$100,000
5%	\$100,000-\$250,000
6%	\$250,000-\$500,000
7%	over \$500,000

(A \$3,000 exemption for single filers and \$4,000 for a married couple.)

Figure 2:
1913 Personal Income Tax System in
1994 Dollars

Tax Rate	Income Level
1%	up to \$298,507
2%	\$298,507-\$746,269
3%	\$746,269-\$1,119,403
4%	\$1,119,403-\$1,492,537
5%	\$1,492,537-\$3,731,343
6%	\$3,731,343-\$7,462,687
7%	over \$7,462,687

(A \$44,776 exemption for single filers and \$59,701 for a married couple.)

pay no tax on any earnings up to almost \$45,000 and married couples on earnings up to almost \$60,000. A one percent tax rate would be in effect on incomes up to about \$300,000. The top rate of 7 percent would not take hold until earnings hit almost \$7.5 million.

As for the corporate income tax, it was imposed in 1909 at a rate of one percent and included a \$5,000 exemption. Again, translated into 1994 dollars, companies would face the one percent rate with an exemption of \$81,967.

Alas, people attracted to the income tax through appeals to envy soon discovered that envy knows no boundaries and never makes for good economic policy. Government rather quickly transformed the income tax from a light tax on high incomes to a heavy tax on almost all incomes.

This very different income tax than originally intended then acted as high-octane fuel for the growth of government spending. Between 1913 and 1994, inflation-adjusted federal government expenditures increased by 13,592 percent! Over this same period, personal and corporate income taxes grew from 7 percent of total federal revenues and 0.1 percent of the economy, to more than 54

percent of total federal revenues and over 10 percent of U.S. GDP.

The income tax also proved to be an economically dangerous levy, raising the costs of working, saving, investing, and risk-taking, thereby restraining economic growth. From 1870 to 1913—between the Civil War income tax and the post-16th Amendment income tax—the U.S. economy expanded by over 435 percent in real terms, or by an average rate of more than 10 percent per year—with no inflation. Alas, as we now look toward the twenty-first century, America's economic vitality in an increasingly competitive world economy is suspect.

The implications are clear: surely we must downsize government, deregulate our economy, and ensure sound money. Perhaps most important, though, we should replace our current tax system with a low, flat income tax. Or better yet, we should put an end to what has turned out to be one of the biggest impediments to entrepreneurship and growth in America this century—the income tax. The resulting entrepreneurial boom might surprise even the most wild-eyed optimists and launch the U.S. economy into the twenty-first century. □

Taking Taxes: The Case for Invalidating the Welfare State

by Donald J. Kochan

As attempts to downsize the welfare state continue, reformers are relying primarily on practical arguments—that transfer programs waste taxpayers' funds and hurt the poor, for instance. They do, but there is a more fundamental issue: social programs have no constitutional warrant. Even if such outlays fell under an enumerated power, they would still run afoul of the Takings Clause of the Fifth Amendment.

“Nor shall private property be taken for public use without just compensation” runs this critical protection in the Bill of Rights.¹ Properly interpreted, this clause prohibits taxing citizens to fund programs for the benefit of others, for doing so violates the requirements that any taking of “private property” be for “public use” and that the property owner receive “just compensation.”

Negative Liberty

The nation's founding was based on the concept of negative liberty: law exists to protect against coercive intrusions and not as a means for compelling action. Tort law expressly holds that an individual cannot be forced to give up a portion of his liberty to benefit another, no matter how little the

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cost. The common law “Good Samaritan Rule,” for instance, states that no one is legally obligated to provide any level of help to another in need.

As men consent to be governed, they agree to transfer certain enforcement powers, formerly held privately, to public law as a means of promoting efficiency and order. Thus, the constitutional compact merely shifts the enforcement of certain private law obligations to the State; it does not create new duties, with no pre-existence in the private law, except where expressly stated. Explained constitutional commentator Joseph Story: “A man has a perfect right to life, to his personal liberty, and to his property; and he may by force assert and vindicate those rights against every aggressor. But he has but an imperfect right to . . . charity . . . even if he is truly deserving it.” These imperfect rights “may not be asserted by force of law, but are obligatory only on the conscience of parties.”

Takings and Taxings

It is true that Article I, Section 8, of the Constitution grants Congress the power to lay taxes. The Sixteenth Amendment expanded this power by allowing the federal government to tax income. Obviously the government is given the power to tax.

In private law, however, C never has a claim to take A's property merely because C

desires (or “needs”) it. There is no reason to believe that the Founders intended to grant C the power to employ the State to the same ends. Added to this is the fact that one of the most important goals of the Constitution was to guarantee property rights. This protection, defined broadly, was seen as the critical justification for government. Given this legal and philosophical backdrop, the restrictions of the Takings Clause should not be viewed lightly.

Granting government the power to tax does not release it from its obligations under the Fifth Amendment to spend such revenues only on those purposes of government which are for public use and provide compensation to all whose incomes are taken. Money is to be seized only to support the commonly understood function of government: the protection of individual rights from intrusion by the State or other members of society. This obligation forms the core of the Fifth Amendment.

Thus, the Takings Clause screens out illegitimate seizures by forcing all such actions to meet two criteria: (1) property is taken only for “public use”; and (2) “just compensation” is rendered to those whose property is taken. Transfer payments violate both of these limitations on the eminent domain power. Social programs transfer money from A (the taxpayer) to B (the government) for redistribution to C (the program beneficiary). In this case, government has taken private property from A for the *private* use of C. A derives no benefit, for C retains an undivided interest in A’s property; therefore it is inconceivable that A is compensated at all, let alone justly.

The purpose of the State, and the Constitution’s delineation of enumerated powers, clearly limits the federal government from acting as anything other than a public functionary. Accordingly, it is vital to define what constitutes a “public use” as a proper exercise of the government’s power.

Eighteenth-century dictionaries help distinguish between public and private purposes. One source defines “public” as that which is “belonging to a state or nation; . . . regarding not private interest, but the good

of the community.”² The usual understanding is that “public” involves those things in which all individuals have a common interest, not those in which certain people, in exclusion of others, have a specific interest.

The word “use” also indicates the narrowness of allowable takings. By including “use” instead of “purpose,” “interest,” “rationale,” “reason,” “benefit,” or similar term, the Framers chose a stricter test to judge the legitimacy of government action. All of these alternates would allow uses of any kind so long as the government could claim that the ultimate effect would prove worthwhile. Such constructs would leave the Takings Clause empty: Congress could contend that any action provided some subjective benefit or interest to society.

“Purpose” could prove more limiting in that it would require government to prove that it was exercising a legitimate role of government as found in the Constitution. “Purpose” alone, however, is somewhat ambiguous, and would allow transfer payments if such transfers arguably served some end of government in the long run. “Use,” however, incorporates the limitations of “purpose” while narrowing the field of legitimate actions even further. “Use” has retained the meaning of “employing with a purpose.”³ This requires that the public entity actually exercise the use for which property is taken. The most appropriate correlation today would be the economic term “public goods.” A public good involves a government action for the indivisible benefit of all members of society.

Taken together, “public” and “use” can be further defined through three tests which distinguish between public and private uses. Genuine public uses must be inclusive, dividing equally the interest and surplus among all those in society; provide universal access; and be necessary, that is, address problems not susceptible to private solutions.

Inclusivity requires that no citizens be excluded from the benefits of the government’s action. The court system, police power, and national defense all satisfy this requirement. Funding a program to protect one individual provides that protection to

all. The benefits are not discriminately provided to only certain members of society. No one is excluded from satisfying a claim to the use of his property; rather, everyone retains access to the courts and police, for instance. It is necessary for government to fund national defense because individuals cannot protect themselves individually from foreign intruders. Redistributive programs, however, fail all of these tests.

Even if social welfare programs satisfied the "public use" portion of the Takings Clause, they would fail the "without just compensation" component. In cases where taxes constitute the taking in question, compensation can only be derived from the government function provided from spending such funds, since to require monetary compensation would leave the state's coffers empty and consequently defeat the purpose of taxation.

The 1755 edition of Johnson's *Dictionary of the English Language* defines "just" as "exact; proper; accurate; . . . equally retributed" and "compensation" as "something equivalent; amends." Blackstone spoke of just compensation as "a full indemnification and equivalent for the injury thereby sustained." This notion of equivalency is precisely that understood by the Framers when crafting the Takings Clause.

In most takings, the equivalency is paid in cash, but this is not the only means. The idea that taxes would be used to "provide for the common Defence and general Welfare"⁴ indicates that takings for these purposes would be compensated by fulfilling the state's duty to protect individual rights.

Thus, the "just compensation" component follows the "public use" requirement. If universal access is missing, then some surrender taxes without receiving any or adequate compensation. Even if one argues that the term "public use" is not restrictive in itself, in relation to taxation only those uses that are public will offer sufficient compensation. Funding entitlement programs for which the taxpayer is ineligible violates this requirement.

Some might argue that indirect benefits from redistributive programs constitute

compensation, just as they argue that "use" involves any effect of a taking which proves beneficial. However, the Founders likely chose "compensation" instead of "benefit" in anticipation of such arguments. "Compensation" is not the same as "benefit"; nondiscriminatory access to the actual use is the only means by which just compensation for taxes is possible.

Additionally, genuine compensation must be directly linked to the taking. It requires that the property seized be replaced by something equally valuable. Positive externalities resulting from the taking, even if real and measurable, are mere consequences of the use. They are not compensation.

End of the Welfare State?

Social Security, unemployment benefits, corporate subsidies, farm programs, ordinary welfare, and countless other manifestations of the welfare state all represent uncompensated takings redistributed for private use. Thus, all violate the protections afforded property in the Fifth Amendment.

Unfortunately, the courts today hardly remember that the Takings Clause even exists. And, admittedly, the welfare state has become so much a part of American society that it cannot be easily removed. The fact many people have come to rely on the welfare state, however, does not justify continuing to ignore the Constitution. Observed University of Chicago Law Professor Richard Epstein in his book *Takings*, "A correct theory at the very least can lead to incremental changes in the proper direction. . . . When the stakes are high, any shift in course has important consequences."

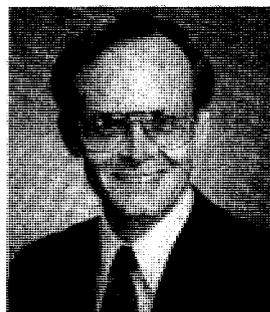
It is time for defenders of liberty to appeal to constitutional principle as well as practical consequence. The Constitution requires no less. □

1. U.S. Constitution, Amendment V. The correct interpretation of this clause also limits the power of the states through similar clauses in each state constitution.

2. Johnson, *A Dictionary of the English Language* (2d Ed., 1755).

3. Roger Clegg, *Reclaiming the Text of the Takings Clause*, 46 S.C.L. Rev. 531, 543 (Summer 1995).

4. U.S. Constitution, Article I, Section 8.



The Perversion of Economic Development

In a country known for having forged the world's highest living standard from what was wilderness scarcely 200 years ago, one would think that "economic development" is a well-understood concept. Unfortunately, it isn't.

In recent decades, economic development has come to mean something other than the spontaneous, entrepreneurial phenomenon that built America. It is often thought of as a kind of activist, public-policy responsibility of state and local governments. It rarely is defined as a "fair field and no favor" approach in which governments keep themselves unobtrusive and inexpensive so as to give wide berth to free markets. Instead, economic development conjures up notions of bureaucracies and commissions directing resources, subsidizing specific firms, granting special tax breaks to some and not to others, and erecting a vast network of regulatory incentives and disincentives to affect behavior in the economy.

In short, economic development has come to mean what many statist and central-planning types are fond of calling "industrial policy." They think the marketplace lacks direction and needs the assistance of officialdom. With tax dollars in hand to bestow upon the favored few,

bureaucrats claim new prophetic powers of distinguishing the winners from the losers in the marketplace.

Many politicians find this approach attractive because it brings with it the pagentry of ribbon-cuttings and photo opportunities. They love to say, "Look at the jobs I created."

Ever since 1976, when Pennsylvania successfully lured Volkswagen with an \$86 million package of loans, subsidies, and abatements, states have been adopting similar schemes with great gusto and fanfare. Often referred to as "incentive packages," they have become increasingly generous in spite of dubious results. Indeed, a 1989 report from the Council of State Governments stated emphatically, "[A] comprehensive review of past studies reveals no statistical evidence that business incentives actually create jobs. . . . They are not the primary or sole influence on business location decision-making and . . . they do not have a primary effect on state employment growth."

They do, however, shift tax burdens onto those who lack political connections, increase the size of state bureaucracy, hinder the prospects of broad-based tax reduction and bestow alarming discretionary powers upon the boards and commissions that hand out the benefits.

Ever conscious of image and the "big splash," development officials usually devise plans that favor big businesses and discriminate against small firms. They chase

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smokestacks and auto plants and frown on retail or service firms that might actually have more staying power. Firms that do not qualify for credits or subsidies must compete against those who do, raising a question of fundamental fairness.

In the rush to fashion the next industrial policy contrivance, the bigger picture is shoved aside. Sam Staley, Vice President for Research at the Buckeye Institute for Public Policy Solutions in Dayton, Ohio, explains: "The fact is that the value to a firm of a typical, limited-term incentive package from government pales when compared to such factors as overall tax burdens, a reasonably priced skilled labor force, the relative cost of compliance with regulations, efficient transportation facilities, crime rates, education quality, and the general quality of life. If a state or locality is not competitive in these areas, a business will go elsewhere despite the subsidies and credits dangled before it."

Indeed, it is widely understood among economists that companies usually make their location decisions first in private, then hold out for the best incentive deals they can get from gullible government officials, playing one off against another.

The claims of government development czars are almost always overblown, in part because they consider only the more visible side of the ledger. The downside factors of state incentive packages—from the anti-competitive effects on non-favored firms to the opportunity cost of forgoing a more general tax reduction—are rarely factored into the equation.

Even when it doesn't degenerate into a thinly disguised system of political patronage, government placing its judgment ahead of the verdicts of the marketplace is more than just a role of dubious value. It is, indeed, utterly preposterous. No one—political appointees especially—spends someone else's money as carefully as he spends his own. Any firm or entrepreneur who cannot meet the financial performance standards of private banks or venture capitalists does not suddenly become more likely to succeed by virtue of a government grant or favor.

In reality, government's involvement in economic development is more likely to simply reward mediocrity, obstruct the evolution of genuine economic growth, and turn a risky private venture into a long-term public charge. Taxpayers foot the bill whether the development czars succeed or not, unlike truly private endeavors where the greatest risk is confined to those most directly involved with the venture. The folks picked to lead state development bureaucracies end up fattening not the economy, but rather, their résumés for their next government job.

Writing in the November 1995 issue of *The Freeman* ("A Solution to the Incentives War?"), Andrew Cline of the John Locke Foundation in Raleigh, North Carolina, bluntly affirmed what will come as no surprise to the serious economist: "To date, not one incentives proponent has been able to demonstrate that government incentives create a net benefit for the general public."

Fortunately, a national movement is afoot to get state governments out of this business. Organized by several free-market think tanks in the Midwest, more than 100 distinguished economists recently signed a Joint Resolution on State Economic Development Policy. It urges states to abandon their activist industrial policies and pursue across-the-board policies of tax and spending reduction, deregulation, and freer markets. The resolution is now gathering momentum not only in the Midwest but in other corners of the country as well.

The answer, in any event, is not in Washington and it's not in picking different people to run state programs. The answer is in educating the public in general and legislators in particular as to the proper role of government and the real meaning of economic development. When that task is accomplished, policies will change.

The bottom line is what every American with a good sense of history really ought to know: economic development is what happens when government protects life and property and otherwise leaves us alone. □

Does Big Mean Bad? The Economic Power of Corporations

by Don Mathews

*F*ortune magazine annually presents its “Fortune 500” list of the 500 largest corporations. To some people, the Fortune 500 is a twisted tribute to the most greedy and baneful institution that capitalism offers: the big corporation. Critics of capitalism and big corporations often assert that such companies have excessive economic power and use that power to exploit consumers and workers.

Of course, not everyone thinks big corporations pose an economic menace, but it is striking—at least to me—how many people think large firms exploit consumers and workers to one degree or another.

My wife and I once went to a dinner party at which the host and hostess, both nice people, spent half the evening talking about awful big corporations. The funny thing was that the food they prepared, the appliances they used to make the food, the plates on which they served the food, and the furniture on which we sat to eat the food were all produced by big corporations. I don’t think it’s fitting to fuss at folks when I’m a guest in their home, so I didn’t point out these facts. Later, with my belly full and dignity

intact, I drove home with my wife in our car that was built by, yes, a big corporation.

Do big corporations exploit consumers? I reckon that “exploit” in this context means producing inferior goods and selling them at prices that yield enormous profits. Do big corporations produce poor products? Compare the quality and variety of goods and services available today with those on sale five, ten, or 20 years ago. Which would you prefer? The answer doesn’t demand much thought. Of course, entrepreneurs are responsible for a great deal of innovation, but it takes only a casual shopping trip to see that big corporations have also brought a lot of new and better products to the market.

Do companies charge prices that yield enormous profits? Before we look at the empirical data, we should note that it really does not make sense to use, as do many business critics, profit or profit margin as measures of the extent that corporations “exploit consumers.” Exchange is voluntary in a free market. If a consumer pays a price for a good, and a corporation is not shielded by laws that restrict competition and does not misrepresent its product, then there is no reason to conclude that the corporation is exploiting the consumer simply because it earns a profit on the exchange. (If profit is a measure of exploitation, are

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corporations that lose money being exploited by consumers?)

But assume that charging prices that yield enormous profits constitutes consumer exploitation. The Fortune 500 informs us that the firm with the most profit in 1994 was Ford, with \$5.3 billion in profits. That's a lot of money, but it came from revenues of \$128.4 billion. Ford's profit amounted to only 4.1 percent of its revenues. General Motors, the largest corporation in 1994, earned \$4.9 billion in profits—3.2 cents of each dollar of revenue. How about those big oil companies? Out of every dollar received by Exxon, the largest oil producer, 5 cents went to profit. Mobil, the next in size, kept only 1.7 cents out of each dollar of revenue as profit.

For the Fortune 500 companies in 1994, the median profit as a percentage of sales revenue was 4.6. The other 95.4 percent covered costs: wages and salaries of workers, costs of other inputs, and taxes. The year 1994 was no anomaly. Over the last ten years, median profit as a percentage of revenue for the largest 500 companies has ranged from 2.4 in 1992 to 5.5 in 1988. Those numbers just don't seem to add up to corporate exploitation of consumers.

What About Workers?

Do firms exploit workers? Exploit here traditionally means that owners of capital—stockholders—employ workers to produce goods but expropriate much of the income generated when the goods are sold, leaving little income for workers. Does the bulk of corporate income available for distribution go to owners of capital? In 1992, after-tax profits of all U.S. corporations totaled \$249.1 billion. In the same year the compensation of employees of U.S. corporations was \$2,337.4 billion. Workers received 90.4 percent of the total corporate income available for distribution. The 1992 income shares are not extraordinary: workers received at least 90 percent of the corporate income available for distribution in every year between 1985 and 1992. In short, the

bulk of corporate income goes to workers, not owners.

The notion that corporations exploit consumers and workers is part of the larger charge that big companies have excessive economic power. Do they? What would properly be considered "excessive"? True, in 1994 the largest 500 corporations had \$9.6 trillion in assets, \$4.3 trillion in revenues, and \$215 billion in profits, figures that are significant by any measure. But to conclude that economic power is therefore concentrated in big corporations is mistaken. Why? Because individual firms act in their own interest, not the interests of big corporations as a group. Companies have disparate interests, and they compete with each other. Consider the top three companies in the Fortune 500: GM, Ford, and Exxon. GM wants what is best for GM, not what is best for the Fortune 500. It would be best for GM if oil and gas prices were very low; GM's production costs would be less and its cars would be more attractive to consumers. But low oil and gas prices would not be in Exxon's interest. Exxon would prefer high oil and gas prices. GM and Exxon have conflicting interests, and what is good for one is not necessarily good for the other.

Firm vs. Firm

The divergence in interests between GM and Ford is even more apparent: these corporations directly compete with each other. When GM expands its market share, it does so at the expense of its competitors, particularly Ford. GM would like nothing more than to develop cars that put its competitors' products to shame in the marketplace. Given the nature of the competition between GM and Ford, how can one conclude that there is excessive economic power in the auto industry simply because GM and Ford are the two largest U.S. corporations?

The rivalry between firms can be extraordinary. The *Wall Street Journal* recently ran a story about how big oil corporations—that's right, oil corporations—each spend millions of dollars testing the products of

their competitors to determine whether the claims made by competitors in their advertising are accurate. When Chevron discovered that Texaco was making a false statement about its CleanSystem3 gasoline, Chevron made it public, and Texaco withdrew its \$40 million ad campaign.

The point is not that large companies are pure, innocent babes in the economic woods. They are not. But the economic power of big corporations cannot be accurately gauged without considering the generally fierce competition between firms. Businesses compete with each other for consumer dollars and skilled workers. A corporation cannot force customers to buy its product; when it attempts to "exploit" consumers by bringing a shoddy product to the market at a high price, it soon loses customers to a competitor who offers a better deal. Nor can a company force people to work for it. When it attempts to "exploit" workers by paying them little, the workers leave for employers who pay workers more. Competition between corporations (and entrepreneurs) constrains the power firms have over consumers and workers by punishing businesses that exploit consumers and workers.

Some critics of capitalism believe that being "big" makes a corporation impervious to market competition. But alongside the trail of American economic history you will find plenty of fallen corporate giants, emaciated or wasted entirely by market competition. Where are American Motors, Continental Bank, Eastern Airlines, and Kaiser Steel today? They don't exist. They were among the largest companies in the country not long ago. In his *A History of American Business*, C. Joseph Pusateri, presents the lists of the 25 largest U.S. corporations in 1917, 1957, and 1986. If being "big" shielded firms from market competition, the three lists would be about the same. The 25 big corporations of 1917 could charge high prices for mediocre products without losing customers and revenues, pay poor wages without losing workers and

increasing costs, ignore the marketing strategies of their smaller competitors and the innovations of entrepreneurs, and grow and remain at the top of the economic pecking order year after year. But the lists are not the same. Of the 25 corporations in the 1917 list, 13 made it onto the 1957 list. Only seven—if we treat U.S. Steel and USX as the same firm—made it onto the 1986 list. Only 12 firms on the 1957 list made it to the 1986 list. Competition between corporations exists and is effective.

At the top of the 1917 list is U.S. Steel. When formed through the merger of eight large steel firms in 1901, U.S. Steel became the world's largest private business: it had a total capitalization of \$1.4 billion and accounted for 65.7 percent of all steel sales in the United States. By 1917, U.S. Steel had assets valued at over \$2.4 billion, more than four times the assets of Standard Oil of New Jersey (Exxon), the next largest corporation. But U.S. Steel's market share was down to 45 percent. Forty years later, U.S. Steel was only the third largest company and its market share was less than 30 percent. Today U.S. Steel is no longer U.S. Steel but USX, and has a market share in steel of less than ten percent, receives more revenue from petroleum than steel, and is number 121 in the list of the largest U.S. corporations, ranked by assets. The moral of the U.S. Steel story applies to all corporations: no firm is impervious to market competition.

Those who worry about the economic power of big corporations would do well to think about how it was those corporations got big. GM and the other members of the Fortune 500 did not achieve their status by exploiting consumers and workers. In 1994, GM earned \$155 billion in revenues and employed 692,800 workers. A corporation does not collect \$155 billion in revenues by persistently ripping off consumers and does not retain 692,800 workers by abusing them. How powerful are big corporations? Not nearly so powerful as the competition that keeps them in check. □

Virtual Liberty

by Matthew R. Estabrook

Free-market advocates often argue that individual liberty is necessary to ensure technological progress. Following the lead of such economists as F. A. Hayek, they contend that only a market system enables each of us to act on our own unique knowledge and to seek and find new ways of meeting society's needs. The freedom to compete, succeed, and fail yields constant discovery, improvement, and progress.

But while the importance of liberty to technological progress is well documented, the way in which such progress advances freedom is seldom noted. Yet technology is increasingly giving each of us more power—to make more choices and control more aspects of our lives. The Internet, in particular, provides a compelling example of how liberty and technology foster and reinforce each other.

About the Internet

Development of the Internet began in the 1960s as a project of the Defense Department's Advanced Research Projects Agency (ARPA), which envisioned a decentralized computer network capable of functioning even if parts of it were damaged by a nuclear attack. By the end of the 1970s, links developed between ARPANet and counterparts in other countries. The network expanded rapidly throughout the 1980s, when universities, research compa-

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nies, and government agencies began to connect their computers to this worldwide net.

Today, what we call the Internet is a vast "meta-network" of 50,000 computer networks in 90 different countries. Thirty million people access the Internet through telephone lines and personal computers, send electronic mail, download computer software, buy products, and gather news and information. This number has been increasing by about 10 percent each month.

Although the Internet began as a government project, it has evolved far beyond its original design. In so doing, it has bolstered one of Hayek's principal arguments for freedom: complex orders may emerge without coercive central planning. No one planned the Internet as it is today, and no single body governs it. Yet there is order within the Internet's "consensual anarchy." In *Law, Legislation, and Liberty*, Hayek suggests that "society can only exist if . . . rules have evolved which lead individuals to behave in a manner that makes social life possible." No different are cyberspace societies. Certain rules of just conduct ("Netiquette") have evolved and become universally accepted—and are even explained in books on using the Internet.

Just as market interactions led to the development of rules in the absence of governmental regulation, market forces have also begun to address some of the problems that have emerged as the Internet has grown. Many have complained, for instance, that the Internet is too confusing

for non-hackers to use productively. But getting on-line becomes easier each day and bookstores feature a large selection of how-to books, such as *Internet for Dummies*. On-line services like CompuServe now offer easy-to-understand interfaces. And an increasing array of software “search engines,” sometimes called “spiders,” is available for those who directly access the Internet.

A thornier issue is on-line pornography. How do parents insulate their children from offensive materials without infringing on the rights of others to disseminate or view it? Again, while politicians mull over the issue, the market is responding. Most popular on-line services, like America On-line and Prodigy, give parents the power to restrict their children’s access to objectionable material. Software is in development to enable parents to identify and avoid offensive material. Without rules and regulations, the market process is discovering solutions to important problems.

In short, the Internet provides powerful proof that a complex, adaptive order can evolve without conscious design. In *Law, Legislation, and Liberty*, Hayek presents several examples of such “grown,” or spontaneous, orders. In the world of nature, he cites crystals and snowflakes; both will develop under the proper conditions, but cannot be consciously created molecule by molecule. In human civilization, Hayek points to the emergence of language and currency. Both developed, unplanned, over generations. Yet these examples, while interesting, fail to convince many people of the feasibility of grown orders. After all, human beings are considerably more complex than the particles that compose snowflakes and crystals. How can we be sure that human beings, each of whom has unique motives and ambitions, will behave in an orderly fashion? The examples of language and money are no more persuasive; their evolution is so slow that we can scarcely perceive it.

The Internet, however, demonstrates that an order can develop not only in nature, but in human civilization. And it continues to

evolve and adapt at an astounding rate in the absence of government regulation, let alone central planning.

The Internet and Freedom

The Internet’s importance is not limited to illustrating spontaneous order in operation. The Internet, and technological development in general, enhances personal freedom by facilitating the spread of information and ideas. Throughout history, the free flow of information has led to significant social and political change. Johann Gutenberg’s invention of movable type printing enabled ideas to be circulated widely and cheaply for the first time. This free flow of ideas was a critical catalyst for the Protestant Reformation. In the 1980s the desktop computer and fax machine played an important role in the process that led to the breakup of the Soviet Union. In 1995, *Time* magazine reported that Iran is facing a “potential revolution,” now that Iranian scholars have gained access to the ideas of Shakespeare, Mill, and other Westerners through the Internet.

The Internet provides not only access to information and ideas, but the power to distribute them as well. Gutenberg’s printing press reduced the costs of sharing information a thousandfold. Innovations such as the photocopier and desktop publishing have further reduced these costs, enabling even individuals to produce professional documents inexpensively. The Internet takes this information revolution even further; now, one doesn’t even need paper to publish his ideas widely. Empowering people in this way has reduced the influence of the traditional media.

For years, information on world affairs came from a limited array of sources: the Big Three networks, a few national radio syndicates, and several large newspapers and news services. That has begun to change. Cable brought with it CNN and C-SPAN, and a host of other stations that cater to the varied tastes and needs of segments of the population. Talk radio has emerged as a new forum through which people can express their views. And now the Internet, with its

host of real-time chat conversations, E-mail lists, and newsgroups, offers new ways for people to share information. In the words of *Wall Street Journal* editorial writer John Fund, "The Old Media will wind up on the scrap heap of history."

The Internet also allows each individual to choose his own community. Typically, when we think of community, we think of the people who live in our apartment building or neighborhood, but the Internet allows us to converse with whomever we please. Technology makes it almost as easy to communicate with someone in Japan as someone around the block. The Internet has therefore fostered the growth of new, virtual communities that are not bound by arbitrary physical borders, but by common interests, goals, and values. Internet communities can be as tightly knit as geographically based communities. For example, the Internet proved the only effective channel of communication between survivors of the Kobe earthquake in Japan and their friends and families around the world. In the United States, several pages emerged on the World Wide Web hours after the Oklahoma City bombing, documenting the destruction and offering help and support to those in need. And before the evening news had announced singer Jerry Garcia's death, word had already filtered through the Internet, to which fans turned for virtual support groups.

Information Age

Perhaps most important, the Internet is providing the means for ordinary citizens to subvert long-existing power structures, especially the taxes, tariffs, and regulations imposed by governments. In *Creating a New Civilization: The Politics of the Third*

Wave, Alvin and Heidi Toffler contend that we are entering an age in which "information increasingly substitutes for bulk raw materials, labor, and other resources" and "knowledge-based technologies are reducing the need for capital per unit of output in a capitalist economy." As businesses rely increasingly on human capital (knowledge and information) and less on physical capital, tariffs become increasingly irrelevant. Likewise, entrepreneurs may establish banks and investment firms wherever the tax and regulatory burdens are least oppressive, and continue to serve customers anywhere in the world. At least one enterprise offers Internet users the opportunity to gamble legally on sporting events. Based offshore, it is not subject to the laws which forbid such operations in most of the United States.

Lofty purposes? Not always, but the Internet, by facilitating the spread of information, is restoring power to individuals to make choices that affect their own lives and undermining state interference in the process. How will governments respond to this rapid decentralization of knowledge and power? Perhaps they will be forced to compete with one another to create friendlier environments for trade. The result could be governments with simpler, less burdensome regulations and taxes. Some commentators, like *Wired* magazine contributor Jay Kinney, seem to believe that technology could make government more or less irrelevant. Kinney suggests that nationalism "will [come to] have the character—the strength and relative weight—of brand loyalty." This may not be far-fetched. After all, the state's regulatory machine is likely to run at least a step behind an adaptive spontaneous order that taps the knowledge of all its participants. That is a sight, no doubt, that Hayek might well have applauded. □

No, Fred, There Is No Free Enterprise—At Least Not Here

by Mark Ahlseen

Each passing year results in more government regulation and control over private sector production. It has become increasingly difficult for entrepreneurs to gain official approval to initiate and sustain an enterprise. Such impediments are a form of what Frederic Bastiat called legal plunder—when “the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong” or “benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.”

We typically think of businessmen as enthusiastic supporters of the free enterprise system, as are “efficient-production” entrepreneurs, who make their living by providing a better or cheaper product or service. But with the expansion of government has come a new type of entrepreneur. Increasingly, businessmen are the first to lobby government for protection from unfettered competition. Today’s “rent-seeking” entrepreneurs have found it to be easier and less painful to seek government privilege than to compete. State assistance comes in various forms, such as direct subsidies, licensing/franchising, production quotas, and so on.

With the increase in federal spending and the expansion of governmental authority has come a corresponding increase in lob-

bying and other forms of political-profiteering. In 1947, there were 731 registered lobbyists in Washington, D.C. By 1985, this number had grown to 7,200. There has been a similar increase in Political Action Committee (PAC) contributions to congressional campaigns. These and other efforts are often directed at stifling the creativity of efficient-production entrepreneurs.

This phenomenon occurs at the state level as well. A recent example involved an acquaintance of mine (hereafter called Fred to protect the innocent) who lives in North Carolina. He wanted to begin a business that would allow him to spend more time at home with his wife and four young children. To this end, Fred planned to inaugurate “Autos by Owners.” He would rent space in a parking lot on a weekly basis to individuals who were interested in selling their used automobiles. Potential buyers could quickly examine 50 to 100 vehicles at one central location. They then could call several owners to arrange test drives at a convenient time. Sellers would avoid endless telephone calls and visits to their homes. Owners could also arrange to meet three to four potential buyers at the same time.

This type of business is not new; it has appeared in other states. Consequently, Fred is not a visionary, but he is still an entrepreneur. He located a parking lot and arranged lease terms. He printed brochures. He investigated potential advertising media.

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He also checked North Carolina's Motor Vehicle Dealers and Manufacturers Regulations. Part d of paragraph (11) of Section I, A, 20-286 defines a motor vehicle dealer as someone who "offers to sell, displays, or permits the display for sale for any form of compensation five or more vehicles in any 12 consecutive months." But the code goes on to state that dealers must keep records of all titles that are transferred. This would be impossible for "Autos by Owners," since there would be no way for Fred to know which vehicles were sold or withdrawn from sale. He therefore faced a "Catch 22." Renting space for the display of vehicles defined him as a dealer. To be a dealer required him to transact titles. Since he did not transact titles he could not be a dealer. And since he could not be a dealer he could not start his business. His attempt to work with the state Department of Transportation to find a solution came to naught.

Fred received a decisive letter which, in typical bureaucratic understatement, explained: "While it is most unfortunate that

you have invested monies to set up the type of business which you have described, I can only tell you that at this time, the General Statutes of North Carolina do not permit it."

Why should any state prevent this type of business? Obviously, it is the rent-seeking entrepreneurs of North Carolina who had the foresight to lobby legislators to include a 2-line sentence in paragraph (11). And who might these rent-seeking entrepreneurs be? A good guess would be the motor vehicle dealers of North Carolina who, rightly, view businesses such as "Autos by Owners" as an unwanted source of competition. In short, North Carolina's Motor Vehicle Dealers and Manufacturers Regulations code is legal plunder. However, the biggest loser in this situation is not Fred, but the consumers who must pay higher prices because their state does not allow genuine free enterprise in the automobile market.

This is just one of the many instances of government control over private enterprise. And it shows how very far we have to go before our society will be truly free. □

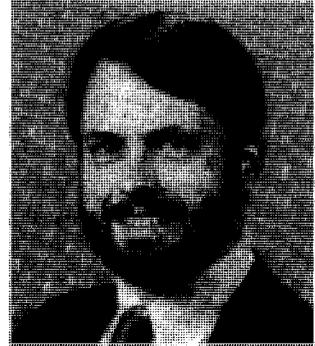
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Nonessential Government

You might not have noticed, but the federal government closed down a while back. The sky didn't fall. The world didn't end. People didn't die in the streets. In fact, it was difficult to detect any difference outside the Washington Beltway before and during the two shutdowns.

Unfortunately, nothing has changed since then. The same number of Cabinet departments exist. Only a half dozen programs, such as the 18-person Administrative Conference, have been killed. And virtually every federal employee who was laboring before the so-called train wreck is back at work, issuing checks, drafting regulations, and otherwise limiting Americans' freedoms.

What is amazing—actually, it wasn't amazing, given how Washington works, but what should be amazing—is the failure of anyone to use the bureaucratic closure as an opportunity to initiate a serious debate over the role of government. What, pray tell, do three million federal employees do? Why do we need to ship \$1.6 trillion, roughly 22 percent of the GNP, to Washington? How does the public benefit from subsidizing everything from beekeepers to big corporations to small liquor stores to foreign dictators to performance artists? Are the elderly really served by medical and retirement programs that are hurtling toward insol-

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veny, threatening to take the rest of the budget down with them?

These questions would have been particularly timely since 800,000 government employees were deemed "nonessential" during the first shutdown. A sizable 42 percent of the personnel of affected agencies—the Agriculture and Energy Departments had been previously funded, while the Post Office relies on postal revenues, for instance—were sent home. The number deemed nonessential ran 99 percent at Housing and Urban Development, 89 percent at the Department of Education and White House, 83 percent at Treasury, 81 percent at State, 75 percent at the Labor Department, 72 percent at Interior, 67 percent at Commerce, 59 percent at the Small Business Administration, and 58 percent at the Department of Health and Human Services. If America could get along just fine without the bulk of the employees at all of these bureaucracies, then why bring them back?

Yes, yes, in the long term a few of these workers are really necessary—to process passports, for example. But the job of many Commerce Department employees is to hand cash to well-connected businesses. The Small Business Administration does the same thing, only to smaller ones. The Labor Department is little more than a political pay-off to unions. Housing and Urban Development helps enrich developers. And on and on. Not only are most of these jobs nonessential: they are downright harmful. Why, then, are these people still employed?

The Purpose of Government

If politicians in Washington won't start the debate, people outside the Beltway should. The first question voters should ask candidates is, what is government for? This matters, though no one in Washington thinks in those terms. In Congress the first question usually is, what do my constituents/favored interest groups/contributors want? That's why liberal doves like weapons constructed in their districts and fiscal conservatives support social spending in their districts.

The more sophisticated answer from the "anything goes" crowd is that government is to help people, provide opportunity for the disadvantaged, ensure equality, protect health and safety, etc., etc. All of these have the advantage of sounding desirable while being ambiguous enough to justify subsidizing almost anything.

The right answer should be to provide the framework of a free society, to perform those tasks that are necessary and can only be handled both collectively and coercively by government. That's all. These duties are important, indeed critical, but quite limited. No National Endowment for the Arts. No Commerce Department. No Energy Department. Obviously we can argue at the margin, but we should be able to agree: No endless soup line for the well-connected.

The second question might be: why the federal government? One need not have a fairy-tale view of states and localities to believe that where government is necessary, a decentralized system that allows experimentation is generally better. It is certainly preferable to a uniform and rigid policy emanating from Washington and binding 260 million Americans around a diverse nation. Consider education. It really should be a family responsibility in a private marketplace. But if government is going to get involved, why Washington? States and localities have little incentive to carefully spend "free" money from Uncle Sam; Washington usually ties lots of strings to its checks. The result has not been pretty.

Third, people could query their supposed

representatives—what justifies taking a taxpayer's money? There are lots of theoretically good things that government, including the federal government, can do. Admittedly, there are some tasks that only it can, or at least will, do. But are such activities more important than what taxpayers would do with their own money?

This is a concept that some federal employees have difficulty understanding. During the shutdown a couple of Washington radio announcers were commiserating with furloughed federal employees when one bureaucrat called up and said: "people tend to forget that we're taxpayers, too." It is easy to forget, since federal employees remain tax consumers, even though they have to surrender a bit of their ill-gotten gains through "taxes." The people with the highest claim to the money remain those who actually earned it in the first place.

Last should come a practical query: can the government really do a better job providing whatever the product or service? Denizens of Washington hate to ask this question almost as much as they hate to deal with philosophical issues. It confuses them, rather like Soviet apparatchiks who must have wondered during Communism's collapse: "If the government stops making shoes, how will the people cover their feet? Whatever will people do?"

The same attitude pervades the nation's capital. Only the Food and Drug Administration protects us from another Thalidomide. (Actually, the FDA has killed literally hundreds of thousands of people preventing the sale of life-saving drugs and devices; a private concern like Underwriters Laboratory could serve as a more efficient tester.) Only Social Security stands between the elderly and poverty. (Alas, the system is rolling towards demographic and fiscal disaster. Relying on private IRAs would provide a much greater return to retirees without bankrupting workers.) And so on.

None of these would seem to be terribly difficult questions to ask. But during the prolonged budget "crisis" no one did—not the contending political leaders, not the

mainstream media commentators. Instead, everyone assumed that what was must always be, with a few minor variations; even the “toughest” budget proposal envisioned a \$300 billion increase in federal outlays over the seven years to balance the budget. And not even that plan did more than drop a handful of programs. For the most part,

the issue was not whether a function was appropriate for Washington, but how quickly outlays should increase.

Unfortunately, government shutdowns don’t occur very often. The only way we are likely to ever have a serious debate over what is really “essential” for government is if the American people demand one. □

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Cultivating Dissent: Wetlands Regulators Down on the Farm

by David J. Porter

To Robert Brace, drainage is as much a part of farming in Erie County, Pennsylvania, as are planting and harvesting. The topography and soil types in that part of Pennsylvania make drainage necessary for successful farming. Consequently, drain operation and maintenance is nothing new to Brace, a third-generation farmer who began cultivating his own fields at the age of 15.

In the late 1970s, Brace decided to rotate portions of his 140-acre farm from cow pasture into crop-bearing field. He began refurbishing the farm's drainage system, originally installed by his grandfather, which had become blocked by beaver introduced by the Pennsylvania Game Commission. Over the following years, Brace removed fenceposts, replaced old drain tile, and sidcast the silt collecting in the drain back onto the adjacent fields from whence it had come. By 1986, having completed the preparatory work, Brace was growing hay and oats. Business as usual, right?

Wrong. In May of 1987 Brace asked, as he had done before, the Pennsylvania Game Commission to remove the beaver from his farm. When the Commission's agent arrived at the Brace farm, he scanned the property and declared that it would "make a nice sanctuary" for wildlife. The agent then

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informed Brace that the field exhibited wetlands characteristics, and asked about his drain-refurbishing activities. Within days, several federal, state, and local bureaucrats descended on Brace's property unannounced and began excavating soil and plant species.

Soon thereafter, Brace received notices from the Environmental Protection Agency (EPA) and Army Corps of Engineers informing him that he had violated the federal Clean Water Act by discharging soil into a "wetlands" without first obtaining a government permit. The agencies ordered him to cease all activity on his field, which was now under their jurisdiction. Accordingly, Brace stopped all work except for occasionally mowing hay.

In 1990 the federal government sued Brace for his clearing and draining activities. As punishment, the government sought a court order requiring Brace to: (1) strip off his crops; (2) remove the drainage system; and (3) refrain from disturbing the site so that it could return to its "natural state." Brace also faced the threat of a penalty of up to \$25,000 per day for each day he was in violation of the Clean Water Act.

Brace prevailed at trial. Given the importance of drainage for farming in many areas of the country, Congress had written an exemption into the Clean Water Act permitting the discharge of fill material into wetlands if such activity is performed in the

course of "normal farming." The trial judge found that Brace's activities fit squarely within the exemption and dismissed the suit. In November 1994, however, the Third Circuit Court of Appeals reversed the trial court judgment. In June 1995 the U.S. Supreme Court denied Brace's petition for writ of certiorari.

The trial court is now considering how much in fines and what form of remediation to impose. The Clean Water Act's penalties accrue for each day of violation rather than for each violation, so Brace faces a potential fine of more than \$50,000,000. While it is unlikely that he will have to pay anything close to that amount, even one percent—or \$500,000—would be confiscatory. Moreover, the remediation scheme proposed by the EPA requires Brace to plug his drainage system with concrete. Because the farm's drainage system is integrated, this "remedy" would likely destroy Brace's entire 140-acre farm.

Multiple Ironies

U.S. v. Brace is peppered with ironies. The beavers that caused Brace's initial water problem were introduced to the area by the Commonwealth of Pennsylvania. Brace refurbished the farm's drainage system using plans prepared specifically for him by the federal Agricultural Stabilization and Conservation Service. When Brace was ordered to stop working in his field, he sought an after-the-fact permit—which the Corps refused, citing the pending lawsuit.

Unfortunately, Robert Brace's ordeal is not exceptional. Scores of property owners have litigated wetlands disputes against the government; some have ended up in prison. And for every person who goes to court over wetlands, there are many others whose well-laid plans have been frustrated by state and federal bureaucrats. But *Brace* is especially interesting as a case study of the real-world application of wetlands regulation.

What we know today as "wetlands" were once referred to as swamps and thought likely to spawn "bilious fevers" if not drained. Now, of course, virtually all wet-

lands are viewed as sacrosanct due to recognition of the positive ecological role they play in some cases. This change in perspective has been accompanied by an about-face in governmental policies toward wetland areas. While state and federal governments once encouraged and subsidized the draining and reclaiming of wetlands, now they require wetlands preservation.

The foundation of the federal government's wetlands protection policy is the Clean Water Act, and the regulations promulgated thereunder. The Clean Water Act forbids the unpermitted discharge of any dredged or fill material into "navigable waters," which is statutorily defined as "waters of the United States." EPA and Corps regulations further expand federal jurisdiction while restricting the farming exemption created by Congress. According to the Corps, for instance, navigable "waters of the United States" include "wetlands," defined as any ground that supports "vegetation typically adapted for life in saturated soil conditions."

The portion of Brace's property of interest to the government does not resemble a swamp, bog, or marsh. One can walk across the field without getting wet feet. Nevertheless, because courts are extremely deferential to agencies' expansive statutory interpretations, the Corps' counterintuitive definition of "navigable waters" placed Brace's field under federal control. Thus, taking a stroll across Brace's field is legally equivalent to traversing navigable waters of the United States.

Moreover, in Brace's case, government attorneys argued that he was not eligible for the farming exemption because: (1) his field was a wetland; (2) the land was not part of an ongoing farming operation; (3) his activity was not "farming"; and (4) even if Brace was engaged in farming (and therefore exempt), his activity was "recaptured" by a regulation prohibiting landowners from bringing their property into a use in which it was not previously engaged.

Despite the fact that Brace and his ancestors never conducted any activity on the farm *except* farming, the government argued that he was not entitled to Congress's farm-



Robert Brace (center) and his sons, Ronnie (left) and Randy.

ing exemption because his field was not part of an ongoing farming operation. Rather, the government contended, Brace's activity merely brought the site *into* farming use. No matter that pasturing livestock and growing crops are both archetypal farming activities: the government argued successfully that even if the field was previously part of an established farming operation when it was used for pasture, it lost farmland status in 1978 when Brace began preparing it for crops. The trial court commonsensibly considered Brace's activities in light of the history of the Brace homestead farm, and in the context of normal farming practices in its vicinity. By contrast, the court of appeals measured Brace's activity solely against regulatory definitions of "farming" and "ongoing farming operations," which entailed an unduly narrow definition of farming. As a result, federal bureaucrats and judges have ended up dictating to farmers what does and does not constitute "farming."

The government's final argument was that even if Brace's field were part of an "established farming operation," he lost his exempt status by interrupting and then "re-summing" his farming operations. The government contended that the site became

something other than farmland the moment Brace stopped using it as pastureland. By planting crops, the argument ran, he brought the area into farming use once again, but by then it was too late, for the Corps' "recapture" regulation made his activity non-exempt. In short a farmer cannot interrupt his operations lest he risk losing his legal right to continue in the future.

Presumably Congress recognized the problem of imposing unreasonable burdens on the many farmers across the country whose normal farming activities, specifically including drainage, would otherwise subject them to wetlands regulation, which is why it wrote the farming exemption into the Clean Water Act. As Senator Edmund Muskie noted in 1977, the permit requirements of the Clean Water Act had become "synonymous with federal overregulation, overcontrol, cumbersome bureaucratic procedures, and a general lack of realism." The farming exemption was Congress's attempt to mitigate those problems; however, environmental bureaucrats have eviscerated that Congressional intent.

Debates over environmental regulation often center on the expected public costs and benefits of particular legislative proposals. But the story of *United States v. Robert Brace* is a poignant reminder that such regulation, whatever the supposed cost-benefit ratio, erodes freedom and undermines independence. "Regrettably," says Robert Brace, "I've gotten to know the ways of the legal, legislative, and judicial systems since I got into this snarl. They aren't much help to ordinary citizens like me. We're simply overwhelmed by raw government power."

Wetlands reform bills are currently moving through Congress and Pennsylvania's General Assembly which would, among other things, categorize wetlands according to their relative value and function, strictly define wetlands so that they are more easily recognizable to ordinary landowners, and require compensation for individuals whose property has been adversely affected by regulation. Such measures are a step in the right direction, but they will likely be too little and come too late to save the Brace family farm. □

Is Social Security Pro-Family?

by Daniel Lin

Whenever politicians fear that the public believes a program has outlived its usefulness, they re-categorize it to make it seem relevant. How else could worthless vanity projects become “jobs programs”? And minimum-wage laws that make unskilled workers too expensive to hire be called “poverty fighters”? Now leaders of both parties routinely drape a “pro-family” mantle over any government folly which they desire to protect. For instance, Social Security is being promoted as perhaps the government’s most sacred pro-family program.

The reasoning is simple: poverty destabilizes the family, so a program that alleviates poverty must be pro-family. By guaranteeing a retirement income for every worker, Social Security keeps the elderly out of poverty. In addition, Social Security supposedly offers working adults relief from the emotional and financial burden of supporting elderly parents. What could be more pro-family than government using its enormous power to take care of Mom and Dad for you?

Such thinking shows a fundamental misunderstanding of the role of the family in society. A family is more than just a group of people—it is a vital social and economic unit, distinguished from other human institutions by the responsibilities members have toward each other. For example, breadwinners have a duty to provide for themselves and their families. Parents and

children have the responsibility to care for each other. Encouraging the fulfillment of these private obligations is the only way to fortify the family. In contrast, giving such responsibilities to government drives a wedge between family members and weakens the ties that hold them together. Thus, Social Security, by seemingly relieving individuals of their responsibility to care for their elderly parents, is profoundly anti-family.

Social Security’s anti-family bias is not limited to its effect on responsibilities. Its funding mechanism, the payroll tax, also greatly burdens families.

The total tax may not have been onerous at Social Security’s inception, when the combined employee-employer share was two percent, but since then have come 22 tax increases. A majority of families now pay more in payroll taxes than federal income taxes. Of course, there are no exemptions or deductions to the payroll tax—the “pro-family” program feeds the government before it feeds a worker’s family. Thus, despite its appearances, Social Security really doesn’t eliminate the financial burden of caring for one’s parents; it merely disguises it.

“Share the Burden”

The problem is not solved by dividing the total payroll tax between employers and workers. Politicians argue that this policy is “fair” because it makes employers “share the burden” of financing their workers’ retirement. But government is unable to

Mr. Lin, a graduate of UCLA, wrote this article while an intern at the Institute for Research on the Economics of Taxation.

make employers play Santa Claus, whatever legislators may hope. The payroll tax is in effect an excise tax on work, both discouraging job creation and depressing wages. When government raises the cost of hiring a worker, employers are forced to offer lower wages, employ fewer workers, or go out of business. The employers' "share" is thereby passed on to the workers.

Nevertheless, for years the system seemed to work. But the number of people available to support each retiree has been steadily falling, going from 16 workers per retiree in 1935 to three workers today. Within 30 years two employees will be supporting each retiree. So much for Social Security "saving" the average couple from the burden of providing for their parents.

The Impact on the Elderly

In the end, the biggest losers are the elderly, who are supposedly being cared for. Families form and prosper because survival and happiness are more likely to occur among people who love and care for each other. Socialized care offers none of these advantages. Instead, it places responsibility for the elderly on the general population, which cares nothing about anyone's individual well-being.

Moreover, socialized care is inevitably politicized care. Instead of individuals making private decisions about their own families, retirement care is shaped by political horse-trading. Politicians must sort through campaign promises, balance pressures from special interests, and assess the level of taxes that workers are willing to bear. Throwing the well-being of the elderly into this messy political arena is not pro-family. After all, true retirement security should not hinge on the next taxpayer revolt or the well-rehearsed promises of politicians.

Perhaps most strikingly, Social Security's tremendous effort to redistribute wealth across generations leaves the elderly worse off than if they had invested their payroll taxes privately. If the average 20-year-old



worker pays \$1 in payroll tax, he or she can expect to receive \$1.70 in real (after inflation) Social Security benefits by age 70. Based on past returns, that same dollar invested in stock mutual funds over the same period would have swollen to \$32. By forcing workers to pay into what amounts to a sucker's investment, Social Security is exacerbating the burden it is supposed to alleviate.

Is Social Security pro-family? Only if increased unemployment, depressed wages, higher taxes, and forced participation in a bankrupt system help the family. A true pro-family policy would remove these barriers, encourage work, and allow individuals to invest their own money. A government concerned about stable families would not come between adults and their elderly parents. Given the government's track record at developing programs that strengthen the family, the best pro-family policy would probably be to restrain the desire of politicians to make policy pro-family. □

Increasing Access to Pharmaceuticals

by Doug Bandow

The collapse of the campaign to essentially nationalize America's health-care system put a political stake through the heart of proposals to solve medical problems with new bureaucracies and more regulations. Health care remains a problem, however, because costs continue to rise and access remains restricted for many elderly and poor patients. Thus, we must continue looking for answers, only from a different direction—choice, competition, deregulation, and privatization.

Applying these principles to prescription drugs and medical devices would be particularly beneficial for Americans. Today the Food and Drug Administration (FDA) both discourages the development of new pharmaceuticals and medical products and increases their cost. Simply relaxing Washington's bureaucratic stranglehold over the drug and device marketplace would be a useful first step. Even more advantageous would be reconsidering the role of the FDA itself; Congress could turn the agency into a certification rather than an enforcement body, for instance. The result would likely be improved medical treatment, less patient suffering, and lower health-care costs.

Doug Bandow, guest editor for the February Freeman, is the author and editor of several books, including Reforming Medicine Through Competition and Innovation (John Locke Foundation).

Everyone, except, perhaps, a couple thousand federal bureaucrats, would gain.

Benefits of Pharmaceuticals

The wide availability of even expensive drugs has helped ameliorate and cure disease. Pharmaceuticals conquered a number of deadly conditions, such as tuberculosis; tranquilizers and polio vaccines offered similarly dramatic benefits. In this way, drugs contributed to the increase in life expectancy from 54 in 1920 to more than 75 today.

Prescription drugs have also reduced total medical expenses, because pharmaceuticals often replace far more expensive medical operations and treatments. Actigall, for instance, dissolves gallstones, and thereby saves an estimated \$2 billion annually because 350,000 patients use it. The beta-blocker Timolol reduces the number of second heart attacks by 16 percent and also saves about \$2 billion every year. Anti-asthma drugs save \$3 billion a year by cutting emergency room visits and hospital admissions. Drug therapy for ulcers costs about \$900 annually, compared to \$29,000 for surgery; the yearly savings also runs about \$3 billion. Even where a procedure, such as bone marrow transplants, remains necessary, pharmaceuticals can cut overall treatment costs by \$40,000 a patient.

The potential for even greater savings from pharmaceuticals has been masked by

the larger problem of third party health-care payment, through Medicare, Medicaid, and tax-induced comprehensive private insurance. The fact that patients directly pay only a small share of their medical expenses has bloated demand for health services. But since coverage of pharmaceuticals under such programs is generally limited, the system encourages reliance on more expensive, alternative treatments, like hospitalization and surgery. Analysts Gary and Aldona Robbins figure that a consistent reimbursement scheme would increase drug outlays by 45 percent but cut hospital expenditures by one-third. Overall, health-care spending would fall \$85 billion.

Unhealthy Status Quo

Even worse, federal policies have directly raised the cost of prescription drugs and medical devices and discouraged development of products that would save lives and lower overall health-care costs. In the name of safeguarding the public from harmful drugs, the Food and Drug Administration has been protecting the public from useful drugs as well.

The problem is two-fold. First, the FDA's power is excessive: drugs cannot be released until the agency has certified not only their safety, but also their efficacy. Such delays occur not because the \$1 billion agency is underfunded, as it often claims, but because it tries to regulate far too much. The agency has been empowered to monitor pharmaceutical safety since 1938 but performed its duties relatively expeditiously until 1962. Then Congress, after thalidomide use abroad generated birth defects, empowered the FDA to certify effectiveness and control the clinical testing process. Why legislators did so remains obscure, since the problem with thalidomide was that it was unsafe, not that it didn't work. To the contrary, patients used it *because* it was an effective sedative. Nevertheless, in the words of analysts Henry Grabowski and John Vernon, the legislation effectively shifted "primary decision-making authority in pharmaceuticals from market

mechanisms to a centralized regulatory authority."

Lengthening Time Lag

Unfortunately, the seemingly purposeless requirement that firms demonstrate efficacy—companies have no incentive to sell, doctors have no incentive to prescribe, and patients have no incentive to buy ineffective products—further lengthened the time necessary to win approval of new drugs. By 1967 the average review time for a drug application had more than tripled. Congress's bias towards regulation exacerbated the agency's natural bureaucratic tendency to be risk averse: to approve a drug that proves either ineffective or harmful will harm one's career far more than holding up approval of efficacious, potentially life-saving products.

Which naturally leads to the second problem, that the FDA has created an unnecessarily cumbersome and expensive regulatory process. Drug development costs, which now average \$427 million, more than doubled between 1963-1975 and 1970-1982. Much of this expense is due to the federal drug approval process—indeed, it has been estimated that the FDA may as much as *double* the cost of new drug development.

Such an expensive process would be burdensome enough for any industry. But the pharmaceutical business, dependent as it is on finding a few gushers in a field of dry holes, suffers disproportionately from FDA-induced delays. The result of over-regulation, then, is not only to reduce drug research, but also to encourage the diversion of resources into unregulated efforts—non-R&D expenditures, such as promotion, or R&D overseas—in what the Progress and Freedom Foundation calls "approval arbitrage."

Disincentives to Drug Development

The result of all of these factors has been to discourage new drug development in the United States. The domestic rate of intro-

duction of new compounds dropped sharply and America fell behind other nations. Up through 1965 the United States led Great Britain on the introduction of new drugs. Between 1966 and 1971 Britain enjoyed a 15-month lead. Of 98 drugs introduced between 1962 and 1971 in only one nation, 77 were available in Britain. The FDA apparently was not unaware of this problem: in 1972 the agency attempted, unsuccessfully, to transfer an employee out of its cardio-renal-pulmonary products division because, reports one FDA official, the division had "approved no new chemical entities . . . from 1968 to 1972, an experience that contrasted with the experience of every other medically modern nation and with the experience of other divisions of the FDA." Between 1977 and 1987, of 204 new drugs introduced in America, 114 were sold first in Britain. Of Britain's 186 new drugs, only 41 were first introduced in the United States. America's time lags were greatest for drugs used to treat some of the deadliest diseases: cancer and cardiovascular cases. Eighteen of 20 drugs approved in the U.S. in 1988 had been available for an average of six years in other nations.

By the 1990s, total approval and development times ran 100 percent and 75 percent, respectively, higher in America than in other industrialized states. Of 150 new drugs and vaccines approved by the FDA between 1990 and 1994, 61 percent were available first overseas. Almost half of the latter, 40 different compounds, were considered to be important by the FDA. On a head-to-head basis America increasingly lagged behind other industrialized states.

Suffering People

The consequences of the FDA's bureaucratic dithering are serious: people suffer and die. Real people, most of whom are not represented in Washington and who remain largely invisible. And tens of thousands of them. Argues Robert Goldberg of Brandeis University:

By a conservative estimate, FDA delays in allowing U.S. marketing of drugs used safely

and effectively elsewhere around the world have cost the lives of at least 200,000 Americans over the past 30 years. That figure does not include deaths that might have been prevented by the use of drugs such as Prozac, which is associated with the decline in suicides of individuals suffering from depression.

Consider just some of the agency's casualties:

- Families with a member suffering from Alzheimer's disease were frustrated by the government's refusal, for seven years, to authorize the use of the drug THA, long available in other nations, despite evidence that it helped four of ten patients who took it.

- The agency's delay in allowing sale of the beta-blocker practolol probably cost 10,000 lives a year. Dr. William Wardell complained that "the FDA's B-blocker policy has set back cardiovascular therapy in this country by years," diverting research from new advances to re-examining settled questions.

- Agency delays in bringing propranolol, a beta-blocker for use in treating angina and hypertension, to the U.S. market may have cost 100,000 lives.

- The FDA's two-year delay in approving streptokinase, which sharply reduces death rates after heart attacks, probably cost 22,000 lives.

- Even more bizarrely, the agency dithered over TPA, found to be more effective than streptokinase. The drug was available in eight nations, including Austria, France, Germany, and New Zealand, but not America. *Science* magazine complained that the FDA had "not only egg on its face but blood on its hands."

- Scores of thousands may have perished from the non-availability of the anti-bacterial drug Depra.

- The FDA delay in approving Interleukin-2, for use in combatting once untreatable metastatic kidney cancer, probably left 3,500 patients dead. The drug was available in nine European nations before America.

- Between 8,000 and 15,000 people probably died waiting for misoprostol, a drug to prevent gastric ulcers. The drug was first

available in 43 other countries, some as early as three years before the FDA's approval in December 1988.

- Equally costly was the delay in bringing anti-AIDS drugs, such as AZT, which slows the advance of the disease, and ganciclovir, which reduces the incidence of blindness, to the market.

- The agency held up approval of Clorzil, useful in treating schizophrenics. As a result, as many as a quarter of a million people suffered despite the product's availability for 20 years in Europe.

- Even more people suffered and continue to suffer moderate inconvenience from lack of access to other drugs—anaesthetics, antibacterial compounds, vaccines, asthma medications, and many others.

Medical Devices

Manufacturers of medical devices face similar problems as drugmakers. These products are often far more expensive than pharmaceuticals, but offer enormous benefits to patients—like a noninvasive, virtual-reality colonoscopy. Alas, band-aids, nuclear magnetic resonance machines, and more than 40,000 other products come under the purview of the FDA. The agency also controls changes in existing products and even the manufacturing process, treating everything like a new product.

Although federal rules are allegedly intended to serve health purposes, Robert Higgs of the Independent Institute observes: "Medical device regulation in the United States during the past 30 years has been driven mainly by political forces, especially by the reaction of members of Congress and FDA officials to shocking or scandalous revelations widely disseminated by the news media." Decades after Congress broadened the agency's authority to devices, the FDA had yet to finish setting standards to categorize products by riskiness.

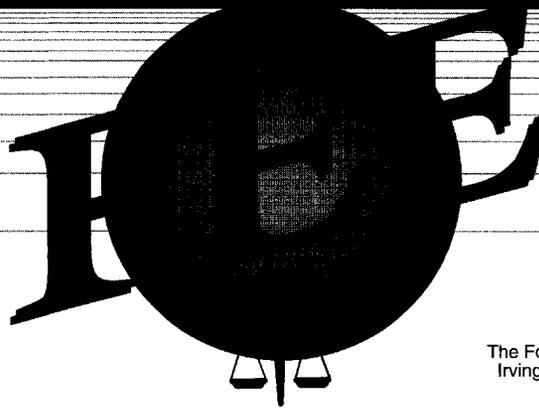
The FDA dawdled as huge application backlogs developed. The number of approvals fell steadily from 1989 to 1992, before rebounding slightly in 1993. The number of so-called 510(k) applications, for the sim-

plest products, pending before the FDA for more than 90 days, rose from two to 713 between November 1991 and 1992. The average review time jumped by 60 percent, to 141 days, hitting 200 days in early 1993 and 216 in 1994, before dipping to 185 in early 1995. Approval times for more complex goods exceed two years, running at 823 days in 1994. Some reviews take even longer, compared to an average of six to eight months in Europe. Naturally, the FDA's response two years ago to criticism was to *tighten* its controls. Only after the 1994 election did the FDA make a concerted effort to reduce approval backlogs.

Ultimate Victims

The ultimate victims of stifling FDA bureaucracy again are patients. New and improved medical products would enhance people's lives in a number of areas, ranging from heart and coronary disease to ligament repair. Tens of thousands of lives could be saved; millions of people could enjoy a higher quality of life; billions of dollars could be saved. Unfortunately, federal regulation stands in the way of these advances.

Among the products delayed by the FDA are the Cook intracoronary stent, Heart Technology rotablator, and Interventional Technology atherectomy device, all recommended by a physician's advisory panel. Dr. Richard Cummins, head of the American Heart Association's emergency treatment committee, points to at least 1,000 unnecessary deaths from the agency's hold-up of the shipment of Physio-Control (heart) defibrillators, which had already been approved for sale. An implantation coil for treating benign prostate swelling is available in Europe but not America. The Ambu CardioPump may increase the chances of surviving for a heart attack victim by 10 percent to 50 percent; manufactured in Denmark and available around the world, including Austria, where ambulances are required to carry it, and Chile, the device is banned by the FDA in America. Unnecessary deaths are probably running between 2,000 and 7,000 annually. Complains one analyst, it



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Machiavellian Politics

The morality of an action depends upon the motive from which we act. If we deny ourselves for the benefit of a needy person, we may experience the joys of charity. If we seek to impress our friends, we may act from ostentation and pride. If we seize income and wealth from some people and share the take with other people, we engage in Robin-Hood plunder. If we hasten to proclaim the giving to the world and expect to be rewarded with public acclaim and election, we are in politics.

Politics is a term of many meanings and diverse connotations, referring to the art of political administration, the policies, goals or affairs of a government, the methods or tactics involved in managing an association, and many other activities. Wherever there is government, politics makes its appearance. It is found in democratic societies as well as absolute monarchies and the most ruthless totalitarian states. In the latter the dictator is the sole politician; he dispenses spoils and privileges and metes out exaction and punishment according to his discretion. In a democracy every citizen has the legal right to participate in politics. Politics is a game in which prizes are distributed and burdens are imposed according to skillful use of pressures and counterpressures. Impotency may prevail over reason, expedience over evidence, and power over justice. Many politicians practice their craft according to rules and principles formulated by Machiavelli.

Niccolo Machiavelli was an eminent Italian author and statesman who in his best-known work, *The Prince*, described the means by which government may gain and maintain its power. His "ideal" government was ever scheming and calculating about political gain and authority. Machiavelli's persuasion differed materially from that of earlier writers: he rejected the ideal and moral and preferred the real and practical. He allowed the conclusion that politics has nothing to do with morals, ethics, and religion, and that it is incapable of observing all the rules of Judeo-Christian morality.

In the footsteps of Machiavelli many American politicians seek to gain the support of the electorate by any conceivable methods. They chatter, coax, and cajole, and if this is ineffective, they pretend, deceive, and promise the world. Promises are useful things, both to keep and, when expedient, to break. Since people are taken in by appearance, politicians appear devout and loyal; yet, in political theory, it is better to be a clever winner than to be a devout loser. Indeed, many American politicians are instinctively Machiavellian, denying the relevance of morality in political affairs and holding that craft and deceit are justified in pursuing and maintaining political power.

The Machiavellian inclinations of many American politicians seek and find intellectual support from the people who would make government the arbiter of economic life. Many academics would

place politicians and their appointees, government officials, in the center of the social and economic order, directing and regulating the production process, fixing prices and "redistributing" income. Once in power and at the levers of political control, Machiavellian politicians are likely to serve their own selfish ends. They seek success by saying what people believe, or can be made to believe, rather than what is demonstrably true. They think of the next election, rather than of the next generation. They look for the success of their party rather than that of their fellowmen. They grant benefits and confer entitlements to the most numerous class of voters, who in turn, pledge their votes for election and reelection. At the same time they impose financial burdens on less numerous classes of citizens who can be ignored at the polls.

Posturing as concerned patriarchs, politicians guide and direct their electorates to the benefit and entitlement troughs. They publicly defend the troughs and loudly cheer the imbibers. Many champion the cause of senior citizens who, in American political life, are first in line. Others plead for special favors for racial and ethnic minorities, for women, workers, farmers, and many others.

Unfortunately, it is not in the power of government to make everyone more prosperous. Government only can raise the income of one person by taking from another. The taking and giving are not even a zero net game; they require an elaborate apparatus of transfer that may consume a large share of the taking. Both the giving and the taking may adversely affect the productive efforts of both the beneficiaries and the victims; but even if they were robots and should remain unaffected by the process, the cost of the transfer apparatus alone would substantially reduce total economic well-being.

The transfer process does not follow a coordinated policy of income transfer.

Each department and agency of government pursues its own policy against the endeavors of the other departments and agencies. The Department of Labor seeks to raise wage rates and to lower living costs; the Department of Agriculture labors diligently to reduce agricultural production and raise food prices. Similarly, the Department of Commerce endeavors to reduce foreign imports and raise goods prices. The Department of Housing and Urban Development seeks to provide low-cost housing; both the Department of Labor and the Department of the Treasury significantly boost housing costs. The former imposes costly labor regulations, the latter levies taxes on housing and thus raises housing costs or indulges in deficit spending that deprives the loan market of needed funds and raises mortgage costs. One agency of government accuses big business of monopolistic tendencies, but others create public monopolies of their own and bring about conditions that invite monopolistic practices.

The various departments of government are vocal advocates of special interests and bitter enemies of the common interest. In its own way each department promises to provide benefits to its charges at the expense of all other people whom they do not represent. All departments together labor diligently to boost living expenses and lower levels of living. But above all, they all contend for and live the ways of Machiavellian mores which set politicians and government officials free from the code of morals that governs private conduct.



Hans F. Sennholz

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Edmund Opitz, an ordained Congregational minister, founded The Remnant (a fellowship of conservative and libertarian ministers) and The Nockian Society, is a contributing editor of *The Freeman*. He served as a member of the senior staff of FEE from 1955 until his retirement in 1992. *Religion: Foundation of the Free Society* is vintage Opitz, graced with his elegant style, subtle wit, and gentle erudition.

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is as if the agency put up a sign that said "Do not resuscitate."

Diabetics are waiting for approval of a noninvasive glucose sensor. Laser technology to remove corneal scars, available in 35 other nations, languished as the FDA's ophthalmology panel met only once in 1992, failing to even consider Summit's request for U.S. approval. Pediatric oxygenators are also available overseas, but not in the United States, because the small demand does not justify the expense of complying with FDA rules. The agency has seized an over-the-counter pain reliever, the Lido Pain Patch, even though its dosage of lidocaine is within FDA-approved levels. Dr. David Benditt, a medical professor at the University of Minnesota, criticizes "an FDA-instigated, several-year delay in the approval of transvenous implantable defibrillators for preventing cardiac arrests caused by ventricular fibrillation [which] has resulted in numerous patients being unnecessarily subjected to open-heart operations, with the inevitable risks and mortality." The agency blocked the use of specialized baby ventilators, later backing down only after protests by physicians. A portable heart pump, manufactured in America, is available in Germany but not the United States.

On dubious evidence the FDA helped kill the market for silicone breast implants, ignoring the anguish of many female cancer patients. The Inventive Products Sensor Pad, a diagnostic test for breast cancer (which currently kills 46,000 a year), remains unavailable though produced in Canada for nine years and sold around the world, including in Japan. The FDA classified a simple "cap card" to recap needles with one hand as a Class III (potentially life-threatening) device; two years and \$30,000 dollars later, the product remains unapproved. Richard Worland's bipolar shoulder implant, developed in 1990, was approved by ten nations within two months, but remains unavailable here. Worland, who suffers from rheumatoid arthritis, may have to go to England to have his own invention implanted. FDA enforcement actions

against established products, such as infant jet ventilators and muscle stimulators may be responsible for hundreds or more avoidable deaths.

Reform Alternatives

The case for reform is compelling. At the very least FDA decision-making should be streamlined. Another option would be to move towards the more decentralized system employed by the European Union. Even better would be to restrict the FDA to monitoring safety, leaving the question of effectiveness to patients and medical professionals. After all, pharmaceutical companies are not interested in promoting ineffective drugs; doing so would hurt sales and receive quick punishment by the marketplace.

Perhaps the best and simplest option would be to strip the FDA of its power to prohibit the introduction of new drugs. Suggests Sam Kazman of the Competitive Enterprise Institute:

There is, however, a simple way to preserve FDA's criteria while eliminating the deadly costs of the current regime: change FDA's veto power over new drugs to a system of certification. Let the agency continue to review safety and efficacy, but allow unapproved drugs, clearly labelled as such, to be available by prescription.

Such a system could allow patients, doctors, hospitals, and insurers to decide upon the use of pharmaceuticals and devices based upon a balancing of risks and costs in a competitive certification system, with testing performed by entities ranging from the FDA to Underwriters Laboratory, which currently sets 700 product standards, tests more than 16,500 types of products (and a total of 76,000 goods), and issues six billion UL marks. Indeed, 60 percent of pharmaceutical purchasers today are corporate enterprises, like HMOs. They could choose to rely upon FDA or foreign approval, private endorsement, industry recommendations, or whatever. And health-care providers could vary their decision based on the seriousness of the disease or condition being treated. Normal malpractice and product

liability laws would apply. Making pharmaceutical purchases a private decision would not be a jump into the unknown. As Kazman points out, the "FDA, after all, does not approve surgical methods, yet we do not worry about podiatrists doing in-office brain transplants."

Paternalism remains a powerful influence in Washington. But it is time for patients and doctors, insurers and hospitals, pharmaceutical firms and device manufacturers, senior citizens and healthy young people to to-

gether say "No more." For years the system has seemingly "worked" despite stultifying regulation: highly competitive American firms have led the world in the discovery and marketing of new treatments and cures. But so much more could have been accomplished, and the U.S. government continues to put arbitrary roadblocks in the way of developing, testing, and marketing new drugs and devices. For too long too many people have unnecessarily suffered and died because of the FDA. □

Freedom, Militias, and the Violence Inherent in the System

by K.L. Billingsley

Political violence is a serious subject, and since the Oklahoma bombing many pundits have portrayed the nation as near a takeover by crazed, cabbage-patch commandos. But the key to the militia phenomenon may be found in a form of analysis once popular on the Left.

This has been the century of political violence. From Lenin to Fidel Castro to the *Sendero Luminoso*, an alphabet soup of militants, most of them Marxist-Leninists, gained or attempted to gain power through the barrel of a gun. But many comfy North Americans hesitated to indulge in blanket condemnation of such actions.

Instead, they issued impassioned pleas to consider the "root causes" of violent revolution. The *Sendero*, FLSN, FMLN,

NPA, and other groups, one was assured, were not committed to violence and terrorism as such. Rather, generations of abject poverty and oppressive government drove them to it. The guerrillas were simply responding in kind to "the violence inherent in the system." The real perpetrators and abettors of violence, according to this view, were those who hoped for gradual non-violent change within the system.

The root causes of poverty and oppression, spokesmen of the Left said, were what U.S. policy needed to address. Otherwise the nation would only be "putting band-aids on cancer," and even making the situation worse.

Another analysis popular with the religious Left was "structural evil." The violence of revolutionary movements was linked not with the imperfections of human nature but social and political structures

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such as military government, capitalism, and patriarchal religion. Structural evil, the Left contended, required a structural solution, and those who thought otherwise were guilty of collaborating with the forces of evil.

The United States, with its capitalist economy and alleged long record of slavery, racism, pollution, and mistreatment of native peoples, was also a target for criticism. If one wasn't a part of the solution, Black Panther Eldridge Cleaver once said, one was part of the problem. Commentators of the Left, while denouncing violence, urged ordinary citizens to understand the deep injustices that motivated the rebels.

But the same people now appear to be applying a different standard to the militias.

Not only did the Left, correctly, refuse to excuse the Oklahoma City bombing. It also failed to consider root causes. Yet most militia members, unlike communist revolutionaries, have never actually used violence. Rather, some Americans—even a few African-Americans—worried that their freedom is coming under attack, have been dressing up in camouflage and training with weapons. When these militia members appeared before Congress to plead their case, liberal representatives and reporters treated them like dangerous crazies. Where was the willingness to ask the right questions? The answers do matter.

Endangered Liberty

What changes in American society could have driven these people to act this way? In Washington the spokesmen for the militias said it was the continuing encroachment of the government into private life, to a point that liberty and sometimes life are in danger. Here the militias are not shooting blanks.

Rare is the observer who will defend government actions at Waco, Texas, or Ruby Ridge in Idaho. But in supposedly

progressive California, agents on a drug raid shot dead Donald Scott, a man who had refused to sell his land to enlarge a nearby park. A Ventura County sheriff conceded that the acquisition of Mr. Scott's land was part of the motivation for the raid, which turned up no drugs. An immigrant farmer found himself hounded as a felon, fined a huge amount, and had his tractor impounded for unknowingly running over some rats. Such horror stories are far from rare.

Could some sort of "structural evil" be at work in such cases? Could it be that doctrines such as asset forfeiture have pushed some federal agencies to extreme behavior? Could the exaltation of animal rights over human rights actually be built into the system in certain cases?

If such root causes exist, then it won't do simply to vilify those who feel threatened by lumping them in with genuine extremists, racists, and bomb throwers. Those are the groups that demand the attention of our law enforcement agencies, not peaceful citizens who happen to strike the agencies as odd, and who cling tenaciously to their rights and freedoms. And the real extremists, it might be noted, are hardly the "right-wing" groups of media legend. By their own admission, they are a breed of national *socialists* and their rhetoric centers on class warfare, not citations from free-market economists.

Instead of spinning conspiracies, perhaps the time has come for our policymakers to take a cue from the Left, focus on the root causes of militias and eliminate the violence inherent in the system. A structural problem requires a structural solution akin to the one that ended the Cold War: the abolition or rollback of the institutional arrangements that threaten freedom, and their replacement with ones that maximize freedom within the framework of a moral, democratic, and pluralistic society. □

... Paved With Good Intentions



Have you ever wondered why so many modern liberals seem to be immune to reason and evidence? Why—despite the disastrous consequences of their various policies—they remain intractably loyal to the same courses of action, and undyingly committed to repeating the same mistakes?

Well, could it be that the real-world consequences of their policies aren't even *important* to many statists? That they are pursuing their pet policies, not for any *practical* objectives, but for *psychological* ones?

Consider, for example, the reasons recently set forth for sending American troops to “keep the peace” in Bosnia. It was an instructive episode—not in understanding international affairs, but in clarifying the motives that underpin the policy prescriptions of collectivists.

The idea that our nation's “vital interests” are at stake in the outcome of a civil war in an obscure part of Europe is ridiculous on its face. Likewise, the argument that America's “credibility” would be damaged by not fulfilling our international peace-keeping “commitments” to NATO, simply begs the question: why are we *making* open-ended commitments of our troops to

international peace-keeping missions in the first place?

But another reason was advanced—not a practical one, but a “moral” one. Slaughter of innocents was occurring in Bosnia, said the proponents of intervention; and stopping that slaughter was “the right thing to do.”

In one national poll Americans indicated that they found all of the “practical” arguments unpersuasive—but not this “moral” one. A slim plurality felt that our intervention was morally right.

Thus, American soldiers have once again been dispatched, at great risk, to intervene in a distant land. They are being sent *not* because of any rational argument, *not* because of any vital interests of ours at stake. They are being shipped off because such a mission makes a certain portion of the public, and liberal policy-makers, *feel morally self-righteous*.

These thoughts arise as I am reading Thomas Sowell's thought-provoking new book, *The Vision of the Anointed*. Whatever quarrels I may have with Dr. Sowell about his own “tragic vision” of the human condition, I nonetheless commend the volume to those who wish to grasp the psychological motives underpinning liberal policies.

Dr. Sowell makes the same basic point that I did in a March 1987 *Freeman* essay, “The Morality of Good Intentions.” The subtitle of his book is: *Self-Congratulation as a Basis for Social Policy*. That is, the

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real-world consequences of their policies are far less important to many statist, than *how the advocacy of such policies makes them feel about themselves*. Simply put, “*intentions* [are] the touchstone of the vision of the anointed.”

This point moves us, of course, away from the factual realm of rational analysis, and into the murky world of motivation. Under most circumstances, such a journey ought to be avoided. Issues should be argued on their own logical merits. Switching the arguments to the motives of the proponents of each side invites *ad hominem*s and subjective speculation.

But suppose one has *exhausted* rational argument? Suppose that, in the face of uncontested refutations and overwhelming evidence, one’s adversary still remains stubbornly, irrationally wedded to his demonstrably false idea or failed policy? Suppose he meets your arguments not with factual rebuttal, but only with emotional outbursts—and with his own speculative *ad hominem* attacks on your motives and morality?

Under such circumstances, the grounds of argument have been shifted *by your adversary* from the logical to the psychological. At that point, one has the right in self-defense to ask himself: What emotional need is my adversary’s policy prescription filling?

Examples are legion. Start with the *titles* of most liberal legislation and government agencies. They are supposed to guarantee “social security,” “health and human services,” “environmental protection,” “consumer product safety,” “job training partnerships,” and so on.

Do they accomplish these objectives? The evidence (Sowell’s book alone provides mountains of it) says not. In most cases, these institutions are never even crafted with “feedback” mechanisms to gauge their success or failure.

But does demonstrable failure ever cause a moment’s hesitation or reflection on the part of those advocating such policies, programs, and agencies? Never. That’s because, for their advocates, the objective

success or failure of the program is beside the point.

The point, for the advocates, is that they have demonstrated their *moral commitment* to social security, environmental protection, peace, or other vague, noble-sounding objectives. The point is not practical results: it’s instead the self-congratulatory objective of making themselves feel noble and righteous, by the cheap expedient of spending the capital—and too often, the blood—of their fellow citizens, in the name of woozy ideals.

For example, interventionists proclaim their aim to raise the income of poor, inner-city youth via minimum wage laws. But do they seem concerned when minority unemployment subsequently rises? They declare their support of rent control to allow the poor greater access to affordable housing. Do they ever seem concerned when the available stock of housing dramatically shrinks? They announce their intention to relieve starvation in Somalia by sending in our Marines to stop civil unrest and feed the people. Do they vow to cease such self-sacrificial missions in the future, when the only evident results are the empowerment of brutal warlords, and the return of our soldiers in body bags? No: they vow to repeat the same sort of “mission” in Bosnia.

For those who base their self-esteem on “good intentions” alone, a social system of laissez-faire capitalism and individual rights offers nothing. Capitalism is a social system whose currency is *results*, not intentions. “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest,” wrote Adam Smith. “We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” This is anathema to those whose self-images totter shakily upon the props of their subjective intentions.

“The vision of the anointed,” as Sowell describes it, ultimately depends upon self-inflicted blindness to *practical consequences*. For by *that* standard, they—and their policies—stand condemned. □

War and Liberty in American History

by Wesley Allen Riddle

Of all the enemies to public liberty war is, perhaps, the most to be dreaded, because it comprises and develops the germ of every other. War is the parent of armies; from these proceed debts and taxes; and armies, and debts, and taxes are the known instruments for bringing the many under the domination of the few. In war, too, the discretionary power of the Executive is extended; its influence in dealing out offices, honors, and emoluments is multiplied; and all the means of seducing the minds, are added to those of subduing the force, of the people. . . . [There is also an] inequality of fortunes, and the opportunities of fraud, growing out of a state of war, and . . . degeneracy of manners and of morals. . . . No nation could preserve its freedom in the midst of continual warfare.

James Madison, the Father of the Constitution, said those words in 1795.¹ Today, renewed interest in the topic of war follows renewed interest in the subject of liberty. Indeed, a critical component of the republican ideology that gave birth to this country deals with war and comes to us from classical antiquity through the filter of the libertarian English Whig tradition.

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Clearly, the effects of war described by Madison are contrary to the interest of liberty, unless a country fights to free itself or defend its freedom from an aggressor. War typically endangers liberty—at least the way it was understood by our philosophical forebears. For as Thomas Gordon wrote in *Cato's Letters* (No. 62, January 20, 1721), liberty is “the power which every man has over his own actions, and his right to enjoy the fruit of his labour, art, and industry, as far as by it he hurts not the society, or any members of it, by taking from any member, or by hindering him from enjoying what he himself enjoys.”

It is precisely because war suspends normal, peaceful, voluntary interactions that it is a usurpation of liberty. Moreover, war is likely to infringe liberty at all levels of exchange and development—individual, societal, and international. Conscription; command economic policies; government propaganda; restricted rights of speech and assembly; surveillance of private citizens; curfews and blackouts—these are all common forms of usurpation, along with debts and taxes. Indeed, it is partly because this nation has been continuously at war for so long that we have come so close to losing all our most precious freedoms. (“No nation could preserve its freedom in the midst of continual warfare.”) But the Founders were cognizant of the dangers posed by war to liberty and to a liberal republic, and they

designed the Constitution with them in mind.

Constitutional Abandonment

It is partly because this nation has so flagrantly abandoned the Constitution of original intent that we face the current crisis. For instance, Madison wrote in 1793 that it is a fundamental doctrine of the Constitution that the power to declare war belongs fully and exclusively "to Congress alone."² Thomas Jefferson said the intended purpose was to place an "effectual check to the dog of war, by transferring the power of declaring war from the executive to the legislative body."³ Moreover, none other than Alexander Hamilton—a fierce nationalist and advocate of strong executive power—agreed that the Constitution prevented the president from singly committing the nation to war and that "the history of human conduct" warranted that restraint (*Federalist* No. 75).

Obviously, there are unclear cases, but the Constitution is unambiguous in requiring congressional approval for defending, say, South Korea from North Korean attack; for warring a decade in the jungles of Vietnam; for invading Panama; attacking Iraq; or for intervening in the Balkans.⁴ There are arguments advanced for the extra-constitutional executive power it takes to deal with these and other contingencies, but they are weak and sometimes illogical. Congress dealt four times with similar instances by approving conditional declarations of war, a method that prevents tipping off adversaries to the imminence of military action. In three cases, disputes were peacefully resolved by the executive branch; war ensued in the fourth instance when Spain refused the demand to withdraw troops from Cuba in 1898. The president could ask Congress for permission to use force—in Haiti, Serbia, or wherever—if certain conditions were unmet after some designated amount of time.⁵

Congress's failure to officially declare war in post-World War II conflicts may have partly been a function of the Cold War and the consequent fear of precipitating Soviet

involvement. Now that the Cold War is over, it is critical that we recur to constitutional provisions in this regard. Almost certainly, congressional decision-making would decrease U.S. involvement in war. Nevertheless, even congressional approval will not necessarily make war wise or just. War is *always* inimical to the Republic. Two examples will serve to illustrate.

The Mexican-American War

Following the admission of Texas to the Union in December 1845, President James K. Polk sent General Zachary Taylor to the Rio Grande River. The Polk administration claimed the river as America's border, but the claim was disputed by Mexico. Instead of pursuing good faith efforts to resolve the question diplomatically or, say, settling for a more reasonable southern limit at the Nueces River, Polk—Jacksonian Democrat and advocate of Manifest Destiny—almost certainly hoped to incite the Mexican attack on American forces, which did occur in April 1846. Congress then authorized men and matériel to prosecute the Mexican-American War. U.S. forces performed superbly under the able leadership of Taylor and General Winfield Scott, whose force landed at Veracruz in 1847, marched inland against forceful opposition, and occupied Mexico City. The Treaty of Guadalupe Hidalgo ended the war in February 1848. For \$15 million and 13,000 dead, most to disease, America gained the Rio Grande border with Mexico, as well as all of present-day California, New Mexico, Arizona, Nevada, and Utah. However, that was not the full extent of "payment" we would eventually make.⁶

The Mexican-American War produced serious domestic divisions. In fact, the war polarized the nation in a way not seen again until the Vietnam War. The Mexican-American War provided the genesis for American traditions of conscientious objection and civil disobedience. The Whig Party's national journal, *The American Whig Review*, criticized "Manifest Destiny" and the Chief Executive's manner of involving



Ulysses S. Grant

the country in war with a bordering Christian republic. The publication asserted that the initial placement of soldiers in harm's way, as well as other covert military preparations, had constituted "one of the greatest crimes that can degrade a country."⁷ War with Mexico transformed American forces into an "army of occupation"⁸ and violated "first principles" of moral nations.⁹ The war pressed a "conscience" faction to break from the party and join with abolitionists; other dissenting Whig elements maintained only a tenuous loyalty. Moreover, expansion into newly acquired territories forced bitter confrontations over a range of issues involving slavery, competing free labor, Founders' intent, and the nation's future in the largest sense. The rapid expansion of the Union eventually placed the whole Union at risk.

In the political battles following the Mexican-American War, ideology became both more sectional and less compromising. The War Between the States was the price we

ultimately paid for the Mexican War. *The American Whig Review* recognized a prospective link between expansion and sectional conflict,¹⁰ and the Whiggish *New Englander* actually predicted that war with Mexico would disturb the delicate balance in "relations between the States and the Union" and so risk another war.¹¹ In his memoirs, Ulysses S. Grant wrote: "The Southern rebellion was largely the outgrowth of the Mexican War. Nations, like individuals, are punished for their transgressions. We got our punishment in the most sanguinary and expensive war of modern times."¹²

Indeed. Those familiar with the history of American federalism will also know that the Civil War marked a critical shift in the locus of power from states to the federal government. Twentieth-century "progressives" have since led the nation on a path of ever more centralization, reaching an extent of consolidation even John C. Calhoun could not have imagined.

World War I

The Great War has faded in the collective memory of Americans. Yet to the extent that World War I is almost universally cited by historians to explain the origins of World War II, it is fitting—indeed essential—that any analysis of modern American history include some discussion of the American experience during the First World War. Otherwise, new appreciations might be shallow or incomplete, and the historical lessons drawn could be the wrong ones. Although America's direct involvement in World War I was relatively brief, it signaled a dramatic departure from U.S. precedent at home and abroad.

The Progressive Era may have been a bridge to modern times,¹³ but World War I blew up the bridge and left us stranded on the other side. All previous American conflicts had involved plausible threats to American security, even if some were misperceived or overstated. Notwithstanding some German espionage and potential sabotage from bases inside Mexico, Germany in

World War I did not pose a security threat to the United States or to this hemisphere. Furthermore, American involvement marked the first explicit rejection of George Washington's advice to avoid entanglement in purely European disputes. World War I is also the first American war to depend primarily upon conscripts, three million of whom filled 72 percent of wartime Army ranks.

American entry into the war is all the more remarkable since Woodrow Wilson was re-elected President in November 1916 on the slogan, "He kept us out of war." Barely five months later he asked the Congress for a declaration of war against Germany. The same month, the Administration established the Committee on Public Information (CPI), the government propaganda agency headed by progressive muckraking journalist George Creel.

Wilson had insisted on trading with belligerents, but France and England continued to enforce a blockade of Germany. The English also mined the North Sea. These steps violated neutral rights, but the United States continued to trade—theoretically with both sides. Over time, however, it was clear the United States dealt almost solely with the Allies. Practically speaking, American neutrality became decidedly one-sided; however, this fact did not ruffle Wilson's Anglophile sensibilities.¹⁴ While France and England put Germany in an economic stranglehold, the Allies were dependent on the goods shipped from the United States. Germany responded by sinking American and Allied merchant vessels with her U-boats. Indeed, it was this submarine warfare, more than any other factor, that prompted U.S. involvement in the war: according to the propagandists, submarine warfare was sneaky; submarine warfare aimed at ships suspected of hauling military cargo was indiscriminate; women and children were amongst the 1,198 passengers lost when the *Lusitania* went under (not mentioned was the secret load of munitions). Yellow journalists had a field day.

World War I also changed the domestic social, political, and economic environ-



Woodrow Wilson

ment. Because the American people were naturally averse to involvement in a European war, the CPI helped mobilize and sustain the right kind of public opinion. It did so by commissioning an army of 75,000 speakers to tour the country to drum up support for government wartime policies. The CPI also distributed 75 million pamphlets and produced dozens of anti-German films and expositions. Other government agencies employed similar propaganda. The Food Administration found that "meatless Mondays" and "wheatless Wednesdays," as well as other conservation measures, went over better in an atmosphere of patriotic frenzy. Likewise, the Treasury Department held mass rallies even Goebbels might have appreciated, to encourage the purchase of war bonds.

Extra-Legal Power

These techniques were highly successful. The government found that overt and subtle

forms of propaganda fanned the requisite passions of pride and prejudice to fight a total war in Europe. Indeed, this enabled the executive to skirt dubious Constitutional bases and statutory limitations in carrying out its wartime policies—policies which would never pass rational scrutiny in peacetime. It also proved that government propaganda aimed at selected aspects of American nationalism could facilitate government's exercise of extra-legal and extra-Constitutional power.¹⁵

In one instance, for example, the Wilson Administration nationalized the railroads (1917). In another, a German-American was actually bound in an American flag and lynched by a St. Louis mob (1918). Civil liberties were regularly constricted through official policy and social sanctions, indirectly encouraged by government propaganda. Both means enhanced the government's power to wage war "over there." The Administration quashed leftist political opposition by seizing membership lists and arresting some leaders, especially socialists and members of the Industrial Workers of the World (IWW). Liberal and conservative criticism was quelled by legislation that made "disloyal speech" illegal in wartime. The Espionage Act of 1917 and the Sedition Act of 1918 were used to prosecute and punish pacifists and all sorts of religious and secular groups opposed to the war. Certain alien opponents were summarily rounded up and deported in the notorious Palmer raids immediately after the war.

Meanwhile, the persecution of Germans in American society was so pronounced that Germans were forced to abandon their language and customs, at least in public. German books were burned outside numerous libraries, while Beethoven was banned from symphonic repertoires. The atmosphere was such that Germans hid the fact they were German and changed their own names—Schmitz to Smith, and so on. For its part, the public renamed almost every German street and landmark and even altered menus, so that *sauerkraut* became Liberty Cabbage, and so on.¹⁶

The War Industries Board (WIB) orches-

trated American industrial production. The WIB set production schedules, allocated resources, standardized procedures, coordinated purchases, covered costs, and guaranteed profits. In tandem, the National War Labor Board (NWLB) arbitrated labor disputes, stipulated working conditions, established overtime pay, and encouraged union organization. Although the federal government had assumed a great deal of power during and after the Civil War, the government achieved the first true command economy in America during World War I.¹⁷ Furthermore, the war established certain precedents for future peacetime emergencies. The New Deal's National Recovery Administration was patterned on the WIB; the Wagner National Labor Relations Act of the Second New Deal was based on NWLB legislation. The 1917 Selective Service Act raised the size of the Army from 200,000 to nearly 4 million and was the precursor in form and substance for what would be the first peacetime draft in the country.

Government-sponsored intolerance and hysteria, encouraged for wartime purposes, continued to grow even after the conflict ended. Conscription and command economic policies, as well as government hiring practices, contributed to severe labor shortages, which drew hundreds of thousands of African-Americans out of the South into the industrial North. The government even sent labor agents to recruit from the South. The result was interracial friction and violence. When the war ended and the huge numbers of veterans returned home again, tensions flared anew.¹⁸ Large race riots occurred in East St. Louis in July 1917, and Chicago and 19 other cities in 1919. Post-war labor dislocations also caused strikes to spread across the country in 1919.

Political nativism crested in the early 1920s, curtailing open immigration. At the same time, segregation in the South was formalized into its most rigid legal form ever. Jim Crow literally became an American system of apartheid. Anti-Semitism also spread. Intolerance married with government power had still another interesting

political ramification: the Prohibition amendment (1919) invaded people's privacy and freedom to choose by banning alcoholic drink.

In the United States, the death toll from World War I numbered 112,432. The war's direct financial cost came to about \$112 billion. Also dramatic was psychic and cultural disillusionment.¹⁹ Everywhere, the Modern Age after the war was characterized by the renunciation of old values, something Ayn Rand called the "spiritual treason" of our century.²⁰

Moreover, the history of U.S. government after World War I reads like the proverbial growth of a giant snowball. The so-called "roaring" nature of the 1920s obscured the impact of the war in "stimulating collectivist thinking and boosting public support for collectivist solutions."²¹ Hence the experience of the First World War paved the way for public support of the New Deal and statist remedies for the Great Depression—itself caused by misguided government intervention.

First Principles

The fate of our republic hangs in a balance, and peace keeps her steady. What we must do is recur to first principles, restoring the Constitution to its original intent and devolving power from the central government back to states and the people. As Thomas Jefferson said in his first inaugural address: "a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities."

But whether we can reconstruct the bulwarks of liberty to meet the challenges of a post-Cold War epoch depends in part on our keeping out of unnecessary wars. Our first responsibility to the world should be to be worthy of emulation—like a "Shining City set upon a Hill." Jefferson exhorted us in the same inaugural address to pursue what

he termed an essential principle of our government, namely, "peace, commerce, and honest friendship with all nations, entangling alliances with none."²¹ We should take the following passage from George Washington's Farewell Address and again make it the cornerstone of U.S. foreign policy: "The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them as little political connection as possible. So far as we have already formed engagements let them be fulfilled with perfect good faith. Here let us stop."

Washington continued: "It is our true policy to steer clear of permanent alliances with any portion of the foreign world, so far, I mean, as we are now at liberty to do it."²³ His point is of such present moment because we *are* at liberty to do it, and the chance may not soon come again. This is the first time since the onset of the Cold War 50 years ago that we have an opportunity to correct the numerous social, political, and economic distortions created in large part by our participation in prior wars. Minimizing our foreign entanglements would not mean disengaging from the world, nor, unfortunately, necessarily ending all war. It would, however, keep decisions for war within the purview of American sovereignty and eliminate superfluous military obligations and automatic triggers that might precipitate our involvement in conflict. It would reinforce the imperative that, in a republic, military force *should* be a policy of last resort.

The world remains awash in troubles—more, not fewer—since the collapse of the Soviet empire. But few vitally concern the United States. In contrast, there are, to use Friedrich Hayek's words, "totalitarians in our midst." The Welfare State in fact bears the fundamental characteristics of fascism, that is, government control of the use and disposal of private property and confiscation of private wealth to support welfare schemes and buy political patronage.²⁴

Those bent on maintaining the Welfare State will be tempted to rejuvenate collectivist thinking by resort to war. If this rhetoric sounds alarmist, recall that Ger-

many was quite different a hundred years before German nationalism delivered the German people to autarchy, militarism, and self-immolation, much of the rest of the world to war, and the Jews to the Holocaust. Ludwig von Mises reminds us that the German *leitmotiv* was once liberty, not oppression and conquest. Many years before Hitler, Germany had been the land of Schiller, Goethe, Herder, Kant, Mozart, Beethoven. Linking war to the rise of the total state, Mises identified "stages of [a] process which transformed the nation once styled by foreign observers that of the poets and thinkers into that of ruthless gangs of the Nazi Storm Troops."²⁵

Nevertheless, if there are enough good people willing to pledge their lives, their fortunes, and their sacred honor to prevent the triumph of evil, then a rebirth of freedom can take hold in this country, which can define the new millennium. The last two centuries are littered with dead patriots from this country's wars. The best way to honor them is to reclaim that nation of liberty for which they gave their lives. □

1. See James Madison, "Bloodless War: The Power of Commerce," in Marvin Meyers, ed., *The Mind of the Founder: Sources of the Political Thought of James Madison* (New York: The Bobbs-Merrill Company, Inc., 1973), pp. 287-8.

2. Letter to Gouverneur Morris, Philadelphia, August 16, 1793.

3. Letter to James Madison, Paris, September 6, 1789.

4. Doug Bandow, "The Power to Declare War—Who Speaks for the Constitution?: Part I," *Freedom Daily*, vol. 6, no. 6 (June 1995), p. 35.

5. *Ibid.*, "Part II," vol. 6, no. 7 (July 1995), pp. 33-4.

6. See K. Jack Bauer, *The Mexican War, 1846-1848* (Lincoln: University of Nebraska Press, 1974); Robert W. Johannsen, *To the Halls of the Montezuma: The Mexican War in the American Imagination* (New York: Oxford University Press, 1985); and David M. Pletcher, *The Diplomacy of Annexation: Texas, Oregon, and the Mexican War* (Columbia, Mo.: University of Missouri Press, 1973).

7. *The American Whig Review*, vol. VI, no. 4 (October 1847), pp. 332 and 338 [see also vol. XI, no. 6 (June 1850), p. 570]; vol. III, no. 1 (January 1846), p. 20; vol. IV, no. 1 (July 1846), p. 1 [see also vol. V, no. 3 (March 1847), pp. 217-30]; vol. III, no. 6 (June 1846), pp. 571-80; quote from vol. II, no. 3 (September 1845), p. 229.

8. *Ibid.*, vol. IV, no. 2 (August 1846), pp. 171-9.

9. *Ibid.*, vol. VII, no. 3 (March 1848), p. 219.

10. See *Ibid.*, vol. I, no. 1 (January 1845), p. 78.

11. *The New Englander*, vol. V (1847), see pp. 604-12.

12. Ulysses S. Grant, *Personal Memoirs of U.S. Grant* (1894), p. 38.

13. Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), chapter 6.

14. Robert H. Ferrell, *Woodrow Wilson and World War I, 1917-1921* (New York: Harper & Row Publishers, 1985), pp. 8-9.

15. See David M. Kennedy, *Over Here: The First World War and American Society* (Oxford: Oxford University Press, 1980), chapter 1.

16. *Ibid.*; and Wesley Allen Riddle, "War and Individual Liberty in American History," in Edmund A. Opitz, ed., *Leviathan at War* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1995), p. 141. See also Ronald Schaffer, *America in the Great War: The Rise of the War Welfare State* (Oxford: Oxford University Press, 1991), chapters 1 and 2.

17. See Kennedy, chapter 2, and Schaffer, chapters 3 and 4.

18. See Daniel M. Johnson and Rex R. Campbell, *Black Migration in America: A Social Demographic History* (Durham, N.C.: Duke University Press, 1981); and Alferdteen Harrison, ed., *Black Exodus: The Great Migration from the Great American South* (Jackson, Miss.: University Press of Mississippi, 1991).

19. See Kennedy, chapter 4; and Mark A. Stoler and Marshall True, *Explorations in American History*, vol. 2 (New York: Alfred A. Knopf, 1987), pp. 96-97.

20. Ayn Rand, *The Romantic Manifesto*, rev. ed. (New York: Signet, 1975), p. vii. See also Modris Eksteins, *Rites of Spring: The Great War and the Birth of the Modern Age* (New York: Doubleday, 1990).

21. Bruce D. Porter, *War and the Rise of the State: The Military Foundations of Modern Politics* (New York: The Free Press, 1994), p. 275.

22. Thomas Jefferson, "First Inaugural Address" (March 4, 1801), in Henry Steele Commager, ed., *Documents of American History*, 7th ed. (New York: Meredith Publishing Company, 1963), p. 188.

23. George Washington, "Farewell Address" (September 17, 1796), in Commager, *Documents of American History*, p. 174.

24. Ayn Rand, "The New Fascism: Rule by Consensus," p. 211, and Alan Greenspan, "Gold and Economic Freedom," p. 100, in *Capitalism: The Unknown Ideal* (New York: New American Library, 1966); and "A Preview," in *The Ayn Rand Letter*, I, 23 (August 14, 1972), p. 1.

25. Ludwig von Mises, *Omnipotent Government: The Rise of the Total State and Total War* (Spring Mills, Pa.: Libertarian Press, Inc., 1985), p. 8.

Op-Ed Watch

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Victor Hugo—Liberty and Justice For All

by Jim Powell

Literary lion Victor Hugo inspired an outpouring of generous sympathy for wretched people oppressed by government. He chronicled the evils of police power. He spoke out against capital punishment. He denounced taxes and tyrants. He opposed war. He expressed confidence in the ability of free people to achieve unlimited progress.

He was a leading light for liberty during the nineteenth century because of his prodigious and often lyrical output: nine novels, ten plays, and about 20 volumes of poetry, plus essays and speeches. He broke away from the suffocating formality of classical French literature and achieved the immediacy of plain talk. He wrote with high moral purpose about dramatic events and created great heroes of world literature. He enjoyed popular acclaim like no previous author in history.

Hugo's most beloved work, *Les Misérables*, nails government as a chronic oppressor. He shows poor people being helped not by government but by the charitable works of a private individual. He tells why a resourceful entrepreneur is an engine of human progress. He celebrates revolution against tyranny, while making clear why

egalitarian policies backfire. His hero Jean Valjean does good voluntarily, peacefully.

Hugo fan Ayn Rand, whose novels about heroic individualism have sold more than 20 million copies, told biographer Barbara Branden: "*Les Misérables* was the big experience. Everything about it became important to me, holy, everything that reminded me of it was a souvenir of my love. It was my first view of how one should see life, wider than any concretes of the story. I didn't approve of the ideas about the poor and the disinherited, except that Hugo set them up in a way that I could sympathize with; they were the victims of government, of the aristocracy, or established authority. The personal inspiration for me was that I wanted to match the grandeur, the heroic scale, the plot inventiveness, and those eloquent dramatic touches."

To be sure, some contemporary friends of liberty weren't as impressed. Alexis de Tocqueville, author of *Democracy in America*, thought Hugo an "unruly genius." Lord Acton, among the most respected scholars on liberty, distrusted the blazing eloquence "that nobody but Hugo strives after now. . . . Some of these Frenchmen live on nothing else; and if one plucks them, or puts their thoughts into one's own language, little remains."

Hugo, though, courageously backed his convictions with action. In 1822, when he was 20, he defended Vicomte François-

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Réné de Chateaubriand, a famed French author who fell out of favor with the government. A childhood friend named Délon was hunted by police, presumably for his republican politics, and Hugo offered his house as a sanctuary. During the Revolution of 1848, Hugo went from one insurgent stronghold to the next, ducking gunfire all the way, urging an end to violence.

Hugo committed himself to the cause of liberty late in life, when he had the most to lose. As a youth, he had supported the French monarchy, and later he admired Napoleon Bonaparte for supposedly upholding the principles of liberty and equality. When Hugo was 49, he publicly defied tyrannical Emperor Napoleon III. As a consequence, Hugo lost his luxurious homes, his vast antiques collection, and splendid library of 10,000 books, but he emerged as an eloquent exile who championed liberty for people everywhere.

Like Jean Valjean in *Les Misérables*, Hugo helped the poor by going into his own pocket. He started at home, providing for his estranged wife and his sons who didn't earn much money on their own. He instructed his cook to feed beggars who showed up at his front door. Every other Sunday for about 14 years, he served "Poor Children's Dinners" to about 50 hungry youngsters in his neighborhood. His diaries abound with examples of personal charity. For example, March 9th, 1865: "Soup, meat and bread for Marie Green and her sick child." March 15th: "Sent a set of baby-linen to Mrs. Oswald who has just been brought to bed." April 8th: "Sheets to Victoire Étasse who is lying in, and without bed-linen." According to biographer André Maurois, personal charity accounted for about a third of Hugo's household expenses during his peak earning years.

Hugo was such an idol that his portrait engraving was sold at practically every bookstall in Paris. He had an athletic figure about five feet, seven inches tall. His trademarks were a vast forehead and intense light brown eyes. Early in his career, his long brown hair was brushed back in waves. In later years, his hair turned white, he had it

cropped short and grew a moustache with a neatly trimmed beard.

Commitment and Energy

If Hugo wasn't an original thinker, he brought intense commitment and self-confidence to the cause of liberty. Literary critic Charles-Augustin Sainte-Beuve observed that when Hugo "grabs an idea, all his energy pushes at it and concentrates on it, and you hear arriving from afar the heavy cavalry of his wit and the artillery of his metaphors." As Hugo himself declared, "Nothing is so powerful as an idea whose time has come."

Victor Hugo was born February 26, 1802, in Besançon, France. He was the third child of Sophie Trébuchet, a sea captain's daughter. An admirer of Voltaire, the witty eighteenth-century French critic of religious intolerance, she apparently never had Victor baptized. His father, Joseph-Léopold-Sigisbert Hugo, had quit school to enlist in the army of the French Revolution, displayed unusual ability, and became a major-general under Emperor Napoleon Bonaparte.

Victor Hugo experienced a tumultuous childhood. His parents went their separate ways, and there was a long, bitter custody battle as the children were shuttled back and forth in England, Italy, and Spain. After Napoleon's downfall, the family had to scramble for a living.

Hugo dreamed of a literary career, but in 1821 his mother died. She left a mess of debts, and his father disapproved of his ambition which was likely to mean tough times. "I shall prove to him," Victor told his older brother Abel, "that a poet can earn sums far larger than the wages of an Imperial general." At the time, Hugo struggled to live on two francs a day.

Work

Hugo worked in an austere room with plain rugs, plain draperies, and no wall decorations. He stood while writing at a polished wood desk secured to a wall. He

started work soon after 8:00 in the morning and continued until 2:00 in the afternoon. After a substantial lunch, he wrote from 4:00 to 8:00. Then he changed clothes and did work-related reading for three hours. By 11:00 PM, he was ready for a light meal with his wife and friends. "My colleagues spend their days visiting each other, sitting and posing in cafes, and talking about writing," he remarked. "But I am not like them. I write. That is my secret. What I achieve is done by hard work, not through miracles."

Hugo's first collection of poems was published in 1822. Then came a succession of poetic works which put Hugo in the forefront of the romantic movement, exploring emotions with melodrama and exuberant style. He ventured into politics with a poem saluting young French revolutionaries who, in July 1830, had toppled King Charles X after he began restricting individual rights.

Hugo became increasingly infatuated with heroic personalities, Napoleon above all. When Bourbon officials insulted three of Napoleon's aging marshals, Hugo wrote "Ode à la colonne de la Place Vendôme," a poem bursting with patriotic fervor. It caused quite a stir. Then Hugo wrote a play that idealized Oliver Cromwell, England's seventeenth-century Puritan military dictator who ordered the beheading of a king. The play wasn't produced, in part, because it was an obvious target for censorship.

Hugo resolved to succeed in the theater. Censors interpreted his first play, *Marion de Lorme*, as a slap at Charles X, and the production was shut down. Hugo responded by writing *Hernani*, discreetly set in sixteenth-century Spain, about a heroic rebel against authority. A lyrical melodrama, it opened at the Comédie Française on February 25, 1830, and reportedly enjoyed the most enthusiastic reception since the acclaimed plays of Voltaire a century earlier. Government censors feared that closing it down would provoke an uproar. Two years later, censors did shut down Hugo's next hit play, *Le Roi s'amuse*, which included an unflattering portrayal of François I, among the most famous of French kings. Giuseppe

Verdi, Italy's outstanding opera composer who had turned *Hernani* into an opera (*Ernani*), called *Le Roi s'amuse* "the greatest drama of modern times," and it became the basis for his popular opera *Rigoletto*.

Hugo had already set his sights on writing fiction. His first novel, *Bug-Jargal* (1826) was a melodrama about blacks rebelling in Santo Domingo, and though critics considered it trash, the public loved it. Then, inspired by the novels of Englishman Walter Scott, Hugo wrote a medieval epic of his own: the anti-royalist *Notre-Dame de Paris* (1831) about the hunchback Quasimodo who falls in love with the gypsy heroine Esmeralda. The intensity of feeling and vividness of language captivated readers throughout the Western world. "Hugo," wrote literary critic Théophile Gautier, "is the greatest of living French poets, dramatists and novelists. He has no peer."

"Ideas Are My Sinews and Substance . . ."

Hugo was a shrewd observer of life around him. "Ideas are my sinews and substance," he remarked. "I must use them to earn my living and to make my continuing mark in the world, so I husband them, and never fritter them away. An observation, a feeling, even a fleeting sensation, all these are the precious marrow which compels me to stand at my writing desk."

Meanwhile, Hugo's wife, Adèle—they had been married in 1822—was bored with poetry, plays, novels, and their three children. By 1831, she had begun an affair with literary critic Sainte-Beuve. She refused to continue relations with Hugo, and he launched an extraordinary succession of affairs. Most were short-lived, but one—with actress Juliette Drouet—began in February 1833 and endured until her death a half-century later. Four years younger than Hugo, she had long black hair, violet eyes, a slim figure, and considerable knowledge of French literature. He paid her substantial debts, she became utterly loyal, copied his manuscripts, and performed other secretarial work. "I look on you," he wrote, "as

the most generous, the worthiest and the noblest of all. . . .”

He plunged into political controversies. He had already written *Le Dernier Jour d'un condamné* (*Last Day of a Condemned Man*), a polemic against capital punishment. King Louis-Philippe named Hugo a peer, which meant he became member of the French Senate and could participate in political deliberations. The French Revolution of 1848 overthrew Louis-Philippe, and in December there was to be an election for President of France. Hugo and a newspaper he edited backed Louis-Napoleon, who had a magical name although apparently he wasn't related to Bonaparte.

Having won, Louis-Napoleon conspired for absolute power. Government thugs smashed printing presses and newspaper offices. The government sent soldiers to Italy where they defended the Pope's power against republicans. Hugo, who had romanticized charismatic leaders, recognized the evil of political power. He became the leading voice of opposition to Louis-Napoleon. He ridiculed the President as "Napoleon le Petit"—"Napoleon the Little." Louis-Napoleon imprisoned Hugo's sons Charles and François-Victor. In December 1851, Louis-Napoleon disregarded a law limiting the President to one term and declared himself Emperor Napoleon III. Hugo formed a Committee of Resistance, but the Emperor's soldiers crushed all opposition and went hunting for Hugo.

Exile

Juliette Drouet arranged a safe house, disguised him as a shabby laborer, provided a passport for a new identity, and on December 11th got him aboard a night train for Brussels. She followed two days later. By becoming a political exile, Hugo forfeited virtually all his assets. Moreover, his royalty income had exceeded 60,000 francs a year, and it was illegal for French publishers to continue sending him checks. He soon proved too controversial for the Belgians who were trying to maintain good relations with Napoleon III. Hugo and his entourage

settled on the Channel Isle of Guernsey, and that became his home for the next 14 years.

Hugo earned good money from his political writings. *Les Châtiments* (*Castigations*), a 6,000-line poem, garnered him 75,000 francs, so he was able to pay 10,000 francs for Hauteville House. It was a magnificent four-story manor. He resumed his rigorous work routine in the solarium with unbleached linen curtains, a plain rug, and a slab of wood hinged to the wall for his standing desk. As a defiant exile, Hugo wrote in the tradition of intellectual rebels like Rabelais and Voltaire.

After a morning of intense work, Hugo had a "light meal" consisting of pâté, omelet, or fish, then roast beef, lamb, pork, or veal with potatoes and several other vegetables, salad, English puddings, cheese, and a different wine with each course. He did his serious eating at dinner which included a dozen or two oysters, soup, fish, perhaps roast chicken, then a hearty meat dish like Beef Wellington, salad, and a rich dessert such as chocolate mousse, followed by perhaps a half-dozen oranges. He remained in reasonable shape because everyday, regardless of harsh weather, he spent a couple of hours hiking along Guernsey's rugged coast.

From Guernsey came one literary triumph after another. In 1859, Hugo published *La Légende des siècles* (*Legend of the Centuries*), an epic poem about the struggle for liberty and human progress. He denounced French King Louis XIV as a tyrant, celebrated the English defeat of the Spanish Armada and portrayed Napoleon III as a frog.

Napoleon III made a public appeal for French exiles to return, but Hugo defiantly responded: "I swore that I would remain in exile until the end, either my own or that of Napoleon le Petit." The *Times* of London declared "We are proud that Victor Hugo elects to live on British soil, which is enriched and nourished by his presence." The *New York Tribune* added, "His voice is that of free men everywhere."

Hugo began speaking out more about liberty. He denounced the December 1859 execution of John Brown, who tried to

foment slave revolts in Virginia. He encouraged the efforts of Giuseppe Garibaldi to establish a liberal democracy in Italy. "Liberty," Hugo told a thousand people gathered on the Isle of Jersey, "is the most precious possession of all mankind. Food and water are nothing; clothing and shelter are luxuries. He who is free stands with his head held high, even if hungry, naked and homeless. I dedicate my own life, whatever may be left of it, to the cause of liberty—liberty for all!"

Les Misérables

Hugo turned to a project long simmering in his mind. This was a novel tentatively titled *Misères* for which he started making notes in 1840. From 1845 until work was interrupted by another French Revolution on February 21, 1848, he pushed ahead with it, changed the tentative title to *Jean Valjean* and put aside the manuscript. On April 26, 1860, he went to the tin trunk where he had stored the manuscript and resumed work. "I have spent almost seven months in thinking over and clarifying in my mind the whole work as I first conceived it," he noted, "so that there might be complete unity in what I wrote twelve years ago and what I am going to write now." He suspended his twice-a-day feasts, and his pen was ablaze. He wrote about two-thirds of the book in 1861. He finished *Les Misérables* on May 19, 1862.

The book chronicles the phenomenal saga of Jean Valjean, a peasant imprisoned 19 years for stealing a loaf of bread and breaking free from prison. He manages to escape again, adopts a new identity, and redeems himself through peaceful commerce, creating a successful manufacturing business which helps an entire region prosper. He builds schools and distributes a substantial part of his wealth to the poor. He rescues Cosette, an impoverished girl, from a monstrously abusive foster father and raises her himself. Despite abundant good works, Valjean is trailed by ruthless police inspector Javert who is intent on returning him to prison. He flees with Cosette, the business

closes, and the region plunges into depression. When Valjean finds himself in a position to kill his tormenter Javert, he lets the inspector go free. Meanwhile, Cosette falls in love with Marius, a revolutionary republican who becomes severely wounded amidst the failed Paris uprising of 1832. Valjean saves him from police by carrying him through the only available escape route—the dangerous sewers of Paris. Marius marries Cosette, Valjean confesses to Marius that he is an old convict, and the horrified Marius banishes him from the household, which brings on his final illness. But just before Valjean dies, everyone is reconciled as Marius learns the full story about the man's saintly deeds.

While *Les Misérables* exudes generous sympathy for the most wretched among us, Hugo stood apart from the socialist trend of his time. He seemed to be countering the Marxist dogma of class warfare when he wrote "There has been an attempt, an erroneous one, to make a special class of the bourgeoisie. The bourgeoisie is simply the contented portion of the people. The bourgeois is the man who has now time to sit down. A chair is not a caste."

Hugo pressed his attack: "Communism and agrarian law think they have solved the second problem [distribution of income]. They are mistaken. Their distribution kills production. Equal partition abolishes emulation. And consequently labour. It is a distribution made by the butcher, who kills what he divides. It is therefore impossible to stop at these professed solutions. To kill wealth is not to distribute it."

Hugo expressed confidence that private enterprise and peace would alleviate poverty: "All progress is tending toward the solution. Some day we shall be astounded. The human race rising, the lower strata will quite naturally come out from the zone of distress. The abolition of misery will be brought about by a simple elevation of level."

Hugo decided to have *Les Misérables* brought out by Albert Lacroix, a Brussels publisher whom he considered a good businessman. The contract called for Hugo to

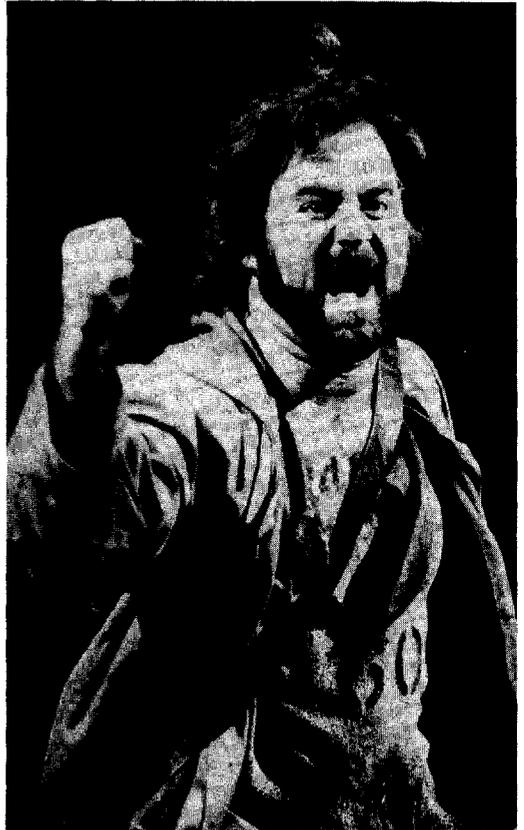
receive a million francs—one-third upon signing, one-third in six years, and one-third in 12 years. The book was perhaps the first international publishing event, going on sale simultaneously in Amsterdam, Leipzig, London, Paris, New York, and other cities. Within a decade, it was published in some 40 countries. In 1874, full rights reverted to Hugo, and he authorized inexpensive editions. Altogether, some seven million copies of the book sold during the nineteenth century. With *Les Misérables*, Hugo earned more money than any author before.

Hugo continued to focus on novels. In 1866, he produced *Les Travailleurs de la Mer* (*Toilers of the Sea*), about a heroic fisherman who struggles against the elements. In 1869, Hugo wrote *L'Homme qui rit* (*The Man Who Laughs*), a historical romance about a kidnapped English boy reared by gypsies, who exposes the failure of ruling elites.

Hugo spoke out anew as Napoleon III intervened in the affairs of other countries. Napoleon's military adventure in Mexico backfired. He got into a war with Prussia, and Prussian soldiers advanced toward Paris. Napoleon III abdicated September 4, 1870. Hugo gathered together his family and arrived in Paris the following day. He had gained some weight during his exile, there were circles around his eyes, and he sported a white beard, but his free spirit was still unmistakable.

Return to France

Thousands of people lined the streets as Hugo's carriage made its way to his new residence. There were shouts of "Vive la République!" and "Vive Victor Hugo!" Vendors openly sold his polemical poetry, and popular actresses like Sarah Bernhardt held public readings of it, donating the proceeds to help defend France against the Prussian onslaught. Hugo wrote a prophetic letter to the Germans, which urged that they make peace and warned that humiliation of France would trigger venomous hatred and ultimate defeat of Germany. Germany's "Iron Chancellor" Otto von Bismarck dis-



Victor Hugo's hero Jean Valjean lives on in the popular musical production of Les Misérables.

regarded Hugo's appeal, Paris surrendered on January 29, 1871, and a half-century later embittered Frenchmen celebrated Germany's ruin during the First World War.

In February 1871, Hugo was elected a Deputy to the National Assembly of the French Third Republic. He railed against the humiliating settlement which involved French surrender of most of Alsace-Lorraine to Prussia, but it was ratified by a war-weary majority. Hugo denounced socialists who attempted a violent takeover and conservatives who struck back with fury.

Through all this, Hugo continued his disciplined writing. His most notable work in France—his last novel—was *Quatre-vingt-treize* (*Ninety-Three*), a drama focusing on the climactic year of the French Revolution. His hero Gauvain was a liberal republican who courageously opposed the Terror. Ayn Rand wrote an enthusiastic introduction to

a reprint because the book was about individuals committing themselves to moral values, and because Hugo had inspired much of her own work.

During his last years, Hugo was depressed by the death of his sons, but in other respects he had a grand time. He continued to arise at dawn and write till midday. *L'Art d'être grand-père* (*The Art of Being a Grandfather* [1877]), his collection of sentimental poems, further enhanced his popularity. Hugo had more romantic adventures. His personal fortune surpassed \$1,400,000, an enormous sum in those days. He entertained as many as 30 dinner guests nearly every night. As Hugo began his 80th year, February 26, 1881, he was honored with a National Festival, a celebration the likes of which had never been seen for a private individual—some 600,000 admirers paraded by his opulent residence, 130 Avenue d'Eylau, in the Champs Elysées quarter, leaving huge mounds of flowers.

Nothing, however, could restore his spirits after the death of his beloved Juliette, of cancer, May 11, 1883. She was 77. Then on May 15, 1885, Hugo got what seemed like a bad cold. It turned out to be pneumonia. He

was wracked with fever and struggled to breathe. He died around 1:30 in the afternoon, May 22nd, at 83. He was placed in a pauper's coffin, as he had requested, and set beneath the Arc de Triomphe. Then an estimated 2 million people watched as a mule cart carried him to his resting place at the Panthéon. He was buried beside Voltaire.

Since Hugo's time, his reputation outside France has endured with a single novel—nearly all his other novels, plays and poems forgotten. But that novel, of course, is *Les Misérables*, which has touched more hearts than ever. In 1978, French composer Claude Michel-Schonberg and lyricist Alain Boublil began work on a musical production of *Les Misérables*. On October 8, 1985, it opened in London, and two years later, on March 12, 1987, it came to Broadway. "A thrilling musical experience," declared *Time* magazine. *Les Misérables* has played in Australia, Czechoslovakia, Hungary, Israel, Japan, the Philippines, Poland, Singapore—22 countries altogether. Some 41 million people have seen this inspiring story of liberty and justice for all, Victor Hugo's most precious gift to the world. □

The power of one.

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Only individuals can cooperate.

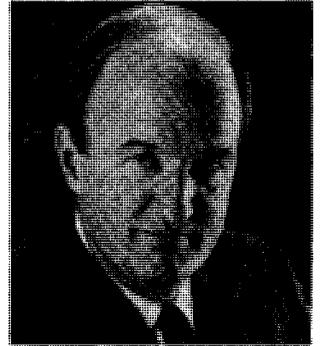
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Another Shocking Reversal in Macroeconomics



“The potency of fiscal policy—both good and bad—has been demonstrated time and again in the past couple of decades.”

—Walter Heller, 1968¹

Who wrote this? “Fiscal policy is no longer a major tool of stabilization policy in the United States. Over the foreseeable future, stabilization policy will be performed by Federal Reserve monetary policy.”

Milton Friedman? No, it was not a monetarist.

I recently met with Milton Friedman in his home in San Francisco, and asked him who he thought wrote the above statement. “Alan Greenspan?” he queried. No, it wasn’t a Federal Reserve official.

The author is none other than Paul Samuelson! In his latest (15th) edition of *Economics*, co-authored by William D. Nordhaus, the premier Keynesian economist admits defeat for fiscal policy as an effective countercyclical tool.² This is truly an amazing confession, a shocking reversal of his long-standing bias of yesteryear.

It was Samuelson who wrote in his first edition (1948) of his famous textbook, “Today few economists regard Federal Reserve monetary policy as a panacea for controlling

the business cycle.” (1st ed., p. 353) Only fiscal policy mattered. His pivotal chapter, “Fiscal Policy and Full Employment Without Inflation,” totally ignored the role of money in the economy.

By the ninth edition (1973), his views had shifted to a middle ground. After labeling monetarism “an extreme view,” he declared, “both fiscal and monetary policies matter much.” (9th ed., p. 329) However, Samuelson stood squarely in the fiscal camp. The title of his chapter, “Fiscal Policy and Full Employment Without Inflation,” remained the same from the first edition until the eleventh edition (1980), the last written solely by Samuelson.

Finally, in the latest edition (1995), Samuelson has thrown in the towel, as if to admit, “We are all monetarists now.” According to the MIT professor, running a federal deficit to jump start the economy “has lost much of its attractiveness to policymakers and macroeconomists.” (15th ed., p. 644) His concluding chapter on government economic policy is now entitled, “Policies for Growth and Stability.”

Why Fiscal Policy Has Become Impotent

In the late 1960s, economists debated the merits of fiscal policy (spending and tax changes) vs. monetary policy (the money supply and interest rates). The Keynesians argued that fiscal policy was the most pow-

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erful tool, the monetarists defended monetary policy as the most influential.

Now the debate is over: the monetarists have won.

Under the influence of new theories in economics (especially public choice and rational expectations), Samuelson offers several reasons for an impotent fiscal policy today: increasing delays (a year or more) between changes in the economy and Congressional action on the budget; ineffectiveness of deficits or tax cuts to stimulate consumer spending; and the enormity of the national debt, which severely limits the ability of lawmakers to run higher deficits to fight recession. In sum, declares Samuelson, fiscal policy has become “useless.” (15th ed., p. 644)

Artificial Stimulants Don't Work

Samuelson's amazing change of heart reflects a growing realism in the economics profession. It never did make sense to artificially stimulate the economy through makework projects, war production, and other spendthrift programs, as Keynes suggested. But running a deliberate deficit is not only “useless,” it is harmful to the economy. It discourages private saving and forces lawmakers to raise taxes in the future. Indeed, that has been the trend: higher deficits and higher taxes.

The lesson is clear: government needs to move in the opposite direction if it truly wants to stabilize the economy and permanently increase economic growth. By cutting out wasteful spending, it can turn the deficit into a surplus, and reduce taxes sharply.

Monetary Policy Is Useless, Too

Paul Samuelson needs to learn another lesson: Efforts to stimulate the economy through “easy money” Federal Reserve

monetary policy are useless, too. If the Fed artificially lowers interest rates and expands the money supply, it can only cause an unsustainable boom-bust cycle. History has demonstrated this “Austrian” insight time and time again. Easy credit may provide temporary recovery, but the long-term effects are serious—more unemployment and recession in the future. In short, there is no free lunch. Active government intervention in the macroeconomy, whether in the form of deficit spending or easy money, is harmful to long-term growth.

Returning to the Classical Model

The best policy is non-interventionism. Taxes should stay low. Government budgets should be limited to essential services, and regularly balanced. The money supply should be stable and non-inflationary. Interest rates should not be manipulated.

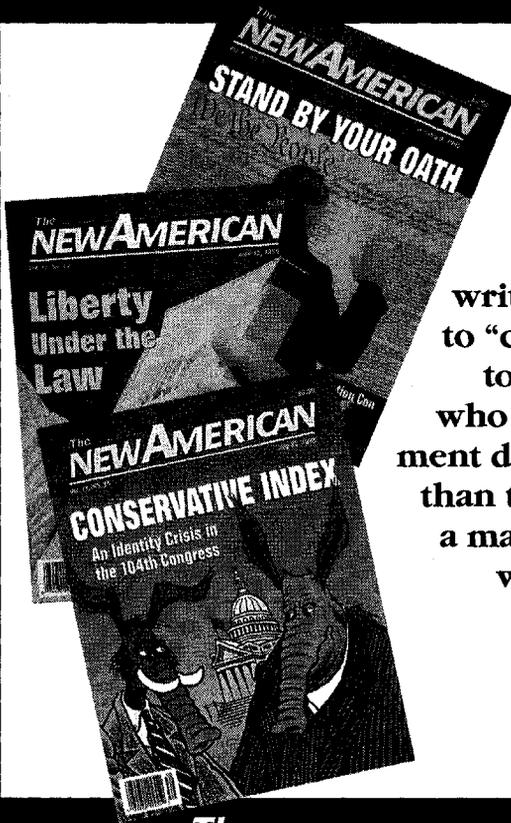
There is nothing new about this non-interventionist approach. It represents the old classical school of Adam Smith (balanced budgets, low taxes, sound money, *laissez faire*).

What is noteworthy is the economics profession's gradual shift away from Keynesian economics toward the classical position. An examination of Samuelson's 15 editions of *Economics* reveals that he has slowly but surely abandoned the tenets of Keynesianism. In the past, he favored deficit spending; now he's opposed to it. He denigrated savings; now he promotes it. He condoned central planning; now he supports market reforms. Might we see a total conversion to *laissez faire* by the next edition, due to be released on the 50th anniversary of his first edition? We can only hope. □

1. Walter W. Heller, “Is Monetary Policy Being Oversold?” in *Monetary Policy vs. Fiscal Policy*, by Milton Friedman and Walter W. Heller (New York: Norton, 1969), p. 31.

2. Paul A. Samuelson and William D. Nordhaus, *Economics*, 15th ed. (New York: McGraw-Hill, 1995), p. 644–45.

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BOOKS

The Freedom Revolution

by Dick Arme y

Regnery Publishing • 1995 • 329 pages • \$24.95

Reviewed by William H. Peterson

What lifts this book above the pack is extensive use of Arme y's Axioms—witty though incisive truisms on public policy, from a man in a position to know. The author is the House Majority Leader, an architect of the "Contract with America," a champion of the flat tax, and a former economics professor at the University of North Texas.

Case in point is U.S. farm policy. The apt Arme y Axiom here: "One bad government program creates the need for a worse one." The U.S. Agriculture Department starts out by benevolently guaranteeing the farmer "client" ample price supports on his crops and thus a high return on his investment. The unsurprising upshot is overproduction or vast farm surpluses that become unmanageable, that cram government storage bins.

This leads to an even more bizarre consequence. The bureaucrats then pay farmers not to farm. Literally. And the amount of land taken out of production is prodigious. In a typical year, reports Representative Arme y, Uncle Sam idles 60 million acres, an amount equal to the entire land area of Ohio, Indiana, and half of Illinois combined.

The above Arme y Axiom also helps explain the bizarreness of America's mass transit system. Over the last 25 years, Uncle Sam has pumped in more than \$100 billion in mass transit subsidies, and now accounts for two-thirds of the operating cost of mass transit. With fewer skills than the average U.S. worker, the average transit worker is still paid 70 percent more. Yet ridership sinks and is lower today than in the 1960s. Nothing succeeds like a failed government program (a Peterson maxim).

Other targets of Arme y Axioms include the Small Business Administration (with a

20 percent default rate on SBA loans), U.S. job training programs (the Job Corps program nips taxpayers for \$30,000 per trainee), Rural Electrification Administration (its mission was over in the 1950s but it keeps on draining taxpayers), Legal Services Corporation (its tax-financed lawyers sue state and local governments on behalf of violent criminals evicted from public housing), and so forth.

More Arme y Axioms: "The politics of greed always comes wrapped in the language of love." "When you're weaned from the milk of sacred cows, you're bound to get heartburn." "If you love peace more than freedom, you lose." "Social responsibility is a euphemism for personal irresponsibility." "There is nothing more arrogant than a self-righteous income redistributor."

Freedom works, says Dick Arme y. That's his working title of this cutting yet beaming book. He holds America has only begun to grasp the meaning of great events in recent years—the revolution that sank Eurocommunism, for example, or the computer revolution, or the free-market revolution. These are but steps in the larger Freedom Revolution.

At the heart of this drama is Congressman Arme y's simple idea that people should be trusted to spend their own earnings and decide their own futures. The most just and compassionate societies, he says, are also the most free. What welcome heresy! □

Dr. Peterson, an adjunct scholar at the Heritage Foundation, is Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University in North Carolina.

Bioethics—Opportunities, Risks, and Ethics: The Privatization of Cancer Research

by Robert K. Oldham, M.D.

Franklin, Tennessee: Media America, Inc. • 1995 • 416 pages • \$14.95 paperback

Reviewed by Jeffrey A. Singer

Bioethics burst onto the scene last decade. Its mission: to analyze and judge the moral aspects of clinical and research

medicine. Dr. Robert K. Oldham argues that ethical conduct "is simply a matter of doing that which is right." In *Bioethics*, he sets out to challenge the legitimacy of his most vocal critics: medicine's "mainstream" bioethicists.

Oldham's ongoing "war" with mainstream bioethicists stems from his challenge to the government-academia monopoly controlling therapeutic research that has evolved since World War II. The current generation of researchers and academics—ignorant of the entrepreneurial paradigm that guided research in the United States prior to World War II—find Dr. Oldham's statements and actions outrageous and troubling. And they should, for Oldham seeks to overthrow them.

Dr. Oldham is a highly respected cancer therapist specializing in the exciting new field of biotherapy. Biotherapy research is presently studying and developing ways to launch a coordinated attack on the tumor using the cancer patient's own immune system. Biotherapy rests on the premise that although each cancer has characteristics held in common with all other tumors of the same cell type, it also has certain individualizing characteristics distinguishing it from all other cancers of the same type.

With this insight, biotherapy has developed immune-enhancing therapies that are specific to an individual tumor and are less toxic and more effective than generalized immunologic therapies. These agents, either singularly or in combination "cocktails" are tailored for unique application to the specific patient. Much of this research is done by private medical technology companies.

Dr. Oldham founded the Oncology Program at Vanderbilt University College of Medicine. Later, he headed the Biotherapy Research Division at the National Cancer Institute, where he discovered an inherent flaw in the current drug development process. The current process involves research largely funded by the taxpayer or the pharmaceutical industry. Strict protocols established by the Food and Drug Administration must be followed, under penalty of

law. This is not costless. The average length of time it takes to bring a new drug to market is ten years. The average cost runs in the hundreds of millions of dollars. Bad as this is, it is worse for cancer patients.

Oldham focuses on a particular problem that arises when a breakthrough occurs in therapeutic research. The anticipated tumor cure will not be made available, even on an experimental basis, to that patient until a few more years of FDA-required trials are completed. Such patients, the large majority of whom will be dead before the FDA finishes its trials, are denied access to a therapy despite having subsidized its research, and even despite their potential willingness to pay more to have this therapy, regardless of its experimental status. This is unethical. Research allegedly driven by the needs of patients is instead driven by the abstract needs of the experiment. Patients dying of cancer find the delay unacceptable, and the bureaucratic concern for their welfare ludicrous. Their time is running out.

Dr. Oldham left the National Cancer Institute in 1984 and founded Biotherapeutics, Inc., a for-profit, patient-funded cancer research company. Patients contracted for specific biotherapeutic regimens produced in this private lab and administered experimentally in Oldham's Biological Therapy Institute. The Institute reports the results of its research, both the promising and the unsuccessful. Since most biotherapies are produced on-site there is no interstate transport, and these agents are therefore exempt from FDA regulation.

The idea of patients engaging in voluntary contractual treatment was too much for the "medical-academic-governmental complex." Dr. Oldham came under forceful attack from bioethicists who charged that it was unscrupulous to ask patients to pay for their research. Dr. Oldham countered that the current scenario is worse—forcing them to pay for research they are then denied.

Bioethicists also asserted the appearance of a conflict of interest when the research is performed by a for-profit institution. Dr. Oldham cited work by Nobel laureate economist James Buchanan—founder of the pub-

lic choice school of economics that applies economic theory to analyze political actors—and argued that non-profit and governmental institutions are at a greater risk for conflicts of interest, conflicts more easily hidden from the public given the lack of competitive forces.

Unfortunately, bad publicity resulting from his critics and bad business management decisions led to the demise of Biotherapeutics, Inc., in 1989. The Biological Therapy Institute remains, still directed by Dr. Oldham, but the prospects for speeding up available cancer therapy options for patients have been dealt a blow.

In *Bioethics*, Dr. Oldham exposes the reader to the fascinating prospects for medical research privatization. He makes the case that the current government-academic monopoly has come to regard the patient's interest as secondary to the interests of "science."

The reader is also introduced to the new field of bioethics, and exposed to debates on its legitimacy, both pro and con. Ethical arguments for and against patient-funded and for-profit research are presented at length.

Bioethics also contains an excellent discussion on the doctor-patient relationship. Dr. Oldham advocates a consensual relationship, in which the patient contracts with the doctor for a service and actively participates in all significant decisions with respect to his treatment. Oldham here creates (unknowingly) a medical analogy to the psychiatric relationship advocated by iconoclastic libertarian psychiatrist Thomas Szasz, M.D., in *The Ethics of Psychoanalysis* and other writings. Szasz called his approach "autonomous psychotherapy." We could call Oldham's approach "autonomous cancer therapy."

Bioethics is a series of reprinted articles and essays by Dr. Oldham and others, arranged to lead the reader through the story of Dr. Oldham's project and various implications of his thesis. The drawback of this format is that there is a tendency towards redundancy, as articles intended for different audiences repeat points already made. Author commentary tying together the is-

ues and arguments made by these essays would have been appreciated, but is not included.

Despite these shortcomings, *Bioethics* is an extremely important work that deserves wide attention. It deals with issues rarely raised, but issues that are literally matters of life and death. □

Dr. Singer practices medicine in Phoenix, Arizona.

Japan: Who Governs? The Rise of the Development State

by Chalmers Johnson

W. W. Norton & Company • 1995 • 384 pages
• \$25.00

Reviewed by Russell Shannon

“**T**rade between the United States and Japan can be fair only if we level the playing field.” So say countless politicians and others who decry the obstacles Japan erects to sales of American products in Japanese markets. Threats last year to impose 100 percent tariffs on Japanese luxury car imports are just one of many efforts by our government aimed at leveling.

Traditional trade theory holds that free trade will prompt nations to specialize on the basis of comparative advantage. Following this path means consumers in both countries will benefit from lower prices and producers will find new opportunities for profit.

But the author of these essays argues that the Japanese system has a totally different orientation. Job security for workers takes precedence over satisfaction for consumers. Similarly, because many stocks are rarely traded on the exchange and many large industries are essentially creatures of the government, Japanese managers are more powerful than shareholders and profits take a back seat to market share. And, perhaps most important of all, the power of bureaucrats in the various government ministries far exceeds that of politicians.

When Johnson suggests that our country

should emulate Japan by developing more extensive industrial policies designed to favor selected industries, his presentation falters. He has fallen into the trap of presuming that policies which may be successful there would survive a transplant. Even were that permissible, the case for the premise that those policies were successful in Japan is far from airtight.

Moreover, Johnson ignores the implications of the evidence he presents. Surely, Japan's rapid economic growth is one of the wonders of the second half of the twentieth century. But the cost has certainly been high. Two examples from Johnson's book are particularly revealing.

One study revealed that in 1989 "a U.S.-made sedan selling for \$13,507 in Chicago cost about \$25,613 in Tokyo." This illustration shows how Japanese consumers are at a considerable disadvantage relative to Americans.

When one asks why the cost of consumer goods is still so high in Japan, one does not have to look far for the answer. The cost of government in Japan is also high. Johnson notes that fully 10 percent of Japan's annual GNP goes for infrastructure. By itself, that may not necessarily be a bad thing, but Johnson also points out that the construction industry is the most powerful lobbying agency and that Japan's politicians typically get a bonus of 3 percent of the value of construction projects that they arrange.

One is compelled, then, to ask, with such high costs, how have the Japanese managed to do so well? Surely, the strong work ethic is one reason. Another, which Johnson discusses in detail, is the fact that Japan was prevented, by the constitution adopted following World War II, from spending more than one percent of its annual GNP on defense. Some readers will surely conclude that Japan's success may have come more in spite of, rather than due to, extensive bureaucratic manipulation.

Putting Johnson's own myopia aside, however, one can find much to admire in this book. From his knowledge of the Japanese language, Johnson provides an engaging demonstration of the pitfalls of translation.

His detailed discussion of the Lockheed bribery scandal provides a deeply disturbing picture of international economic relationships. He also makes it distressingly clear that we must shoulder some of the blame for the conflicts we have with Japan, as some of General Douglas MacArthur's policies during the occupation after World War II inadvertently augmented the power of the Japanese bureaucracy.

The Japanese have much to which they can point with pride, but we need not envy them. Similarly, there is much to learn from Johnson's book, though we need not always agree with him. Most likely, we have more to gain from looking at the positive side of our relationship with Japan and admiring the wisdom of this writer than we do from derogating their weaknesses. □

Dr. Shannon is Professor of Economics at Clemson University.

Guns, Crime, and Freedom

by Wayne LaPierre

Regnery • 1994 • 408 pages • \$22.95

Reviewed by Bowen H. Greenwood

Wayne LaPierre's book *Guns, Crime, and Freedom* has a good many flaws. But in spite of them all, LaPierre has rendered a valuable service to the defenders of the Second Amendment. The primary virtue of *Guns* is that it collects nearly all of the arguments and evidence against gun control into one tidy volume, and makes them easily accessible to all.

This book deals with both the moral and the practical aspects of gun control. It presents the evidence for why it is wrong to oppress those who want to own guns; it argues that ownership of firearms is, in fact, a right. But LaPierre has also presented the evidence on the practical side of the gun control argument, showing how crime is not reduced by gun control.

LaPierre has collected a tremendous volume of evidence about what the framers of the Constitution really intended the Second Amendment to mean. From Thomas Jeffer-

son's "No free man shall ever be debarred the use of arms," through John Adams, James Madison, and a whole litany of the revolutionary leadership in America, LaPierre demonstrates the desire of the framers that the American people should have the right to own weapons. Few can read this book and still deny that the framers intended the Second Amendment to give us all the right to arms.

Not stopping at the framers, though, LaPierre invokes an overwhelming weight of current legal scholarship. Citing one law review article after another, he reveals that those who sit down and actually study the Second Amendment all come to the same conclusion: it applies to everyone, not just the National Guard.

This book contains a wealth of statistics on the failure of gun control laws. LaPierre discusses the crime rates in countries with and without gun control, and destroys the liberal argument that Canada or Great Britain's lower crime rates are attributable to their strict control of firearms. He also provides similar statistics for various states in this country, and shows that those with the strictest gun control are also usually those with the highest crime rates.

Accompanying those figures are a set of powerful arguments, explaining why gun control fails. LaPierre repeats and expounds on the traditional "Criminals don't obey the current laws, so why should they obey gun control laws" argument. He also shows why less gun control can also equal less crime. From waiting periods to concealed weapons, LaPierre has compiled all the best defenses of the right to keep and bear arms.

Unfortunately, compiling is really all he has done. Although there is a wealth of information in this book, it is presented in such lackluster fashion that its value is diminished. There are enough typos and misspellings to make one wonder about the editing effort put into *Guns*. And the prose is labored and repetitive: the same arguments appear over and over again at seemingly random places in the text.

In the modern political climate, where those who resist gun control are portrayed

as either fanatics or unlettered bumpkins, a smoother, more professional presentation would have aided opponents of gun control. The poor writing in this book will give the media establishment all the excuse it needs to ignore what is otherwise an overwhelming weight of evidence.

Despite its shortcomings, *Guns, Crime, and Freedom* is a comprehensive, well-researched reference work. All the facts necessary to refute those who call for the banning of guns are right at hand and fully indexed. Those who defend Americans' right to keep and bear arms will find this a valuable weapon in their fight. □

Mr. Greenwood is a journalist in Billings, Montana.

Risk

by John Adams

Bristol, Pennsylvania: Taylor & Francis • 1995
• 228 pages • \$21.95 paperback

Reviewed by John Semmens

Who should decide how much risk you should take? Proponents of government safety regulation think that the government has the expertise to decide this issue for you. Professor John Adams of University College London presents a case for more individual autonomy.

While the government may have the manpower and the budget to commission numerous studies, tests, and experiments aimed at discovering what is safe, the fact is, it lacks the information most crucial to making an appropriate choice of risks. The information it lacks is each individual's highly subjective assessment of the risk/reward trade-off.

Life cannot be made risk-free. Every action bears some element of risk. Even inaction carries some risk. Whether any particular course of action is worth the risk that must be incurred to carry it out can only be determined by the individual who must bear the consequences, good or bad, of the action.

That not everyone places the same weight on the prospective risks and rewards of a given action should be obvious. Consider some examples. The U.S. Navy, for instance, offers a "hazardous duty" bonus for those recruits willing to take flying assignments. Not all recruits choose to pursue flying. On the other hand, skydivers voluntarily incur expenses to pay for the privilege of experiencing the danger of jumping out of an airplane. Others fear to fly on even the safest of commercial airlines.

Given the varied preferences people have for the amount of risk they are willing to tolerate, it would seem that government-mandated safety devices are bound to violate the wishes of many individuals. Proponents of government safety mandates presume that "erring on the side of greater safety" excuses the inability to satisfy the varied preferences of different individuals. However, erring on the side of greater safety is easier said than done. Because people are not automatons, they cannot be counted on to passively accept government decisions on safety issues.

The idea that individuals attempt to balance risks and rewards is the foundation of the theory of "risk compensation." Risk compensation theory says that each individual has his own internal risk "thermostat." When perceived risk is higher than what the individual finds comfortable, he is apt to take risk-reducing actions. When perceived risk is lower than what the individual finds comfortable, he is apt to take more chances in pursuit of other objectives.

If government attempts to force more safety onto individuals than they would freely choose for themselves, some of them will try to convert the unneeded safety margin into an increased performance level. In the field of traffic safety, where government has been actively working to compel drivers to purchase and use more safety devices (for example, air bags and seat belts), there is a danger that some better protected drivers will try to convert this intended safety enhancement into a performance gain by driving faster or more aggressively. Dr. Adams presents evidence

from a Dutch study in which it was found that persons who did not normally wear seat belts tended to drive faster and follow the vehicles ahead of them more closely in traffic when required to wear a seat belt.

More aggressive driving effectively shifts risk from protected drivers to others who may or may not be protected. The net result may be no reduction in traffic fatality rates, but merely a different assortment of victims. Dr. Adams presents evidence to indicate that despite predictions of dramatic declines in traffic fatalities that were supposed to follow the imposition of mandatory seat belt laws, there is no convincing proof that there has been any reduction. In a comparison of nations with and without mandatory seat belt laws, Dr. Adams discovered that those without these laws had a slightly larger decline in traffic fatality rates over the same time period.

It is apparent that risk compensating behaviors are offsetting the intended safety benefits that the government is trying to force on society. This is especially troubling when one considers how the risk may be redistributed. Dr. Adams has found data indicating that the decline in driver deaths is being offset by increases in deaths among non-driving vehicle occupants, pedestrians, and bicyclists. The driver is the one person with the most influence on whether a vehicle will crash. Making this person feel safer does not make the traffic environment safer. The fact that some of the non-driving victims of a government-induced shift of risk are children is a perverse unintended consequence.

A more humble role for government may be in order. Enforcing laws against crimes and holding people responsible for the damage they do to others may be enough of a burden for the government to undertake in the pursuit of public safety. In most respects, individuals would seem to be best served by being left free to make their own choices on how to balance the risks and rewards of everyday life. □

Mr. Semmens is an economist with Laissez-Faire Institute in Chandler, Arizona.

From Here to Economy: A Shortcut to Economic Literacy

by Todd G. Buchholz

Dutton • 1995 • 278 pages • \$21.95

Reviewed by Raymond J. Keating

The echoes of John Maynard Keynes still resonate across the intellectual and policy terrain traveled by economists. Thankfully, though, these echoes seem to be growing fainter with each passing year.

From Here to Economy serves as an example of such developments. Author Todd Buchholz provides an interesting overview of the economics world, though his book is occasionally marred with Keynesian fallacies.

First, let's deal with the downside of Buchholz's book. He lends *some* credence to such myths as the "overheated economy" and Keynesian pump-priming—giving them more serious treatment than warranted. Buchholz is, at times, a little too generous in his description and application of "macroeconomics."

In addition, one would have hoped for greater substance when describing free-market schools of thought, such as Austrian and supply-side economics. Though generally fair in his limited discussions of these two schools, the author is too dismissive of the Austrian influence in the study of economics.

Despite these negatives, there remain many positive aspects of *From Here to Economy*. Buchholz often manages to combine sound economics with an entertaining writing style.

Most important, Buchholz *generally* acknowledges the efficacy of markets and the many problems of government intervention. He sees the limits of government power and knowledge. Buchholz recognizes Friedrich von Hayek's important contribution in this area: "Hayek's most damning criticism of government intervention in the economy rests on [his] 'ignorance argument'—governments cannot possibly gather enough information from throughout the world to intelligently choose whether the price of tin

should be X or Y dollars. In contrast, market players do not need to know anything other than prices in order to make their choices."

On other subjects, Buchholz hits the mark as well.

He understands the woes plaguing the health-care market: "The basic problem is that *most people who receive medical treatment are using someone else's money.*"

The author also provides some fairly good entries on the evils of protectionism. He even offers a clear description of David Ricardo's concept of comparative advantage.

Buchholz concludes *From Here to Economy* with recognition of the entrepreneur as the driving force in the economy. To his credit, he also acknowledges the limitations of economists in this world of entrepreneurs: "While these almost mystical forces are hard to analyze with the economist's standard toolbox, we do know that [entrepreneurs] thrive in basically free environments. Too many rules, regulations, and taxes can snuff the entrepreneurial spark."

As is the case with the economics discipline in general, Buchholz excels when using the tools of microeconomics and falters when applying macroeconomics. With each turn of the page, Buchholz emerges as a market-oriented microeconomist struggling to shed years of Keynesian macroeconomic indoctrination. The time has arrived to sentence Keynes to the same irrelevancy of one of his forerunners—Thomas Malthus.

From Here to Economy symbolizes the entire economics discipline's struggle to recover from its self-inflicted Keynesian wounds. In this sense, it makes for interesting reading. However, for its intended purpose as an *introduction* to economics, it falls a bit short due to the aforementioned lingering Keynesian scars. I recommended Buchholz's previous book a few years ago in a review—*New Ideas From Dead Economists: An Introduction of Modern Economic Thought*—and I do the same with *From Here to Economy*, but with some serious reservations.

Mr. Keating is chief economist at the Small Business Survival Foundation.

Private Rights and Public Illusions

by Tibor Machan

Foreword by Nicholas Rescher

Transaction Publishers • 1995 • 379 pages • \$34.95

Reviewed by Doug Den Uyl

In many quarters these days it is fashionable to debunk the so-called "myth of the individual." Tibor Machan's book might be seen as a refreshing debunking of the "myth of the public." I say refreshing, partly because those who debunk the first myth are often victims of the second. In addition, although his is not the first book to call into question the value of attributing all goodness to the public, it is one of the few to question the public as the repository of all that is *morally* good.

Machan contrasts his approach directly with the more usual economic criticisms of public endeavors by focusing on the moral defects of thinking in terms of the "public welfare." The problem of the public welfare is not primarily one of having to choose between economic efficiency on the one hand and moral propriety on the other. Rather, it is one of justice, dignity, and well-being versus their opposites. The critical chapter in this regard is the third, where Machan discusses human dignity and the welfare state. Contrary to most of the rhetoric we hear, the welfare state neither reflects nor promotes human dignity. Human dignity for Machan is based upon personal responsibility, which he labels the "individualist tradition." The welfare state—with the "welfarist" ideas that surround it—is, by contrast, committed to substituting "collective judgment" or goals for that of the individual. The degree to which the trend toward the collective is carried through is thus the degree to which one *departs* from human dignity.

We may be tempted to claim that Machan's is simply one moral perspective combatting another, with the solution coming from outside the realm of morality altogether (e.g., from social science or law). One of the valuable aspects of this book is

that the reader soon discovers how unstated moral principles are influential in guiding the methodologies and conclusions of both social science and law. There are, then, no "value neutral" platforms, so we might just as well come to terms with the moral issues directly. Machan's third chapter sets the tone by letting us know that since the welfare state is no purveyor of human dignity, the many aspects of life it is involved with are also tainted with moral problems, if not blatant injustices. The layout of the book, therefore, is based on discussion of where the tentacles of the welfare state have caught hold in various aspects of the market: labor, safety, the professions, pollution, advertising, and the like. In each of these areas the illusions of the public are brought forth. Despite Machan's vigorous defense of individual rights, his tone is not angry or polemical. He makes an effort to present the case for a position before offering his account of its problematic character, because he is aware that our political traditions are complex and sometimes ambiguous.

From the general welfare clause of the Constitution to various sequences of court decisions, certain ambiguities, tensions, and ultimately illusions are easily created and reinforced. The blend of elements that can lead to confusion is perhaps most strikingly presented in the chapter on national labor policy, also the longest in the book. Through a combination of court postures and a certain sort of economic reasoning, we see clearly how a policy often inimical to individual responsibility could arise.

This book is part of series of works on political economy sponsored by the Independent Institute. If political economy is an integration of knowledge from different disciplines of relevance to social and political life, then it is not simply the conclusions of this book that should interest us, but its approach as well. Moral issues and theories are not of theoretical interest alone, but embedded in the bowels of our social, political, and economic institutions. □

Professor Den Uyl is a visiting scholar at Liberty Fund, Indianapolis, Indiana.

Land Rights: The 1990s Property Rights Rebellion

edited by Bruce Yandle

Rowman & Littlefield • 1995 • 333 pages • \$22.95

Reviewed by Jonathan H. Adler

Richard and Nancy Delene intended to create their own little wildlife reserve in Michigan's Upper Peninsula. They purchased over 100 acres of duck ponds and wildlife habitat and sought to improve upon it, making it a more attractive home for indigenous species. The Michigan Department of Natural Resources had other ideas. The Delenes were ordered to cease their activities and were threatened with well over \$1 million in fines for not having the proper government permits to shift dirt on their own land.

The Delenes are not alone. Indeed, across the nation individuals and families are discovering that the lands they thought were their own are only theirs in trust. To make use of the land requires obtaining permission from federal, state, or local authorities, and sometimes all three. The right to make private use of private land can be taken by the government, and rarely does the state have to make the owner whole. It is as if the land is actually owned by the state, and not those who possess it. It is the modern equivalent of feudalism.

Americans are increasingly unhappy with this state of affairs, and hence this book. There is a growing rebellion against the wanton violation of property rights, and Bruce Yandle has put together a valuable volume to chronicle its development and explain its roots. *Land Rights* is the first reference book for the property rights movement.

The book has nine chapters, each by a different author. The contributions cover the legal history of property rights litigation, important Supreme Court cases, and political developments at the state and local level. A chapter each is devoted to the

Endangered Species Act and the wetlands provisions of the Clean Water Act—the two laws under which the greatest property rights violations occur. There is even a chapter that explains how current environmental laws have come to approximate federal land-use planning of the sort explicitly rejected in the 1970s. *Land Rights* covers the gamut of issues relating to the property rights rebellion, and explains why property rights have become such an important political issue.

Most federal affronts to private property are the result of environmental legislation. Environmental laws, such as the two mentioned above, are premised on the idea that only government agencies can act in defense of environmental quality. Fortunately Yandle has included a chapter by Roger Meiners that spells out a property-based alternative that is grounded in the common law tradition. As Meiners points out, what is now often considered environmental protection was once considered the protection of private property from outside assaults. Rights were vindicated not due to the watchful eye of agency bureaucrats. Rather property rights enable individuals, families, and communities to vindicate their cases in court. So long as courts upheld this approach, potential polluters were forewarned about the economic repercussions of violating the property rights of others. It was a superior system that has fallen out of favor.

Americans believe in private property; majorities polled want them to receive far more protection. *Land Rights* helps one understand why property rights are an issue, and why they are so important. In the words of Noah Webster, "Let the people have property and they will have power that will forever be exerted to prevent the restriction of the press, the abolition of trial by jury, or the abridgement of any other privilege." □

Jonathan Adler is director of environmental studies at the Competitive Enterprise Institute in Washington, D.C., and the author of Environmentalism at the Crossroads: Green Activism in America (Capital Research Center).

Private Cures for Public Ills: The Promise of Privatization

edited by Lawrence W. Reed

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COVER ART: Grover Cleveland

Thoughts on FEE's 50th Anniversary

It is force, not opinion, that queens its way over the world, but it is opinion that looses the force.

—Blaise Pascal, 1670

How to get from here to there—from (to supply a current benchmark on massive government) the U.S. \$1.7 trillion budget, over to a widespread reaffirmation of the rule of law, of freedom and free enterprise, in America and throughout the West? That reaffirmation is the challenge that the Foundation for Economic Education has tackled since it was chartered in March 1946.

How has it done so? By seeking to reshape public opinion through such things as seminars and discussion clubs, but in the main through the printed word, through its *Essays on Liberty* early in its career, a variety of books and, for the last 40 years or so, its monthly, *The Freeman*.

In this issue, some early FEE essays—some early roots—are reprinted. The spirit of FEE's founder and first president, Leonard E. Read, who hammered out what he called the Freedom Philosophy, underlies these works.

Why are words and thoughts so pivotal? With words we rule men, said Disraeli. Thought precedes human action, said Mises. Ideas have consequences, said Weaver. The power of ideas through words, spoken or written, on the human mind and hence on the course of human events is incontestable.

That power was seen by St. Paul in his Epistles such as those to the Romans, Corinthians, and Galatians. Through these letters to clusters of early Christians, St. Paul mightily helped convert people to Christianity, extended the New Testament, and became a fountainhead of Christian faith and doctrine.

The power of words is seen further from 1776 through 1783 in Thomas Paine's *The Crisis*. Paine's words still hold true for 1996: *These are the times that try men's souls.*

George Washington hailed Paine the pamphleteer for helping to forge the American Revolution.

Later on, Alexander Hamilton, John Jay, and James Madison, under the nom de plume of Publius, wrote 85 papers seriatim of *The Federalist*, 1787-1788, mostly aimed at the people of New York State so as to win ratification of the U.S. Constitution as laid down in Philadelphia in 1787.

More periodicals, *The Liberator*, 1831-1866, flowed from the pen of abolitionist William Lloyd Garrison. He favored moral suasion over violence or political involvement. He helped organize the Anti-Slavery Society and was long its president. He opposed the Civil War until the Emancipation Proclamation. He ceased publication of *The Liberator* with the passage of the 13th Amendment barring involuntary servitude.

But a sort of involuntary servitude still persists in America and accounts for the rise of FEE. For example, Washington-based Americans for Tax Reform, led by Grover Norquist, says that the typical American enjoys personal freedom beginning on July 9th when he or she will have paid for the cost of taxes and regulation imposed by government. The Norquist calculation may suggest that today's American is more than half-slave.

In the second half of its century, with public opinion continuing to rule the roost as it has for millennia, FEE carries on its fight to shape that opinion for better ends and means by continuing to promote Leonard Read's boundless optimism and Freedom Philosophy.

—WILLIAM H. PETERSON
Guest Editor

The May 1996 issue of *The Freeman* will be a celebration of 50 years of FEE—and 40 years of *The Freeman*.

In An Ideal America

Every person should be free

. . . to pursue his ambition to the full extent of his abilities, regardless of race or creed or family background.

. . . to associate with whom he pleases for any reason he pleases, even if someone else thinks it's a stupid reason.

. . . to worship God in his own way, even if it isn't "orthodox."

. . . to choose his own trade and to apply for any job he wants—and to quit his job if he doesn't like it or if he gets a better offer.

. . . to go into business for himself, be his own boss, and set his own hours of work—even if it's only three hours a week.

. . . to use his honestly acquired property or savings in his own way— spend it foolishly, invest it wisely, or even give it away.

. . . to offer his services or products for sale on his own terms, even if he loses money on the deal.

. . . to buy or not to buy any service or product offered for sale, even if the refusal displeases the seller.

. . . to disagree with any other person, even when the majority is on the side of the other person.

. . . to study and learn whatever strikes his fancy, as long as it seems to him worth the cost and effort of studying and learning it.

. . . to do as he pleases in general, as long as he doesn't infringe the equal right and opportunity of every other person to do as he pleases.

—LEONARD E. READ, 1898–1983
Founding President of FEE

The America We Lost

by Mario A. Pei

When I first came to America in 1908, I learned a new meaning of the word “liberty”—freedom from government.

I did not learn a new meaning for “democracy.” The European country from which I came, Italy, was at that time as “democratic” as America. It was a constitutional monarchy, with a parliament, free and frequent elections, lots of political parties, and plenty of freedom of religion, speech, press, and assembly.

But my native country was government-ridden. A vast bureaucracy held it in its countless tentacles. Regardless of the party or coalition of parties that might be in power at the moment, the government was everywhere. Wherever one looked, one saw signs of the ever-present government—in the uniforms of numberless royal, rural, and municipal policemen, soldiers, officers, gold-braided functionaries of all sorts. You could not take a step without government intervention.

Many industries and businesses were government-owned and government-run—railroads, telegraphs, salt, and tobacco among them. No agreement, however trivial, was legal unless written on government-stamped paper. If you stepped out of the city into the country and came back with a ham, a loaf of bread, or a bottle of wine, you had to stop

Mario Pei, now deceased, was Professor of Romance Philology at Columbia University.

This essay appeared in the Saturday Evening Post of May 31, 1952, and was republished by the Foundation later that year.

at the internal-revenue barriers and pay duty to the government, and so did the farmers who brought in the city’s food supply every morning. No business could be started or run without the official sanction of a hundred bureaucrats.

Young people did not dream of going into business for themselves; they dreamed of a modest but safe government job where they would have tenure, security, and a pitiful pension at the end of their plodding careers. There was grinding taxation to support the many government functions and the innumerable public servants. Everybody hated the government—not just the party in power, but the government itself. They had even coined a phrase, “It’s pouring—thief of a government!” as though even the evils of nature were the government’s fault. Yet, I repeat, the country was democratically run, with all the trappings of a many-party system and all the freedoms of which we in America boast today.

Freedom from Government

America in those days made you open your lungs wide and inhale great gulps of freedom-laden air, for here was one additional freedom—freedom from government.

The government was conspicuous by its very absence. There were no men in uniform, save occasional cops and firemen, no visible bureaucrats, no stifling restrictions, no government monopolies. It was wonderful to get used to the American system: To

learn that a contract was valid if written on the side of a house; that you could move not only from the city to the country but from state to state and never be asked what your business was or whether you had anything to declare; that you could open and conduct your own business, provided it was a legitimate one, without government interference; that you could go from one end of the year to the other and never have contact with the national government, save for the cheery postman who delivered your mail with a speed and efficiency unknown today; that there were no national taxes, save hidden excises and import duties that you did not even know you paid.

In that horse-and-buggy America, if you made an honest dollar, you could pocket it or spend it without having to figure what portion of it you *owed* the government or what possible deductions you could allege against that government's claims. You did not have to keep books and records of every bit of income and expenditure or run the risk of being called a liar and a cheat by someone in authority.

Above all, the national ideal was not the obscure security of a government job, but

the boundless opportunity that all Americans seemed to consider their birthright. Those same Americans loved their government then. It was there to help, protect, and defend them, not to restrict, befuddle, and harass them. At the same time, they did not look to the government for a livelihood or for special privileges and handouts. They were independent men in the full sense of the word.

Foreign-born citizens have been watching with alarm the gradual Europeanization of America over the past twenty years. They have seen the growth of the familiar European-style government octopus, along with the vanishing of the American spirit of freedom and opportunity and its replacement by a breathless search for "security" that is doomed to defeat in advance in a world where nothing, not even life itself, is secure.

Far more than the native-born, they are in a position to make comparisons. They see that America is fast becoming a nineteenth-century-model European country. They are asked to believe that this is progress. But they know from bitter experience that it just isn't so. □

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Fallacies of Uncritical Multiculturalism

by Tibor R. Machan

Some of the trends in our country are new only if you have very little knowledge of human history. Such is the case with the current multiculturalism craze on our college and university campuses.

The idea is that no culture is better than any other, so it is only fair for us to pay heed to them all. As a consequence, there is now much agitation around the country for dropping the emphasis on the Great Books, since these were written mostly by Europeans. Instead, various campuses are requiring that their students encounter writings from all cultures. Well, not really *all*, since cultures are almost as numerous as people, at least over time. Also, who knows all the cultures that exist now—or even what exactly defines a unified culture. (Should we include the Cosa Nostra? How about the Nazis?)

Now multiculturalism may seem innocent enough, mainly because we tend to think of cultural differences largely in terms of food, dress, music, dance, and customs. And this kind of multiculturalism has always been part of American society. In 1798 a young man, J. M. Holley, wrote to his brother that “the diversity of dress, manners, & customs is greater in America, than in any other country in the world, the reason of which, is very obvious. It is considered as a country where people enjoy liberty and indepen-

dence; of course, persons from almost every nation in the world, come here as to an assylum from oppression; Each brings with him prejudices in favor of the habits of his own countrymen. . . .” (Quoted in “Endpaper,” *New York Times*, November 5, 1995, p. 46.)

While diversity is pervasive in a free society, when it comes to such differences as religious practices, political regimes, forms of jurisprudence, types of marriages, and so forth, one cannot be so uncritical of multiculturalism. In some countries criminals are punished so severely that it is simply intolerable for any society that recognizes individual rights and prizes human decency. Women in certain places are so subservient to men that even to suggest some changes meets with violent rebuffs. Such treatment cannot be dismissed as merely a cultural difference—it does violence to anyone’s essential humanity, whether so recognized or not. In many cultures throughout the world children are beaten and tortured in the name of discipline, a practice that would be child abuse in our society. Again, this cultural difference is far from benign.

Interestingly, just at a time when so many people are concerned about other people’s sensibilities—so that how we talk about various people is virtually mandated—we also insist that all sorts of different cultures be honored for their various ways of think-

Dr. Machan teaches Philosophy at Auburn University, Alabama.

ing and talking. Yet, if we really honored the way some cultures talk about others, we would have to tolerate contradictory practices. We would at once allow insults to fly, but demand that everyone speak with equal respect about everyone else. The simple fact is that in some cultures it is perfectly acceptable to insult members of other cultures. I know for a fact that in many European and Asian cultures people openly and unhesitatingly debase and deride members of other cultures simply for being different.

Consider, also, how many people in the academic world urge us to honor Native Americans or Indians. Yet, do they realize that there were many different groups of aboriginal people on this continent, not all of them deserving of admiration? Not all Native Americans were equally peaceful and gentle, quite the contrary.

Even African-Americans could not sensibly defend all the practices of their ancestors, some of whom actually spurred on the black slave trade.

The demand for fairness to all cultures is predicated on a misunderstanding, namely, that cultures consist mainly of benign characteristics, nothing mean and nasty. Once we admit that different cultures may exhibit various degrees of evil, not simply benign dissimilarities, it immediately becomes perfectly justified to ask which, on the whole, exhibit the best characteristics. This is not an easy thing to deal with, since what is "best" is itself often unthinkingly determined from within a culture. Few people take the time and trouble to consider more stable and universal standards than those they have picked up in their own cultures.

Yet, the very points multiculturalists are

stressing, namely, practicing fairness and paying careful attention, are not embraced everywhere. In certain parts of India people do not give a hoot about fairness and tolerance but proceed to kill anyone who defies local custom. Tolerance of diversity is rare even in Western Europe, outside of the major cosmopolitan cities.

One reason why in most of our universities we have stressed the tradition of the Great Books, focusing, for example, on the works of Greek, European, and British philosophers, is that these thinkers have grappled hard with just the issues that even multiculturalists find irresistible. What is truth? What is justice? What is art? What is knowledge? What is nature? What is God? What is liberty, equality, or order? What is law? What are rights?

Many other cultures, however, have tended to focus their concerns much more narrowly. And the result has been that they remained a tad parochial. In such cultures any suggestion of multiculturalism would meet with ridicule—not even a gesture of consideration would be forthcoming.

So, while it is informative and even courteous to open one's mind to what other people across the world are thinking and doing, it is by no means a forgone conclusion that all these are of equal merit. The very fact that multiculturalism has made its inroads in our culture suggests that ours is indeed something of a special culture, even if its problems are evident as well.

Multiculturalists tend to intimidate us with their suggestion that we are being unfair. Yet, in what other culture would they be able to make such a suggestion, to be carefully listened to, and peacefully debated?



The Rise of Government and the Decline of Morality

by James A. Dorn

Government and Morality

The growth of government has politicized life and weakened the nation's moral fabric. Government intervention—in the economy, in the community, and in society—has increased the payoff from political action and reduced the scope of private action. People have become more dependent on the State and have sacrificed freedom for a false sense of security.

The most obvious signs of moral decay in America are the prevalence of out-of-wedlock births, the breakup of families, the failure of public education, and the eruption of criminal activity. But there are other signs as well: the decline in civility, the lack of integrity in both public and private life, and the growth of litigation as the chief way to settle disputes.

One cannot blame government for all of society's ills, but there is no doubt that economic and social legislation over the past 50 years has had a negative impact on virtue. Individuals lose their moral bearing when they are not held accountable for their actions. The internal moral compass that normally guides individual behavior will no longer function when the State undermines

incentives for moral conduct and blurs the distinction between right and wrong.

More government spending is not the answer to our social, economic, or cultural problems. The task is not to reinvent government or to give politics meaning; the task is to limit government and revitalize civil society. Government meddling will only make matters worse.

If we want to help the disadvantaged, we do not do so by making poverty pay, by restricting markets, by prohibiting school choice, by discouraging thrift, or by sending the message that the principal function of government is to take care of us. Rather, we do so by eliminating social engineering and welfare, by cultivating free markets, and by returning to our moral heritage.

Early Twentieth-Century Virtue: Lessons from the Immigrants

At the turn of the century, there was no welfare state. Family and social bonds were strong, and civil society flourished in numerous fraternal and religious organizations. Total government spending was less than 10 percent of GNP and the federal government's powers were narrowly limited.

Immigrants were faced with material poverty, true, but they were not wretched.

Mr. Dorn is vice president for academic affairs at the Cato Institute and director of Cato's Project on Civil Society. This essay is based on his Chautauqua Institution lecture in 1995.

There was a certain moral order in everyday life, which began in the home and spread to the outside community. Baltimore's Polish immigrants provide a good example. Like other immigrants, they arrived with virtually nothing except the desire to work hard and to live in a free country. Their ethos of liberty and responsibility is evident in a 1907 housing report describing the Polish community in Fells Point:

A remembered Saturday evening inspection of five apartments in a house [on] Thames Street, with their whitened floors and shining cook stoves, with the dishes gleaming on the neatly ordered shelves, the piles of clean clothing laid out for Sunday, and the general atmosphere of preparation for the Sabbath, suggested standards that would not have disgraced a Puritan housekeeper.

Yet, according to the report, a typical Polish home consisted "of a crowded one- or two-room apartment, occupied by six or eight people, and located two floors above the common water supply."

Even though wages were low, Polish Americans sacrificed to save and pooled their resources to help each other by founding building and loan associations, as Linda Shopes noted in *The Baltimore Book*. By 1929, 60 percent of Polish families were homeowners—without any government assistance.

Today, after more than 50 years of the welfare state, and after spending \$5 trillion on anti-poverty programs since the mid-1960s, Baltimore and other American cities are struggling for survival. Self-reliance has given way to dependence and a loss of respect for persons and property.

The inner-city landscape is cluttered with crime-infested public housing and public schools that are mostly dreadful, dangerous, and amoral—where one learns more about survival than virtue. And the way to survive is not to take responsibility for one's own life and family, but to vote for politicians who have the power to keep the welfare checks rolling. Dysfunctional behavior now seems almost normal as people are shot

daily and the vast majority of inner-city births are to unwed mothers receiving Aid to Families with Dependent Children. In addition to the moral decay, high tax rates and regulatory overkill have driven businesses and taxpayers out of the city and slowed economic development. It's not a pretty picture.

In sum, the growth of government and the rise of the "transfer society" have undermined the work ethic and substituted an ethos of dependence for an ethos of liberty and responsibility. Virtue and civil society have suffered in the process, as has economic welfare.

The Role of Government: Conflicting Visions

Market-Liberal Vision. From a classical-liberal perspective, the primary functions of government are to secure "the blessings of liberty" and "establish justice"—not by mandating outcomes, but by setting minimum standards of just conduct and leaving individuals free to pursue their own values within the law. The "sum of good government," wrote Jefferson, is to "restrain men from injuring one another," to "leave them . . . free to regulate their own pursuits of industry and improvement," and to "not take from the mouth of labor the bread it has earned."

The Jeffersonian philosophy of good government was widely shared in nineteenth-century America. Indeed, Jeffersonian democracy became embodied in what John O'Sullivan, editor of the *United States Magazine and Democratic Review*, called the "voluntary principle" or the "principle of freedom." In 1837, O'Sullivan wrote,

The best government is that which governs least. . . . [Government] should be confined to the administration of justice, for the protection of the natural equal rights of the citizen, and the preservation of the social order. In all other respects, the voluntary principle, the principle of freedom . . . affords the true golden rule.

During the nineteenth century, most Americans took it for granted that the federal government had no constitutional authority to engage in public charity (i. e., to legislate forced transfers to help some individuals at the expense of others). It was generally understood that the powers of the federal government were delegated, enumerated, and therefore limited, and that there was no explicit authority for the welfare state. In 1794, Madison expressed the commonly held view of the welfare state: "I cannot undertake to lay my finger on that article of the Constitution which grant[s] a right to Congress of expending, on objects of benevolence, the money of their constituents." From a classical-liberal or market-liberal perspective, then, the role of government is not to "do good at taxpayers' expense," but "to prevent harm" by establishing rules of just conduct and a rule of law.

The general welfare clause (art. 1, sec. 8) of the U.S. Constitution cannot be used to justify the welfare state. That clause simply states that the federal government, in exercising its enumerated powers, should exercise them to "promote the general welfare," not to promote particular interests. The clause was never meant to be an open invitation to expand government far beyond its primary role of night watchman.

"With respect to the words 'general welfare,'" wrote Madison, "I have always regarded them as qualified by the detail of powers connected with them. To take them in a literal and unlimited sense would be a metamorphosis of the Constitution into a character which there is a host of proofs was not contemplated by its creators."

Yet, what Madison feared happened—as his vision of government was overtaken by the views of people who sought to use government, not to prevent harm, but to "do good" at taxpayers' expense.

Modern Liberal Vision. The transformation of the Framers' constitutional vision began with the Progressive Era, accelerated with the New Deal, and mushroomed with the Great Society's War on Poverty, which created new entitlements and enshrined

welfare rights. Today, more than half the federal budget is spent on entitlements, and social welfare spending is 14 percent of GNP.

During the transition from limited government to the welfare state, freedom has come to mean freedom from responsibility. Such freedom, however, is not true freedom but a form of tyranny, which creates moral and social chaos.

The modern liberal's vision of government is based on a twisted understanding of rights and justice—an understanding that clashes with the principle of freedom inherent in the higher law of the Constitution. Welfare rights or entitlements are "imperfect rights" or pseudo-rights; they cannot be exercised without violating what legal scholars call the "perfect right" to private property. Rights to welfare—whether to food stamps, public housing, or medical care—create a legal obligation to help others. In contrast, the right to property, understood in the Lockean sense, merely obligates individuals to refrain from taking what is not theirs—namely, the life, liberty, or estate of another.

For the modern liberal, justice refers to distributive justice or social justice. But "social justice" is a vague term, subject to all sorts of abuse if made the goal of public policy. Indeed, when the role of government is to do good with other people's money, there is no end to the mischief government can cause.

Many Americans seem to have lost sight of the idea that the role of government is not to instill values, but to protect rights that are consistent with a society of free and responsible individuals. We have a right to pursue happiness, but there can be no legal guarantee that we will obtain it without depriving others of their liberty and their property.

When democracy becomes unlimited, the power of government becomes unlimited, and there is no end to the demands on the public purse. Democracy then becomes crude majoritarianism in which the "winners" are allowed to impose their will and vision of the "good society" on everyone else. In such a system politics becomes a fight of all against all, like the Hobbesian

jungle, and nearly everyone is a net loser as taxes rise, deficits soar, and economic growth slows.

Bankruptcy of the Welfare State

Most voters recognize that the welfare state is inefficient and that there is a built-in incentive to perpetuate poverty. It should be common sense that when government promises something for nothing, demand will grow and so will the welfare state. Indeed, total government spending on social welfare is now over \$1 trillion per year. Yet only \$1 of every \$6 of social welfare spending goes to families with less than poverty-level incomes. For all the money spent on fighting poverty since 1965, about \$5 trillion, the official poverty rate has remained roughly the same, about 14 percent. Government waste, however, is only part of the problem; the welfare state is also intellectually, morally, and constitutionally bankrupt.

Intellectually Bankrupt. It is intellectually bankrupt because increasing the scope of market exchange, not aid, is the only viable way to alleviate poverty. The best way to help the poor is not by redistributing income but by generating economic growth. Poverty rates fell more before the War on Poverty when economic growth was higher.

The failure of Communism shows that any attenuation of private property rights weakens markets and reduces choice. Individual welfare is lowered as a result. The welfare state has attenuated private property rights and weakened the informal rules of manners and morals that make life worthwhile. Real growth has slowed as a result. From 1889 through 1919, real growth averaged 4 percent per year while government consumed 10 percent of GNP. From 1973 through 1992, however, real growth averaged only 2.3 percent while government consumed 36 percent of GNP.

Morally Bankrupt. In addition to being inefficient and intellectually bankrupt, the welfare state is morally bankrupt. In a free

society, people are entitled to what they own, not to what others own. Yet, under the pretense of morality, politicians and advocacy groups have made the “right to welfare” the accepted dogma of a new state religion, in which politicians are the high priests and self-proclaimed “benefactors” of humanity.

But “the emperor has no clothes”: politicians pretend to “do good,” but they do so with other people’s money. Politicians put on their moral garb, but there is really nothing there. Government benevolence, in reality, is a naked taking. Public charity is forced charity, or what the great French liberal Frederic Bastiat called “legal plunder”; it is not a virtue but a vice.

Constitutionally Bankrupt. The welfare state is also constitutionally bankrupt; it has no basis in the Framers’ Constitution of liberty. By changing the role of government from a limited one of protecting persons and property to an unlimited one of achieving “social justice,” Congress, the courts, and the president have broken their oaths to uphold the Constitution.

In contrast, Congressman Davy Crockett, who was elected in 1827, told his colleagues, “We have the right, as individuals, to give away as much of our own money as we please in charity; but as members of Congress we have no right to appropriate a dollar of the public money.”

What Should Be Done?

Polls show that three of four Americans distrust government and that more young people believe in UFOs than in the future of Social Security. Those sentiments express a growing skepticism about the modern liberal state. What should be done?

First, and foremost, we need to expose the intellectual, constitutional, and moral bankruptcy of the welfare state. We need to change the way we think about government and restore an ethos of liberty and responsibility. The political process can then begin changing the direction of government and rolling back the welfare state.

America has a great future, but that future is endangered by a federal government that has become bloated and unable to perform even its rudimentary functions. The collapse of Communism and the failure of socialism should have been warning enough that it is time to change direction.

It is time to get government out of the business of charity and to let private virtue, responsibility, and benevolence grow along with civil society—just as they did more than 150 years ago when Alexis de Tocqueville, in his great study of *Democracy in America*, wrote:

When an American asks for the cooperation of his fellow citizens it is seldom refused, and I have often seen it afforded spontaneously and with great good will. . . . If some great and sudden calamity befalls a family, the purses of a thousand strangers are at once willingly opened, and small but numerous donations pour in to relieve their distress.

Welfare reform is in the air, but the elimination of the welfare state is still considered heresy by most politicians. They consider themselves “benefactors,” albeit with other people’s money. Yet the role of government is not to legislate morality—an impossible and dangerous goal—or even to “empower people”; the role of government is to allow people the freedom to grow into responsible citizens and to exercise their inalienable rights.

During the past 50 years, the welfare state has divorced freedom from responsibility and created a false sense of morality. Good intentions have led to bad policy. The moral state of the union can be improved by following two simple rules: “Do no harm” and “do good at your own expense.” Those rules are perfectly consistent in the private moral universe. It is only when the second rule is replaced by “Do good at the expense of others” that social harmony turns into chaos as interest groups compete at the public trough for society’s scarce resources. □

The power of one.

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The Guaranteed Life

by Maxwell Anderson

“A government is a group of men organized to sell protection to the inhabitants of a limited area at monopolistic prices.” So said Peter Stuyvesant in *Knickerbocker Holiday*, and so I believe now. In other words there’s no such thing as a “good” government; one and all they partake of the nature of rackets. But government is better than anarchy, and was invented as insurance against anarchy. And some kinds of government are far better than others. Specifically, our American experiment has worked so well that we can point to it as one of the most successful in the history of the world, if not the most successful.

In *Knickerbocker Holiday* I tried to remind the audience of the attitude toward government which was prevalent in this country at the time of the revolution of 1776 and throughout the early years of the republic. At that time it was generally believed, as I believe now, that the gravest and most constant danger to a man’s life, liberty, and happiness is the government under which he lives.

It was believed then that a civilization is a balance of selfish interests, and that a government is necessary as an arbiter among these interests, but that the govern-

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This essay was first written as a preface to his Knickerbocker Holiday in 1938. It was rewritten in 1950 and published as a FEE “In Brief” pamphlet.

ment must never be trusted, must be constantly watched, and must be drastically limited in its scope, because it, too, is a selfish interest and will automatically become a monopoly in crime and devour the civilization over which it presides unless there are definite and positive checks on its activities.

The Constitution is a monument to our forefathers’ distrust of the State, and the division of powers among the legislative, judicial, and executive branches succeeded so well for more than a century in keeping the sovereign authority in its place that our government has become widely regarded as a naturally wise and benevolent institution, capable of assuming the whole burden of social and economic justice. But there was nothing natural or accidental about it. Our government has done so well because of the wary thinking that went into its making.

A Selfish Interest

The thinking behind our Constitution was dominated by such men as Franklin and Jefferson, men with a high regard for the rights of the individual, combined with a cold and realistic attitude toward the blessings of central authority. Knowing that government is a selfish interest, they treated it as such, and asked of it no more than a selfish interest can give.

But the coddled young reformer of our day, looking out on his world, finding merit often unrewarded and chicanery trium-

phant, throws prudence to the winds and grasps blindly at any weapon which seems to him likely to destroy the purse-proud haves and scatter their belongings among the deserving have-nots. Now he is right in believing that the accumulation of too much wealth and power in a few hands is a danger to his civilization and his liberty. But when the weapon he finds is economic planning, and when the law he enacts sets up bureaus to run the nation's business, he is fighting a lesser evil by accepting a greater and more deadly one, and he should be aware of that fact.

Monopolistic Prices

A government is always "organized to sell protection to the inhabitants of a limited area at monopolistic prices." The members of a government are not only in business, but in a business which is in continual danger of lapsing into pure gangsterism, pure terrorism and plundering, buttered over at the top by a hypocritical pretense at patriotic unselfishness. The continent of Europe has seen too many such governments lately, and our own government is rapidly assuming economic and social responsibilities which take us in the same direction.

Whatever the motives behind a government-dominated economy, it can have but one result, a loss of individual liberty in thought, speech, and action. A guaranteed life is not free. Social security is a step toward the abrogation of the individual and his absorption into that robot which he has invented to serve him—the paternal state.

When I have said this to some of the youthful proponents of guaranteed existence, I have been met with the argument that men must live, and that when the economic machinery breaks down, men must be cared for lest they starve or revolt. This is quite true, and nobody is opposed to helping his fellow man. But the greatest enemies of democracy, the most violent reactionaries, are those who have lost faith in the capacity of a free people to manage their own affairs and wish to set up the government as a political and social guard-

ian, running their business and making their decisions for them. This is statism, or Stalinism, no matter who advocates it, and it's plain treason to freedom.

Ward of the State

And life is infinitely less important than freedom. A free man has a value to himself and perhaps to his time; a ward of the state is useless to himself—useful only as so many foot-pounds of energy serving those who manage to set themselves above him. A people which has lost its freedom might better be dead, for it has no importance in the scheme of things except as an evil power behind a dictator. In our hearts we all despise the man who wishes the state to take care of him, who would not rather live meagerly as he pleases than suffer a fat and regimented existence. Those who are not willing to sacrifice their lives for their liberty have never been worth saving. Throughout remembered time every self-respecting man has been willing to defend his liberty with his life.

If our country goes totalitarian out of a soft-headed humanitarian impulse to make life easy for the many, we shall get what we vote for and what we deserve, for the choice is still before us, but we shall have betrayed the race of men, and among them the very have-nots whom we subsidize. Our Western continent still has the opportunity to resist the government-led rush of barbarism which is taking Europe back toward Attila, but we can only do it by running our government, and by refusing to let it run us.

If the millions of workmen in this country who are patiently paying their Social Security dues could glimpse the bureaucratic absolutism which that act presages for themselves and their children they would repudiate the whole monstrous and dishonest business overnight. When a government takes over a people's economic life it becomes absolute, and when it has become absolute it destroys the arts, the minds, the liberties, and the meaning of the people it governs. It is not an accident that Germany, the first paternalistic state of modern Eu-

rope, was seized by an uncontrollable dictator who brought on the second world war; not an accident that Russia, adopting a centrally administered economy for humanitarian reasons, has arrived at a tyranny bloodier and more absolute than that of the Czars. . . . Men who are fed by their government will soon be driven down to the status of slaves or cattle.

All these dangers were foreseen by the political leaders who put our Constitution together after the revolution against England. The Constitution is so built that while we adhere to it we cannot be governed by one man or one faction, and when we have made mistakes we reserve the right to change our minds. The division of powers and the rotation of offices were designed to protect us against dictatorship and arbitrary authority. The fact that there are three branches of government makes for a salutary delay and a blessed inefficiency, the elective rotation makes for a government not by cynical professionals, but by normally honest and fairly incompetent amateurs.

That was exactly what the wary old founding fathers wanted, and if we are wise we shall keep it, for no scheme in the history of the world has succeeded so well in maintaining the delicate balance between personal liberty and the minimum of authority which is necessary for the free growth of ideas in a tolerant society. But we shall not keep our Constitution, our freedom, nor our free elections, if we let our government slide gradually into the hands of economic planners who bribe one class of men after another with a state-administered dole.

Since *Knickerbocker Holiday* was written, the power of government in the United States has grown like a fungus in wet weather, price supports and unemployment benefits and farm subsidies are the rule, not the exception, and our government has turned into a giant give-away program, offering far more for votes than was ever paid by the most dishonest ward-heeler in the days of Mark Hanna. . . .

The guaranteed life turns out to be not only not free—it's not safe. □

FREE TO TRY

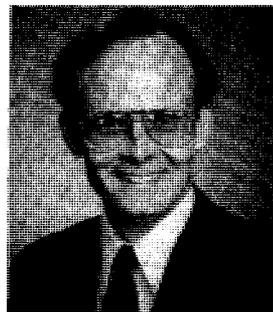
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My Kind of President

When historians are asked to grade the men who have served as America's presidents, they usually give high marks to the so-called "activist" ones—those who expanded the frontiers of the central government, pushed taxes and spending higher, and left a mark on the country by foisting vast new bureaucracies on future generations.

I prefer activist presidents, too, though of a different variety. I give high marks to those presidents who actively sought to uphold the Constitution, and who worked to expand the frontiers of freedom. I'll take a president who leaves us alone over one who can't keep his hands out of other people's pockets any day of the week. Honesty, frugality, candor, and a love for liberty are premium qualities in *my* kind of president.

The one man among post-war presidents (post-*Civil War*, that is) who exemplified those qualities best was Grover Cleveland, who remains the only man ever to serve two nonconsecutive terms in the White House. This month marks the 159th anniversary of his birth in Caldwell, New Jersey.

When Grover Cleveland was elected mayor of Buffalo in 1881, few people outside of western New York had ever heard of him. A year later, he was elected Governor of the state. Two years after that, in 1884, Amer-

icans made him their 22nd president. They did it again in 1892. In his Pulitzer Prize-winning biography *Grover Cleveland: A Study in Courage*, Allan Nevins described the traits that explain such a meteoric political career:

In Grover Cleveland the greatness lies in typical rather than unusual qualities. . . . He possessed honesty, courage, firmness, independence, and common sense. But he possessed them in a degree that others did not. His honesty was of the undeviating type which never compromised an inch; his courage was immense, rugged, unconquerable; his independence was elemental and self-assertive. . . . Under storms that would have bent any man of lesser strength he ploughed straight forward, never flinching, always following the path that his conscience approved to the end.

Cleveland said what he meant and meant what he said. He did not lust for political office and never felt he had to cut corners or equivocate or connive in order to get elected. A man who knew where he stood, he was so forthright and plain-spoken that he makes Harry Truman seem like an indecisive waffler by comparison.

Cleveland took a firm stand against a nascent welfare state. Frequent warnings against the redistributive nature of government were characteristic of his tenure. He regarded as a "serious danger" the notion that government should dispense favors and

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advantages to individuals or their businesses.

In vetoing a bill in 1887 that would have appropriated a mere \$10,000 in aid for drought-stricken Texas farmers, Cleveland noted that “though the people support the Government, the Government should not support the people.” For relief of citizens in misfortune, the president felt it was important to rely upon “the friendliness and charity of our countrymen.”

That veto was one of many. In fact, Cleveland in his first term refused to sign twice as many bills as did all previous 21 presidents *combined*. Most of those bills were nothing more than cynical attempts by somebody to get something from somebody else by the force of the government’s gun.

He struck down one river or harbor improvement bill after another. Disdainful of pork barrel politics, he felt that those who would use and gain from such projects should pay for them.

Cleveland broke with the common practice of presidents’ bloating the federal bureaucracy with their cronies. As the first Democrat to win the White House since James Buchanan in 1856, he was expected by many in his party to pass out the plush government jobs they longed for. But those who longed for patronage underestimated Cleveland’s commitment to good, clean, and limited government. He maintained the highest standards, making appointments when necessary and then, only of those whose character and qualifications were beyond reproach.

Close political advisers strongly urged Cleveland in 1887 to avoid pushing for lower tariffs until after the following year’s election. Too risky, they told him. But the president’s mind was made up and in characteristic fashion he said so. “I did not wish to be re-elected without having the people understand just where I stood . . . and then spring the question on them after my re-election,” he later declared. He rightly argued that tariffs stifle competition, raise

prices, and violate the people’s freedom to patronize the sellers of their choice.

On the matter of a sound currency, Cleveland stood firm as a mountain. It was, in fact, the paramount issue of his second term. Debtor farmers, silver mining interests, and inflationist quacks—during the terms of other presidents—had secured passage of laws that belched out depreciated silver currency and ballooned the nation’s paper money supply. With the country’s financial system reeling from Congress’s monetary mismanagement, Cleveland defended the gold standard as a matter of honesty and integrity.

Even in foreign policy, Cleveland’s instincts were principled and sound. He was a noninterventionist who thought that other nations should keep to their own legitimate business too. He invoked the Monroe Doctrine and suppressed Great Britain’s territorial ambitions in this hemisphere, particularly its phony claims against Venezuela. He canceled President Harrison’s proposal to the Senate for annexing Hawaii, arguing that America had no right to acquire the islands by engineering the overthrow of Queen Liliuokalani.

Grover Cleveland wasn’t perfect. Under the illusion that reasonable regulation would undo the harm that railroads had done with the subsidies and privileges that previous administrations had given them, he signed into law the bill that created the Interstate Commerce Commission. He did not anticipate the anti-competitive force the ICC eventually became.

Cleveland was also persuaded to take an obscure bureau from within the government and make it the new Department of Agriculture in his first term. In his second term, however, he whacked away at its budget and canceled programs that bestowed free seeds and other handouts on farmers.

This year marks the one hundredth anniversary of Grover Cleveland’s last full year in office. As Americans prepare to choose another president, they would do well to ponder the reasons why their ancestors picked this one twice. □

America's Other Democracy

by William H. Peterson

Leonard Read used to tell the story of a shopper in a crowded department store during the Christmas rush. After buying some gifts, she forges her way to the gift-wrap counter, telling the clerk how jammed the store is. "Yes," says the clerk, "it's our *best* day so far." Then the shopper walks over to the post office to mail her gift packages, again remarking to a clerk on the crowd in the post office. "Yes," muttered the clerk, "it's our *worst* day so far."

The Read story ties into the partisan fracas over the federal budget, a fracas between those who would "reinvent" government and those who would "disinvent" it. Initially, the disinventors would eliminate the U.S. Commerce, Energy, and Education Departments and some 300 programs, including funding for the National Endowment for the Arts and the Corporation for Public Broadcasting. Down would go a big chunk of government.

Reinventors shake their heads and ask: But what, if anything, takes the place of that chunk?

The answer, it seems to me, swings on perceiving and re-evaluating what amounts to America's second democracy. This is a largely undiscerned sector under the rule of law which in important respects is larger than the first.

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Think about it: There's a dominion within our dominion that works without pork, taxes, political parties, bureaucratic chicanery, and government waste. What is more, this second democracy, while hardly perfection, is strictly voluntary, self-regulating, and a lot more moral than the first democracy. On the critical matters of consent and participation, this second democracy also wins hands down.

Well, where is this unsung Shangri-La where the people themselves command and control, direct and manage a slew of hierarchies of authority?

It's all around, under your nose, as near as your telephone from which you can call a doctor or plumber, or order a pizza or airline tickets. This democracy is the common—if unrealized and unappreciated—*marketplace*. Indeed, it's the whole private sector.

Consider. In America's first democracy 104 million votes were cast in the last Presidential election. In the second democracy, *billions* of votes are cast *daily* to make phone calls or watch TV or pay rent or use some other market facility such as a bank, restaurant, gas station, motel, newspaper, coin laundry, supermarket, brokerage office, country club, corner bar, and now interactive TV or the modemized PC. Throughout, dollars are ballots.

The Miracle of the Market

Note that every day is Election Day in the marketplace, that it is based on free choice,

that it regulates itself with high prices encouraging supply and discouraging demand, with low prices discouraging supply and encouraging demand. Free prices thus ever adjust to new conditions, erasing shortages and surpluses as they develop—unheard of in the first democracy.

This is the ordinary extraordinary market which Nobel Laureate F. A. Hayek called a “marvel.” Marvelous to behold for its inherent dynamics and growth. Said Thomas Paine in his *Rights of Man* in 1791: “Society performs for itself almost everything which is ascribed to government.”

Note too that in marketplace democracy every producer-candidate is held strictly accountable, that he runs scared all the time, that he daily tries to score with a better product at less cost for the sovereign consumer—sovereign because of his life-or-death power of the purse. (Importantly, the sovereign consumer includes the business consumer.)

Indeed, the consumer is king or queen, an absolute monarch ruling this second dominion with an iron hand. Ordering this. Ordering that. Literally. Even lethally. Your mother (or grandmother or great-grandmother, depending on your age) did in the iceman in the 1920s and 1930s. How? She and millions of her cohorts switched their votes—and bought refrigerators, and today the iceman cometh no longer.

Reinventors complain about America’s inequality of wealth. But they don’t mention how this wealth is put to work for all Americans—and at risk. As Ludwig Mises says in *Human Action*: “Ownership of the means of production is not a privilege, but a social liability.”

Mises explains that savers, investors, landowners, and all other owners of wealth are prompted by self-interest to place their property at the highest possible advantage to the consumers. If the capitalists are slow or inept in advantaging the consumers, they incur losses. And if they don’t mend their ways, they lose their wealth. Among corporate giants who lost market share and had to play catch-up: IBM, General Motors, Sears, Xerox.

Too, with the marketplace invariably based on individual consent, it reflects social cooperation and peaceful dealing even with local tensions. Hindus and Muslims, for example, trade with each other—that is, vote for each other—in Calcutta, as do Catholics and Protestants in Belfast, Arabs and Jews in Jerusalem, blacks and whites in Johannesburg.

In a similar vein, says a wise old IBM slogan: “World Peace Through World Trade.” Indeed. So sip your tea from Sri Lanka, drive your car with gasoline refined from oil from Kuwait, eat a banana from Ecuador, enjoy your wine from France, your camera from Japan, your furniture from Finland, your cocoa from the Ivory Coast. Millions of people who are strangers help each other, cooperate with each other, depend on each other. What world leader has achieved such remarkably harmonious domestic and international collaboration across the globe?

To be sure, government is essential to safeguard life, liberty, and property—otherwise we’d plunge into anarchy. But the core problem of the last 66 years of hyperactive, interventionist government reaches beyond deficit spending and heavy inflation; it is this:

Expansion of the first democracy means diminution of the second—the shrinkage of freedom and free enterprise.

Yet the Father-Knows-Best state stretches from the Davis-Bacon Act to Social Security, from Medicare to the Environmental Protection Agency, from the Federal Deposit Insurance Corporation to the Fair Labor Standards Act to the progressive income tax, to thousands of other state interventions, all highly politicized, all impeding social cooperation.

These interventions are at odds with the Mises concept of market-driven economic calculation whose lack befuddles state planners and regulators. This lack is the Achilles’ heel of socialism and interventionism. Nonetheless, state interventions persist, boomerang, make things worse, set back the second democracy and a key principle of a free society—consent by the individual. □

Inequality of Wealth and Incomes

by Ludwig von Mises

The market economy—capitalism—is based on private ownership of the material means of production and private entrepreneurship. The consumers, by their buying or abstention from buying, ultimately determine what should be produced and in what quantity and quality. They render profitable the affairs of those businessmen who best comply with their wishes and unprofitable the affairs of those who do not produce what they are asking for most urgently. Profits convey control of the factors of production into the hands of those who are employing them for the best possible satisfaction of the most urgent needs of the consumers, and losses withdraw them from the control of the inefficient businessmen. In a market economy not sabotaged by the government the owners of property are mandataries of the consumers as it were. On the market a daily repeated plebiscite determines who should own what and how much. It is the consumers who make some people rich and other people penniless.

Inequality of wealth and incomes is an essential feature of the market economy. It is the implement that makes the consumers

supreme in giving them the power to force all those engaged in production to comply with their orders. It forces all those engaged in production to the utmost exertion in the service of the consumers. It makes competition work. He who best serves the consumers profits most and accumulates riches.

In a society of the type that Adam Ferguson, Saint-Simon, and Herbert Spencer called militaristic and present-day Americans call feudal, private property of land was the fruit of violent usurpation or of donations on the part of the conquering warlord. Some people owned more, some less and some nothing because the chieftain had determined it that way. In such a society it was correct to assert that the abundance of the great landowners was the corollary of the indigence of the landless.

But it is different in a market economy. Bigness in business does not impair, but improves the conditions of the rest of the people. The millionaires are acquiring their fortunes in supplying the many with articles that were previously beyond their reach. If laws had prevented them from getting rich, the average American household would have to forgo many of the gadgets and facilities that are today its normal equipment. This country enjoys the highest standard of living ever known in history because for several generations no attempts were made toward “equalization” and “redistrib-

Professor Mises (1881-1973), one of the century's pre-eminent economic thinkers, was academic adviser to The Foundation for Economic Education from 1946 until his death.

This article first appeared in the May 1955 issue of Ideas on Liberty, published by FEE.

bution.” Inequality of wealth and incomes is the cause of the masses’ well-being, not the cause of anybody’s distress. Where there is a “lower degree of inequality,” there is necessarily a lower standard of living of the masses.

Demand for “Distribution”

In the opinion of the demagogues inequality in what they call the “distribution” of wealth and incomes is in itself the worst of all evils. Justice would require an equal distribution. It is therefore both fair and expedient to confiscate the surplus of the rich or at least a considerable part of it and to give it to those who own less. This philosophy tacitly presupposes that such a policy will not impair the total quantity produced. But even if this were true, the amount added to the average man’s buying power would be much smaller than extravagant popular illusions assume. In fact the luxury of the rich absorbs only a slight fraction of the nation’s total consumption.

The much greater part of the rich men’s incomes is not spent for consumption, but saved and invested. It is precisely this that accounts for the accumulation of their great fortunes. If the funds which the successful businessmen would have ploughed back into productive employments are used by the state for current expenditure or given to people who consume them, the further accumulation of capital is slowed down or entirely stopped. Then there is no longer any question of economic improvement, technological progress, and a trend toward higher average standards of living.

When Marx and Engels in the *Communist Manifesto* recommended “a heavy progressive or graduated income tax” and “abolition of all right of inheritance” as measures “to wrest, by degrees, all capital from the bourgeoisie,” they were consistent from the point of view of the ultimate end they were aiming at, viz., the substitution of socialism for the market economy. They were fully aware of the inevitable consequences of these policies. They openly declared that

these measures are “economically untenable” and that they advocated them only because “they necessitate further inroads” upon the capitalist social order and are “unavoidable as a means of entirely revolutionizing the mode of production,” i.e., as a means of bringing about socialism.

But it is quite a different thing when these measures which Marx and Engels characterized as “economically untenable” are recommended by people who pretend that they want to preserve the market economy and economic freedom. These self-styled middle-of-the-road politicians are either hypocrites who want to bring about socialism by deceiving the people about their real intentions, or they are ignoramuses who do not know what they are talking about. For progressive taxes upon incomes and upon estates are incompatible with the preservation of the market economy.

The middle-of-the-road man argues this way: “There is no reason why a businessman should slacken in the best conduct of his affairs only because he knows that his profits will not enrich him but will benefit all people. Even if he is not an altruist who does not care for lucre and who unselfishly toils for the common weal, he will have no motive to prefer a less efficient performance of his activities to a more efficient. It is not true that the only incentive that impels the great captains of industry is acquisitiveness. They are no less driven by the ambition to bring their products to perfection.”

Supremacy of the Consumers

This argumentation entirely misses the point. What matters is not the behavior of the entrepreneurs but the supremacy of the consumers. We may take it for granted that the businessmen will be eager to serve the consumers to the best of their abilities even if they themselves do not derive any advantage from their zeal and application. They will accomplish what according to their opinion best serves the consumers. But then it will no longer be the consumers that determine what they get. They will have to

take what the businessmen believe is best for them. The entrepreneurs, not the consumers, will then be supreme. The consumers will no longer have the power to entrust control of production to those businessmen whose products they like most and to relegate those whose products they appreciate less to a more modest position in the system.

If the present American laws concerning the taxation of the profits of corporations, the incomes of individuals and inheritances had been introduced about sixty years ago, all those new products whose consumption has raised the standard of living of the "common man" would either not be produced at all or only in small quantities for the benefit of a minority. The Ford enterprises would not exist if Henry Ford's profits had been taxed away as soon as they came into being. The business structure of 1895 would have been preserved. The accumulation of new capital would have ceased or at least slowed down considerably. The expansion of production would lag behind the increase of population. There is no need to expatiate about the effects of such a state of affairs.

Profit and loss tell the entrepreneur what the consumers are asking for most urgently. And only the profits the entrepreneur pockets enable him to adjust his activities to the demand of the consumers. If the profits are expropriated, he is prevented from complying with the directives given by the consumers. Then the market economy is deprived of its steering wheel. It becomes a senseless jumble.

People can consume only what has been produced. The great problem of our age is precisely this: Who should determine what is to be produced and consumed, the people or the State, the consumers themselves or a paternal government? If one decides in favor of the consumers, one chooses the market economy. If one decides in favor of the government, one chooses socialism. There is no third solution. The determination of the purpose for which each unit of the various factors of production is to be employed cannot be divided.

Demand for Equalization

The supremacy of the consumers consists in their power to hand over control of the material factors of production and thereby the conduct of production activities to those who serve them in the most efficient way. This implies inequality of wealth and incomes. If one wants to do away with inequality of wealth and incomes, one must abandon capitalism and adopt socialism. (The question whether any socialist system would really give income equality must be left to an analysis of socialism.)

But, say the middle-of-the-road enthusiasts, we do not want to abolish inequality altogether. We want merely to substitute a lower degree of inequality for a higher degree.

These people look upon inequality as upon an evil. They do not assert that a definite degree of inequality which can be exactly determined by a judgment free of any arbitrariness and personal evaluation is good and has to be preserved unconditionally. They, on the contrary, declare inequality in itself as bad and merely contend that a lower degree of it is a lesser evil than a higher degree in the same sense in which a smaller quantity of poison in a man's body is a lesser evil than a larger dose. But if this is so, then there is logically in their doctrine no point at which the endeavors toward equalization would have to stop.

Whether one has already reached a degree of inequality which is to be considered low enough and beyond which it is not necessary to embark upon further measures toward equalization, is just a matter of personal judgments of value, quite arbitrary, different with different people and changing in the passing of time. As these champions of equalization appraise confiscation and "redistribution" as a policy harming only a minority, viz., those whom they consider to be "too" rich, and benefiting the rest—the majority—of the people, they cannot oppose any tenable argument to those who are asking for more of this allegedly beneficial policy. As long as any degree of inequality is left, there will always be people whom

envy impels to press for a continuation of the equalization policy. Nothing can be advanced against their inference: If inequality of wealth and incomes is an evil, there is no reason to acquiesce in any degree of it, however low; equalization must not stop before it has completely leveled all individuals' wealth and incomes.

The history of the taxation of profits, incomes and estates in all countries clearly shows that once the principle of equalization is adopted, there is no point at which the further progress of the policy of equalization can be checked. If, at the time the Sixteenth Amendment was adopted, somebody had predicted that some years later the income tax progression would reach the height it has really attained in our day, the advocates of the Amendment would have called him a lunatic. It is certain that only a small minority in Congress will seriously oppose further sharpening of the progressive element in the tax rate scales if such a sharpening should be suggested by the Administration or by a congressman anxious to

enhance his chances for re-election. For, under the sway of the doctrines taught by contemporary pseudo-economists, all but a few reasonable men believe that they are injured by the mere fact that their own income is smaller than that of other people and that it is not a bad policy to confiscate this difference.

There is no use in fooling ourselves. Our present taxation policy is headed toward a complete equalization of wealth and incomes and thereby toward socialism. This trend can be reversed only by the cognition of the role that profit and loss and the resulting inequality of wealth and incomes play in the operation of the market economy. People must learn that the accumulation of wealth by the successful conduct of business is the corollary of the improvement of their own standard of living and vice versa. They must realize that bigness in business is not an evil, but both the cause and effect of the fact that they themselves enjoy all those amenities whose enjoyment is called the "American way of life." □

Back in print!



LIBERALISM: The Classical Tradition

By Ludwig von Mises

"I heartily recommend *Liberalism*, not only as the best introduction to Mises' writings, but also as the finest exposition of classical liberalism—the philosophy of free men, free markets, and limited government."

—Robert Hessen

Senior Research Fellow, Hoover Institution

LIBERALISM: The Classical Tradition by Ludwig von Mises neatly sums up the ideas and principles of nineteenth-century classical liberalism as they apply to the twentieth century. First published in Germany in 1927, *Liberalism* 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. Republished by FEE in 1985; 2nd printing 1995.

230 pages

\$14.95 paperback

Competition and Cooperation

by Donald J. Boudreaux and Hugh Macaulay

Free-market competition is often described as “cutthroat” and “wasteful.” “Dog-eat-dog” rivalries are fueled by “greedy self-interests” operating according to “the law of the jungle” in which “survival of the fittest” is the only rule. In contrast, government regulation is said to have the potential to promote genuine cooperation in which citizens “pull together” to advance the common good. On the rhetorical battlefield, “competition” is too often out-gunned by “cooperation.”

But those who deplore free-market competition simply do not understand it. Competitive markets excel at promoting cooperation. Indeed, to succeed in the market requires great cooperative skills.

Adam Smith described how a person buying a wool coat gains his comfort as a result of the willing cooperative efforts of many workers in widely varied activities—from raising sheep to spinning yarn to retailing. Every wool coat requires that very large numbers of people coordinate their efforts—cooperate—in production and distribution. Perhaps more famously, Leonard Read told of the pencil—an apparently simple device whose existence would be impossible without the cooperation of countless people and firms from around the globe.

Still, private firms selling coats and pencils are described as competitive, not as cooperative. And so they are in a genuine sense. Each firm, each producer, competes

for the advantage of satisfying consumer demands. But these firms are no less cooperative. A mistake made by those who condemn competitive capitalism is to assume that competition and cooperation are two alternative means of achieving some end. Alternatives they are not. Competition and cooperation are not only complementary human relationships—each is an unavoidable reality of human society. A mark of a peaceful and prosperous society is that both competition and cooperation are channeled into their appropriate realms.

The Principal Realm of Each Activity

A symphony orchestra is an unequaled example of cooperation, yet competition has a role to play even in orchestras. Different musicians compete for each seat in the orchestra, just as different conductors compete to be maestro. Moreover, different orchestras compete for the privilege of making recordings with prestigious recording studios. Football and baseball teams parallel orchestras in these respects: different players compete for slots on the team, and different teams compete against each other for the championship. And although less obvious, the production of steel, the operation of a department store, and the publication of a magazine all involve *both* cooperation and competition. Competition and cooperation are unavoidable in human society.

Competition is inseparable from scarcity.

Drs. Boudreaux and Macaulay are faculty members at Clemson University.

Scarcity exists when there is not enough of some good to provide consumers with all they would take if it were free. It follows that we must find some way to decide who gets how much of any scarce good. The accepted way in a free society is to allow those who want a particular good—say, a bushel of apples—to bid for it. The bushel of apples will then go to the person who voluntarily sacrifices the greatest quantity of other goods in exchange for the apples. We call such bidding competition, but note that such competition differs fundamentally from another kind of “competition” that could be used to allocate the apples—physical terror: he gets the apples who beats up all others who want the apples.

Capitalism’s critics insist that there is a cooperative way to allocate resources. People can meet together and agree who gets what. Early American colonists in Jamestown and Plymouth initially tried to avoid all competition and allocated resources exclusively by cooperative, collective decision. The result was starvation. When each settler realized that his food entitlement was independent of the amount of work he put in, too many settlers chose not to cooperate in the community’s productive efforts. In both colonies, the specter of starvation forced the abandonment of these collectivist plans, and output then expanded.¹

Similarly, the Marxist plan for distribution is a wonderfully cooperative, and detrimental, scheme. If needs are the basis upon which goods are allocated, it will pay each person to produce not goods but “needs.” It will pay people to move toward poverty, for only then will one’s needs be maximized. Moreover, if others do not readily recognize these “needs,” it will pay those in “need” to exert efforts emphasizing the genuineness of their “needs.” Such cooperation on this score would produce not only universal poverty—society would be awash in nothing but “needs”—but also hostility among those who do not receive what they believe to be their due. Such an outcome is hardly a happy consequence for a cooperative society.

Cooperation is appropriate, of course,

when the coordinated efforts and knowledge of many people are necessary to produce a good—such as Adam Smith’s wool coat or Leonard Read’s pencil. People who competed for jobs now find themselves cooperating with others to produce a product. This cooperation takes place not only among fellow employees but among firms with their customers, stockholders, creditors, and with all manner of suppliers. Sellers cooperate with buyers so that buyers will become repeat customers. Employers cooperate with workers to improve worker productivity. Customers cooperate with suppliers to ensure reliable service and quality supplies. Cooperation is indeed a hallmark of all economic activity in a competitive market.

Socialists and so-called “communitarians” may believe that their systems are free of competition and marked only by cooperation. Yet resources are scarce in planned economies no less than in capitalist economies. At some level, competition will emerge to allocate these scarce resources. In planned economics, people will compete to occupy positions of power.

These power struggles, though perhaps hidden from sight, are undeniably competitive. With more power concentrated among the decision makers, losers may give up more than mere goods. When Stalin decided how to allocate Crimean grain in the early 1930s, approximately two million kulaks lost their wheat and their lives.

The Good and the Bad

Not all varieties of competition are beneficial, just as not all varieties of cooperation are desirable. Labor unions are made up of cooperating workers. To the extent that unions secure special-interest legislation, the wages of workers cooperating in a union are raised at the expense of consumers and of non-unionized workers. Similarly, businesses often cooperate through trade associations that lobby effectively for import restrictions. Such cooperation yields benefits for the few at the greater expense of the many.

Popular phrases describing competition were cited at the beginning of this essay. All such phrases are pejorative. And indeed, competition can be bad. If the owners of General Motors spread nails on the roads leading to Ford factories and dealerships, this is a form of noneconomic competition—and a most undesirable form. General Motors benefits not only at the expense of Ford, but also at the expense of consumers because the nails on the road effectively eliminate consumers' option of buying Fords. But notice that identically undesirable consequences occur when General Motors and Ford cooperate with each other to lobby successfully for import restrictions on foreign automobiles. Tariffs hurt consumers no less than do nails on the road. Genuine cutthroat competition occurs whenever firms successfully lobby government for artificial "advantages" such as tariffs or regulations that unnecessarily burden rivals: consumers and foreign-producers are harmed by government pandering to interest groups. Few people, however, refer to tariffs, dumping laws, and costly regulations as examples of cutthroat competition or business cooperation. Instead, such legislation is typically revered as desirable social policy.

The phrases "dog-eat-dog" and "survival of the fittest" are harsh-sounding phrases, and they vastly misrepresent competitive activity within private-property markets. In competitive markets, firms do not attack each other claw and fang. Rather, firms do battle by seeing who can best serve the customer. That is, in competitive markets, firms compete by seeing who can best *cooperate* with consumers. K-Mart and Wal-Mart strive to offer consumers better deals because each firm knows that if it fails to offer good deals, customers will patronize other, more responsive firms. Both firms survive as long as each cooperates with consumers effectively enough to earn prof-

its. To protect firms from the competition of rival firms would be to encourage protected firms to be less cooperative with consumers.

Of course, in any competitive industry only the fittest firms do survive. In the 1930s, groceries were distributed mainly by mom-and-pop stores. Today, supermarkets—each of which carries on average about 50,000 different kinds of products—have replaced the mom-and-pops. Supermarkets did not prey on mom-and-pop stores as cheetahs prey on gazelles. Supermarkets offered consumers a new shopping choice. Consumers voluntarily switched their patronage from mom-and-pops to supermarkets because, as judged by consumers, supermarkets cooperated better with consumers than did the mom-and-pops. No supermarket literally killed mom or pop. Some of these small-store owners retired while others moved into other lines of work. Today, the descendants of the owners of mom-and-pops are surely better off than they would have been had supermarkets never come along.

Conclusion

Competition in the marketplace is competition among cooperators. While the best cooperators in each line of work "win" in the sense of earning greater profits than their rivals, these victors do not literally destroy rivals. Rivals unsuccessful in one line of work move into other lines, where they are more likely to enjoy a comparative advantage. Market discipline, in combination with the information conveyed in the form of market prices, ensures that each of us is cooperating with as many other people as possible, in the most effective manner possible. Far from undermining cooperation, the market enhances cooperation. □

1. See Robert C. Ellickson, "Property in Land," *Yale Law Journal*, Vol. 102, April 1993, pp. 1315-1400.

“From Each According to His Abilities . . .”

by Thomas J. Shelly

As a teacher, I found that the socialist-communist idea of taking “from each according to his abilities,” and giving “to each according to his needs” was generally accepted without question by most students. In an effort to explain the fallacy in this theory, I sometimes tried this approach:

When one of the brighter or harder-working students made a grade of 95 on a test, I suggested that I take away 20 points and give them to a student who had made only 55 points on his test. Thus each would contribute according to his abilities and—since both would have a passing mark—each would receive according to his needs. After I juggled the grades of all the other students in this fashion, the result was usually a “common ownership” grade of between 75 and 80—the minimum needed for passing, or for survival. Then I speculated with the students as to the probable results if I actually used the socialistic theory for grading papers.

First, the highly productive students—

The late Mr. Shelly was a high school teacher in Yonkers, New York.

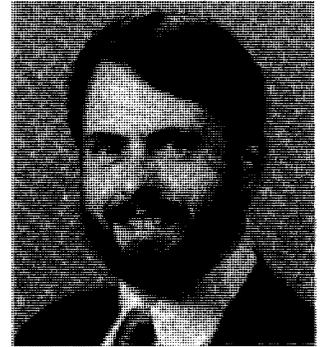
This essay, first published in 1951 as “A Lesson in Socialism,” was a popular FEE reprint for many years.

and they are always a minority in school as well as in life—would soon lose all incentive for producing. Why strive to make a high grade if part of it is taken from you by “authority” and given to someone else?

Second, the less productive students—a majority in school as elsewhere—would, for a time, be relieved of the necessity to study or to produce. This socialist-communist system would continue until the high producers had sunk—or had been driven down—to the level of the low producers. At that point, in order for anyone to survive, the “authority” would have no alternative but to begin a system of compulsory labor and punishments against even the low producers. They, of course, would then complain bitterly, but without understanding.

Finally I returned the discussion to the ideas of freedom and enterprise—the market economy—where each person has freedom of choice and is responsible for his own decisions and welfare.

Gratifyingly enough, most of my students then understood what I meant when I explained that socialism—even in a democracy—would eventually result in a living death for all except the “authorities” and a few of their favorite lackeys. □



The Morality of Freedom

Freedom. Presumably every reader of *The Freeman* is committed to this principle. But why? What good is it?

After I endorsed a federal budget “train wreck,” arguing that closing down the government would help people appreciate the value of freedom, one correspondent chided me: “What has freedom ever done for African-Americans?” The question is important. Consider the problems of poverty and crime. Consider the scourge of slavery and discrimination. Of what relevance is our abstract commitment to liberty?

Supporters of a free society sometimes seem to drift off into cant, denouncing the “state” and upholding “individuals.” They use the word “liberty” like a talisman, which they expect to mesmerize everyone. Critics of collectivism have long focused on economic analysis—inefficiency, lack of cost-effectiveness, and waste have all become bywords. And when the votes have been counted, they have lost.

This is not to say that practical arguments are irrelevant. Whether a policy works, and at what cost, are critical questions. The efficiency case for freedom is overwhelming.

But it is not the most important, or most convincing, argument. Advocates of statism have long understood this. They propose an increase in the minimum wage to help struggling families, not to eliminate imperfections in labor-management negotiations. They

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propose corporate average fuel economy (CAFE) standards for automakers to save energy and the environment, not to make cars more cost-efficient. They propose safety regulations to save lives, not to ensure a proper balancing of costs and benefits in manufacturing. They propose the welfare state to assist the poor and elderly, not to standardize the provision of social services. In short, they emphasize the *moral* case for intervention.

Against which practical arguments usually fail. I want to ensure that poor families can feed themselves and you want to protect corporate profits. I want to preserve the environment for future generations and you want to let automakers make more money selling gas-guzzlers. I want to protect children’s lives and you want to ensure lower-cost production. I want to save the helpless and disadvantaged and you want to cut the deficit. There should be no surprise that advocates of a free society have so often lost.

But we have moral arguments too, stronger moral arguments since political freedom is, ultimately, based on moral principle. Rather than dividing society between ruled and rulers, we believe that all people are truly equal. That human beings really are endowed by their creator with certain inalienable rights. That they have the right to live their lives without outside interference, so long as they respect the rights of others. Liberty goes to the core of the human person, the right to live life with dignity,

strive for success, build a family and community, worship God, and earn a living. Without freedom none of these is possible.

Of course, all of this sounds terribly abstract. But the practical implications, too, are profound, and can still be explained in moral terms. Consider the question posed by my correspondent: what has freedom done for African-Americans? Let's turn it around: what has the lack of freedom done for African-Americans?

One need only visit an inner-city to see the horrendous consequences of statism. Where to start? Everyone has a right to form a family and household. But look at the impact of welfare, which has discouraged family formation and encouraged family break-up. Everyone should be able to choose a safe and effective school for one's children. The government's educational monopoly, however, has created schools which cannot even protect children from violence, let alone teach them to read. Everyone is entitled to walk the streets without being robbed, assaulted, or murdered. Yet drug prohibition, by creating an artificial criminal market, has fueled an epidemic of crime in urban America. Everyone should be able to find a job and get on the economic ladder of opportunity. Alas, government employment restrictions, like the minimum wage, occupational licensing, and the Davis-Bacon Act, make it hard for African-Americans to get work. And on and on.

The vision of a free society, then, is a profoundly moral one. It is a place where poor children are educated. It is a place in which poor women are not trapped in poverty. It is a place in which people do not drop to the floor when gunfights erupt outside their houses. It is a place in which those with political power do not constitute a privileged class. It is a place in which the phrase "equal opportunity" has real meaning.

We need to communicate that vision in both Washington policy debates and the larger political discourse of our nation. Advocates of a free society have been learning, and we are winning some battles because of it. Among these:

- **The minimum wage.** Once advocates of freedom began to emphasize that the minimum wage destroys jobs rather than, say, contributes to inflation, they gained more listeners. Even reporters now cite the negative impact of the minimum on minority unemployment.

- **CAFE.** Congress routinely ignored attacks on federal fuel standards when critics focused on the cost to manufacturers. But opponents of CAFE have had greater success after pointing out that CAFE, by forcing people into smaller cars, kills. The point is, when cars crash, the smaller one, along with its occupants, loses.

- **Food and Drug Administration.** After the tragedy with thalidomide, Congress tightened FDA control over pharmaceuticals and no plea about the costs to U.S. manufacturers could move it. But as deregulators have shown how the FDA is actually killing people by delaying production of new drugs and devices and interfering with transmission of medical information, the FDA is promising to reform.

- **Education.** Public education has long been one of the strongest bulwarks of the interventionist state, impervious to overwhelming evidence of failure. But the rhetoric of choice, especially for the inner city, has begun to divide liberals concerned about the interests of teachers' unions from those concerned about the future of disadvantaged kids.

- **Welfare.** Criticism of AFDC, Food Stamps, and the like on budget grounds long had only a limited effect. But the argument that the real crisis is human—a catastrophe in which young boys are growing up without fathers, becoming criminals, and being jailed or gunned down, and young girls are permanently wedded to welfare and losing their sense of dignity, worth, and opportunity—is now accepted even by many on the Left.

Part of the lesson from these cases is to appeal to the emotion as well as the intellect. But it's more than that. As much as policy-makers like to criticize "ideologues," they base many of their actions on principle, on what they think is right and wrong.

So we need to convince our fellow citizens that not all policy outcomes are equal in principle. Rather, there are moral implications of taxing and spending, regulating and intervening. To deny parents a choice on the education of their children, to lock disadvantaged kids in schools where they won't learn and aren't safe, is *wrong, morally wrong*. To buttress union wages through the minimum wage while throwing black teens out of work is *wrong, morally wrong*. To let government bureaucrats deny dying patients access to lifesaving products is

wrong, morally wrong. In these cases freedom means opportunity, career, and life itself. Freedom matters.

It is unfortunately easy for liberty's defenders to eschew moral arguments. The temptation is particularly strong for those within the Beltway, since Washington discourages appeals to principle on behalf of freedom. But the strongest case for the free society is philosophical. In the end, we aren't likely to win until we are able to convince our fellow citizens that liberty is morally right. □

FEE Classic Reprint

Legalized Immorality

by Clarence Manion

It must be remembered that 96 percent of the peace, order, and welfare existing in human society is always produced by the conscientious practice of person-to-person justice and charity. When any part of this important domain of personal virtue is transferred to government, that part is automatically released from the restraints of morality and put into the area of conscienceless coercion. The field of personal responsibility is thus reduced at the same time and to the same extent that the boundaries of irresponsibility are enlarged.

Government cannot manage these fields

The late Clarence Manion was Dean of the College of Law, Notre Dame University.

"Legalized Immorality," an excerpt from his 1950 book, The Key to Peace, appeared in Essays on Liberty, Volume I (FEE, 1952).

of human welfare with the justice, economy, and effectiveness that are possible when these same fields are the direct responsibility of morally sensitive human beings. This loss of justice, economy, and effectiveness is increased in the proportion that such governmental management is centralized. . . .

Government cannot make men good; neither can it make them prosperous and happy. The evils in society are directly traceable to the vices of individual human beings. At its best government may simply attack the secondary manifestations of these vices. Their primary manifestations are found in the pride, covetousness, lust, envy, sloth, and plain incompetency of individual people. When government goes far beyond its limited role and deploys its forces along

a broad, complicated front, under a unified command, it invariably propagates the very evils that it is designed to reduce.

In the sweet name of "human welfare" such a government begins to do things that would be gravely offensive if done by individual citizens. The government is urged to follow this course by people who consciously or subconsciously seek an impersonal outlet for the "primaries" of human weakness. An outlet in other words which will enable them to escape the moral responsibility that would be involved in their personal commission of these sins. As a convenience to this popular attitude we are assured that "government should do for the people what the people are unable to do for themselves." This is an extremely dangerous definition of the purpose of government. It is radically different from the purpose stated in the Declaration of Independence; nevertheless it is now widely accepted as correct.

Here is one example of centralized governmental operation: Paul wants some of Peter's property. For moral as well as legal reasons, Paul is unable personally to accomplish this desire. Paul therefore persuades the government to tax Peter in order to

provide funds with which the government pays Paul a "subsidy." Paul now has what he wanted. His conscience is clear and he has proceeded "according to law." Who could ask for more?—why, Paul, of course, and at the very next opportunity. There is nothing to stop him now *except the eventual exhaustion of Peter's resources.*

The fact that there are millions of Pauls and Peters involved in such transactions does not change their essential and common characteristic. The Pauls have simply engaged the government "to do for them (the people) that which they are unable to do for themselves." Had the Pauls done this individually and directly without the help of the government, each of them would have been subject to fine and imprisonment.

Furthermore, 95 percent of the Pauls would have refused to do this job because the moral conscience of each Paul would have hurt him if he did. However, where government does it for them, there is no prosecution and no pain in anybody's conscience. This encourages the unfortunate impression that by using the ballot instead of a blackjack we may take whatever we please to take from our neighbor's store of rights and immunities. □

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Nullifying the Rule of Law

by Mark S. Pulliam

What do nineteenth-century anarchist Lysander Spooner,¹ the O. J. legal defense team, some elements of the militia movement,² the Los Angeles juries that failed to convict the Menendez brothers of murdering their parents and that acquitted the brutal assailants of Reginald Denny, and the activists who promote the idea of “fully informed juries”³ have in common?

They all symbolize the notion that juries can and should refuse to heed the instructions given them by the trial judge, and that jurors should instead follow their own consciences and “nullify” those instructions by doing what they personally feel is just.

Jury instructions are the applicable legal rules communicated to the jury by the trial judge. In virtually every jurisdiction, jurors take an oath at the beginning of the case that they will consider only the evidence presented and the instructions of the court. The “instructions” are, therefore, laws that society has duly enacted through either the legislative process or the common law judicial process. In either event, the laws derive legitimacy from our democratic political traditions.

As citizens, we may not agree with all the laws on the books, but in a system of representative government we are bound to follow them. It is inherent in the concept of the State that there will not be unanimity in all matters, but that the views of the majority will prevail. This “coercion” or

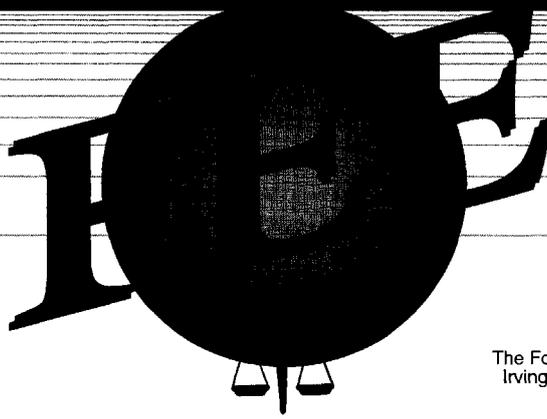
“oppression” of the dissenting minority has long perturbed anarchist philosophers such as the aforementioned Spooner, who objected to the “social compact” rationale for the state as well as the institution of the jury.⁴ Jury-power activists sometimes cite Spooner as a proponent of “jury nullification,” but he is best known for his more fundamental objection to constitutional government.

On what basis do advocates of jury nullification attempt to justify the lawlessness that ignoring the court’s instructions entails? Advocates advance two principal explanations, neither of which is persuasive: (1) civil disobedience, or the moral right or obligation to resist enforcement of an unjust law,⁵ and (2) populist opposition to tyrannical actions by an unresponsive government.⁶ Let’s consider these explanations.

Civil Disobedience

Civil disobedience is a misnomer in the context of a seated juror refusing to follow the law. Civil disobedience, properly understood, is resistance to unjust government action as a last resort—when disobedience is the only alternative to becoming a participant in an objectionable act. This will never be the case with a seated juror. A potential juror who objected to service could refuse to report to court or serve on a jury. A person with a moral objection to enforcing a particular law (say, punishing a defendant charged with private drug use or blockading abortion clinics) could disclose that objec-

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March 1996

Looking Back

When Leonard Read, a Chamber of Commerce executive from Los Angeles, set out to launch The Foundation for Economic Education in March of 1946, the world was facing tremendous problems of readjustment and recovery from the upheavals of World War II. The country was suffering from persistent, ugly confrontation between labor and management, from vacillating governmental policies on price controls, and incredible food shortages resulting from the price controls over meat, sugar, and cereal. For most of the year the Office of Price Administration (OPA) was controlling more than four-fifths of industrial production through its 68,000 inspectors and agents. And thousands of businessmen were facing criminal charges in the courts and press for having violated OPA orders.

Socialism was reigning supreme in all parts of the world. Surely, its nationalistic version, fascism, had been crushed by allied forces, but its two blood relatives, Soviet communism and democratic socialism, were alive and well. In the United States, capitalism was commonly blamed for depression and unemployment and condemned for intolerable economic and social inequality. The 68,000 federal inspectors were the vanguard of a new social and economic order.

The Foundation for Economic Education (FEE) was meant to be an intel-

lectual fort of resistance and, hopefully, a rallying point for this country to re-establish the enduring principles on which it was founded. The FEE plan was a great design, the restoration of an order of freedom and harmony. Leonard Read surrounded himself with half a dozen scholars and journalists, men and women of excellence, seekers of knowledge, and students of liberty. Most of them spent a few years with FEE and then moved on to other important pursuits in industry and education. Some were to become famous educators, captains of industry, and founders of enterprise. One of the most eminent scholars was Professor F. A. Harper, who subsequently was to found a think tank of his own, The Institute for Humane Studies in Menlo Park, California, now in Fairfax, Virginia. Another was George C. Roche III, who was to lead Hillsdale College to new heights of leadership and educational service. A few scholars stayed on and dedicated their productive lives to the noble tasks of the Foundation. Paul Poirot was to edit *The Freeman* for thirty-one years; W. M. Curtiss was to direct the business affairs of FEE for 27 years, Robert G. Anderson for 19 years. Bettina Bien Greaves was to reach out to school children of all ages, and the Reverend Edmund A. Opitz was to explore the moral and spiritual foundations of liberty. There was unassuming

greatness in their dedication and will, their faith and moral strength.

The Foundation was guided and assisted by two great men who will be remembered and cited for centuries to come: the dean of Austrian economics, Ludwig von Mises, and the illustrious journalist, Henry Hazlitt. Mises served as advisor until his death in 1973, at the age of 92, and Hazlitt served as one of the seven founders who met on March 7, 1946, for the inaugural meeting. He remained on the Board of Trustees until his passing in 1993, at the age of 98.

Throughout the decades, FEE was ably supported and greatly encouraged by men of finance, commerce, industry, and the professions. Some of them joined the Board of Trustees, meeting regularly and supervising not only the business affairs of the organization but also its educational work. But most supporters, some 10,000 to 20,000 strong, consist of two kinds of people: those who subscribe to *The Freeman* and purchase its books and services and those who make voluntary donations.

The buyers who subscribe to FEE's celebrated monthly journal, *The Freeman*, are probably the staunchest friends of FEE. They identify with the journal because it makes the spiritual, moral, and rational case for liberty. Standing far above the fray of politics, it emphasizes ideas rather than party programs and political agendas, prescriptions for public policy, and government edicts. It never argues *ad hominem* or denigrates other peoples' motives with wit, sarcasm, and ridicule.

The buyers may also avail themselves of more than one hundred books and booklets published by FEE and another three hundred titles stocked and shipped by FEE to all corners of the world. Or they may attend a seminar, a round-table discussion, or a summer school. They all support FEE by being FEE customers.

Throughout the decades the Foundation has reached and touched millions of individuals with its freedom message. When there were no other voices defending the free society, *The Freeman* spoke clearly and convincingly. Its ideas and arguments influenced and guided countless millions around the world. For five decades, FEE has been the Rock of Gibraltar of sound economics and moral principle, of devotion to individual freedom and the private property order, in a turbulent and dangerous world. No one can know the intellectual effect and end result of its labors, but we do believe that conditions have improved immeasurably during the life of FEE and that FEE has contributed its part to the improvement. World communism has disintegrated under the weight of its miscreation and inhumanity, and socialism in all its colors and designs is in full retreat.

No matter how we may want to compare the political, social, and economic situation in 1946 with that of today, half a century later, we believe that economic knowledge has advanced visibly and that conditions are on the mend. Surely, the voice of political power and bureaucratic control continues to be heard in the halls of Congress, in the press, and in the U.N., but it no longer dominates the American scene. The American people of the 1990s seem to be more knowledgeable in social matters and wiser in the affairs of the political world than their forebears in the 1940s. They may have learned what had to be unlearned.



Hans F. Sennholz

You cannot correct all the evils of the world, nor relieve all the poverty in the world.
You cannot comfort all in distress, nor support all the underprivileged.
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tion during voir dire and be excused from serving in the case.

But, after a juror has reported for service, been screened through voir dire, been seated and sworn to follow the law according to the instructions of the court, there is no room for “civil disobedience.” A juror reneging on his oath is an outlaw, a scofflaw. A renegade juror cheats the parties to the case out of their right to have the matter decided according to the law, on the basis of which the evidence and arguments have been presented.

Despite proponents’ fondness of quoting Henry David Thoreau on civil disobedience,⁷ a lawless juror is no more heroic than a rogue policeman violating the law or a politician accepting a bribe. If a juror (or any other member of the political community) feels that a particular law is unjust—and in a society as large and diverse as ours, we can assume that someone, somewhere, feels that every law on the books is unjust—the remedy is to petition the legislature for reform, not to infiltrate the jury and then ignore the law.

Populist Opposition

The other frequently cited justification for jury nullification—the need to rein in abusive government power—is even more specious. An honest anarchist such as Lysander Spooner would refuse to serve on a jury because he wouldn’t believe in the concept of mandatory jury service or even governmental proceedings to enforce the law. Let’s not forget that a trial, whether civil or criminal, *is* government action. Enforcing democratically enacted laws is one of the basic purposes of government. When a juror considers defying his oath and deciding a case based on his personal feelings rather than the court’s instructions, the alternative is not between liberty and coercion, but between coercion informed by the rule of law and coercion at the whim of 12 jurors.

And what is a jury acting outside of the law but a 12-person mob, like modern-day vigilantes? Although the jury-power activ-

ists point to historical events where juries refused to enforce the Fugitive Slave Act,⁸ there is no assurance that a jury operating outside the law would only acquit in a criminal case; it could just as easily “nullify” the instructions by convicting a person who was technically innocent. Moreover, there are no counterparts to the Fugitive Slave Law in a civil case. Furthermore, nullifying the law strips the individuals who comprise society of *their* right to have the laws enforced. Nothing could be more tyrannical or despotic than the arbitrary decision of a jury that has rejected the law.

It disturbs me to see libertarians and conservatives—whom I generally regard as allies—embrace the jury nullification cause. The rule of law is essential to the preservation of liberty. Friedrich Hayek, perhaps this century’s pre-eminent theorist of classical liberalism—the political philosophy of freedom—believed that the defining characteristic of a free society is the rule of law, meaning legal rules stated in advance, uniformly applied, without excessive discretion.⁹ In Hayek’s words: “[W]hen we obey laws, in the sense of general abstract rules laid down irrespective of their application to us, we are not subject to another man’s will and are therefore free.”¹⁰ Thus, it is the universal, non-selective nature of law that allows us to be free.¹¹ In Hayek’s view, it is precisely because judges and juries cannot pick and choose what laws to enforce in a particular case “that it can be said that laws and not men rule.”¹² Jury-activist pamphleteers in front of the courthouse would do well to heed Hayek’s admonition that “few beliefs have been more destructive of the respect for the rules of law and of morals than the idea that a rule is binding only if the beneficial effect of observing it in the particular instance can be recognized.”¹³

Yet that is exactly what advocates of jury nullification espouse—following the law only if they agree with it in a particular case. I am not unsympathetic to concerns about unjust laws and government overreaching. The solution is grassroots political activism and reforms such as fewer federal mandates

and expanded use of the initiative and recall devices, not shortsighted demagoguery in the form of jury nullification. Jurors ignoring the law accomplish nothing but anarchy in a microcosm—nullifying the rule of law. □

1. Lysander Spooner, *An Essay on the Trial By Jury* (1852).

2. "Militias Are Joining Jury-Power Activists to Fight Government," *Wall Street Journal* (May 25, 1995), p. A1 (hereinafter "Militias").

3. *Ibid.*

4. Lysander Spooner, *No Treason: The Constitution of No Authority* (1870).

5. Michael Pierone, "Requiring Citizens to Do Evil," *The Freeman* (July 1993), p. 261.

6. "Militias," p. A8; N. Stephan Kinsella, "Legislation and Law in a Free Society," *The Freeman* (September 1995), pp. 561, 563.

7. Pierone, note 5, p. 262.

8. *Ibid.*

9. Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), pp. 72-79.

10. Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 153.

11. *Ibid.*, pp. 153-54.

12. *Ibid.*, p. 153.

13. *Ibid.*, p. 159.

Why It Matters

by Roger M. Clites

Last November people in Quebec voted on whether to secede from Canada. Before the vote took place there was speculation in both Canada and the United States about how much harm such a pullout would do to Canada, to the United States, and to Quebec itself. With only one exception every opinion that I saw was that secession would harm all of them. In a short article two graduate students did make the case that Quebec would benefit from breaking away.

Their analysis leads us toward why it matters. It matters because of various types of governmental meddling in economic activity. Contrary to what we are told by political leaders and others, governments do not engage in or promote economic activity. Governments only place restrictions and barriers.

Were it not for government intervention, trade would be free throughout North America, indeed throughout the world. Movement of people, capital, and goods would

take place more efficiently were government not constantly meddling in commerce. Competition would equalize production costs. Comparative advantage would determine what would be produced in a given location. Efficiency would be greatly enhanced and levels of living would rise dramatically.

But can a nation the size of Quebec "go it alone"? Of course it can. When I visited Luxembourg and even tiny Lichtenstein I observed some of the highest levels of living anywhere in the world, certainly higher than those in large nations in Africa, Asia, and Latin America. People who have traveled to Andorra and little Monaco have told me that people in both of those minute nations are quite prosperous. In fact, small countries are often more hospitable to economic activity because their governments are small. Also they have to recognize the importance of international trade and the need to be competitive.

The problem is not that economic activity would be curtailed. The problem is that government does not want to give up any of its power to control. That is the only reason that it matters. □

Warning: OSHA Can Be Hazardous to Your Health

by Raymond J. Keating

How could anyone find fault with a government agency whose stated mission is “to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources”?¹

As is typical with government agencies brandishing impossible missions, the Occupational Safety and Health Administration (OSHA) has become a burdensome regulatory body, seemingly more concerned with pushing paper and imposing fines rather than in establishing safer working environments. Indeed, since OSHA’s first month in existence in 1970, when it instituted 4,400 job safety and health rules, the agency has played the role of adversary to American business.²

In reality, the private sector possesses every incentive to maintain a safe and healthy working environment for employees. Indeed, beyond a commonly held concern for one’s employees, the financial incentives are substantial. That is, after factoring into the equation lost production and productivity costs, health-care costs, insurance costs, possible lawsuits, and so on, it is clear that safety pays.

Unsafe workplaces have always been and remain the exception rather than the rule. Of course, OSHA acts under the opposite as-

sumption, thereby imposing significant and unnecessary costs on business and the economy. Such costs translate into less entrepreneurship, slower economic growth, and fewer jobs.

There is substantial evidence that OSHA has strayed far from its much-touted educational, advisory, and cooperative relationship with business. Indeed, OSHA’s concern for real safety is lost in a bureaucratic and regulatory haze of citation quotas, tax collection, and remarkably inane regulations. For example:

- OSHA imposes an incredible paperwork burden on U.S. business. In 1994, seven of the top ten most frequent OSHA citations were related to paperwork. OSHA has perfected the government “make-work” scheme—generate a paper blizzard of regulations and then fine businesses for not complying.

- In 1976, 95 percent of OSHA citations were classified as “nonserious,” while in recent years 70 percent of citations have been classified as “serious.”³ It remains difficult to fathom that “serious” violations have grown so much, especially considering the general decline in workplace deaths and injuries. More likely, a considerable, ongoing redefinition of OSHA violations has been undertaken. Such a development reflects the arbitrary and subjective nature of OSHA citations.

- With the 1990 budget deal, OSHA

Mr. Keating is chief economist for the Small Business Survival Foundation.

stepped up its role as a revenue collector for the federal government. OSHA's maximum allowable penalties were increased seven-fold, and \$900 million in additional revenues were expected over five years.

OSHA's maximum penalties range from \$7,000 per violation—for "serious" and "other than serious" classifications—to \$70,000 for the "willful and repeat" classification. These are dollar levels that can put many small- and medium-sized businesses out of business. OSHA can levy an "egregious penalty," where fines can be arbitrarily increased by counting each employee possibly exposed as a separate violation—another example of the arbitrary nature of OSHA citations.

The current administration's so-called plan to "reinvent" OSHA noted a few examples of ridiculous OSHA regulations:

- Plastic gas cans can be used on manufacturing work sites, but not on construction sites, even if they have been approved by local fire marshals.
- OSHA only allows for radiation signs with purple letters on a yellow background, while the Department of Transportation calls for black on yellow.
- OSHA requires that work-site first-aid kits be approved by a physician.

Unfortunately, in the midst of all the talk about government "reinvention," OSHA has been busily preparing additional regulations. The federal budget offers program statistics for each agency. "Standards promulgated" (i.e., regulations imposed) are estimated at 12 annually for 1995 and 1996 by OSHA—a kind of regulation quota. OSHA has committed substantial resources to three particular areas in recent years—indoor air quality, ergonomics, and mandatory workplace safety commissions. Scientific evidence pertaining to indoor air quality and ergonomics is weak, if not non-existent, while mandatory worker safety commissions amount to nothing more than a sop to labor unions. If implemented, such regulations will cost tens of billions of dollars annually—translating into fewer resources for investment, employee compensation, and job creation.

Another glaring problem with government regulation and inspections of any industry or workplace is that most, if not all, regulators lack expertise in particular industries. If such individuals were experts, they would hold productive, private sector jobs. They are government bureaucrats. Bureaucrats know paperwork. Hence, the most cited violations by OSHA are paperwork related. The phenomenon was noted by Mr. Vitas M. Plioplys—safety services manager at R.R. Donnelly & Sons Company, the world's largest commercial printer—before the U.S. House of Representatives Subcommittee on Workforce Protections of the Committee on Economic and Educational Opportunities:

Any time an OSHA inspector comes into one of our facilities, it is probably the first time they have ever seen a large commercial printing press. In our plants where the presses are 100 feet long and three stories high, the OSHA inspector doesn't know where to start. In every case the inspector will invariably find a guard off, or some other minor, readily apparent violation, but will pass by process equipment which, if it failed, could blow up our facility. Because they are not experts in the industry they cannot know the critical issues we deal with on a daily basis. . . . Our informal conferences end up being training sessions on safety in the printing industry to the local OSHA offices. They do not know our industry, yet try to cite us as if they do.

Even after noting the many OSHA horror stories, regulations, paperwork burdens, and costs, some still claim that OSHA's benefits outweigh its costs. In a May 16, 1995, speech President Clinton linked OSHA with reduced workplace deaths: "The Occupational Safety and Health Administration has been at work in this cause since it was created with bipartisan support in 1970. Since that time, workplace deaths have been cut in half."

Of course, workplace deaths were on the decline for decades before OSHA was created. Fewer workplace deaths reflect many

changes in our economy—greater automation, shift in employment from manufacturing to the service sector, leaps in technology, enhanced knowledge, et al. There exists no clear and substantial evidence that OSHA has played any significant role in preventing workplace injuries or death.

The incentives for the private sector to maintain safe working conditions are clear. As already mentioned, many factors make safety and good health a priority for employers. Indeed, as many business owners and operators will tell you, maintaining a safe working environment and complying with OSHA regulations are quite often separate endeavors.

OSHA deregulation efforts are underway in Congress, and should be applauded. However, OSHA eventually should be scrapped altogether—“disinvented” if you will.

Private industry—with technological ad-

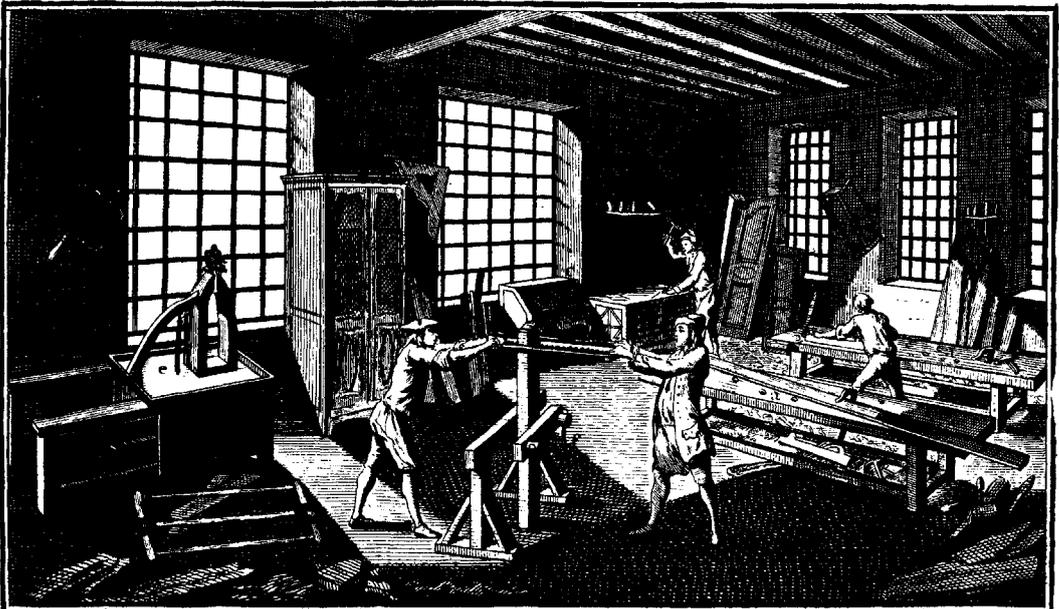
vancements, expanded knowledge, and proper incentives—has steadily improved the working conditions of employees. Regulatory efforts, have been largely incidental to such developments. Indeed, as noted above, regulations often simply create additional costs with few benefits.

Workplace safety can be and is ensured by individuals—employers, employees, and insurance companies—and if necessary, the courts. If the U.S. economy is to compete and succeed in the years ahead, government’s heavy hand of regulation must be lifted. □

1. The Occupational Safety and Health Act as quoted in *Congressional Quarterly’s Federal Regulatory Directory*, Seventh Edition, Congressional Quarterly Inc., Washington, D.C., 1994, p. 394.

2. *Ibid.*, p. 394.

3. Information provided by U.S. Representative Cass Balenger’s office.



Private Enterprise Regained

by Henry Hazlitt

Governor Bradford's own history of the Plymouth Bay Colony over which he presided is a story that deserves to be far better known—particularly in an age that has acquired a mania for socialism and communism, regards them as peculiarly “progressive” and entirely new, and is sure that they represent “the wave of the future.”

Most of us have forgotten that when the Pilgrim Fathers landed on the shores of Massachusetts they established a communist system. Out of their common product and storehouse they set up a system of rationing, though it came to “but a quarter of a pound of bread a day to each person.” Even when harvest came, “it arose to but a little.” A vicious circle seemed to set in. The people complained that they were too weak from want of food to tend the crops as they should. Deeply religious though they were, they took to stealing from each other. “So as it well appeared,” writes Governor Bradford, “that famine must still insue the next year allso, if not some way prevented.”

So the colonists, he continues, “begane to thinke how they might raise as much corne as they could, and obtaine a beter crope than they had done, that they might not still thus languish in miserie. At length [in 1623] after much debate of things, the Gov. (with the advise of the cheefest amongst them) gave

way that they should set corne every man for his owne perticuler, and in that regard trust to them selves. . . . And so assigned to every family a parcell of land. . . .

A Great Success

“This had very good success; for it made all hands very industrious, so as much more corne was planted than other waise would have bene by any means the Gov. or any other could use, and saved him a great deall of trouble, and gave farr better contente.

“The women now wente willingly into the feild, and tooke their litle-ons with them to set corne, which before would aledg weakness, and inabilityie; whom to have compelled would have bene thought great tiranie and oppression.

“The experience that was had in this commone course and condition, tried sundrie years, and that amongst godly and sober men, may well evince the vanitie of that conceite of Platos and other ancients, applauded by some of later times;—that the taking away of propertie, and bringing in communitie into a comone wealth, would make them happy and flourishing; as if they were wiser than God. For this comunitie (so farr as it was) was found to breed much confusion and discontent, and retard much employment that would have been to their benefite and comfote.

“For the yong-men that were most able and fitte for labour and service did repine that they should spend their time and streingth to worke for other mens wives and

Henry Hazlitt (1894-1993), author of Economics in One Lesson, was a Founding Trustee of FEE.

This essay was written in 1949 and subsequently appeared in the first volume of Essays on Liberty, published by FEE in 1952.

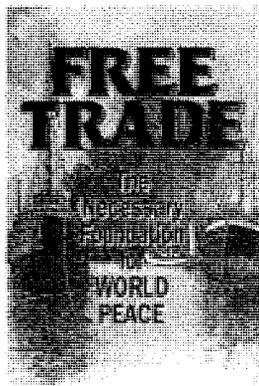
children, with out any recompense. The strong, or man of parts, had no more in devison of victails and cloaths, than he that was weake and not able to doe a quarter the other could; this was thought injustice. . . .

“And for men’s wives to be commanded to doe servise for other men, as dressing their meate, washing their cloaths, etc., they deemed it a kind of slaverie, neither could many husbands well brooke it. . . .

“By this time harvest was come, and instead of famine, now God gave them

plentie, and the face of things was changed, to the rejoysing of the harts of many, for which they blessed God. And the effect of their particuler [private] planting was well seene, for all had, one way and other, pretty well to bring the year aboute, and some of the abler sorte and more industrious had to spare, and sell to others, so as any generall wante or famine hath not been amongst them since to this day.”

The moral is too obvious to need elaboration. □



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Prosperity Without Pollution

by John Semmens

I recently had the opportunity to participate in a World Future Society “debate” on whether we could reduce pollution without also reducing our economic well-being. Mainstream thinking asserts that we must sacrifice at least some of our prosperity in order to protect the environment. One panelist in the World Future Society debate insisted that we must drastically reduce population, live in houses made of mud and straw (apparently oblivious to the fate of one of the “Three Little Pigs” who tried this), and ride bicycles to work.

Fortunately, this mainstream thinking is wrong. We can have both a growing economy and an improving environment. In fact, it seems likely that a growing economy may well provide the very means needed to improve the environment. “Sacrifice” may not only be unnecessary, it may even be counterproductive. On balance, there is good reason to be optimistic about the “fate of the planet.”

If we are to overcome the institutionalized pessimism of the mainstream environmentalist creed, we must first dispel its erroneous premises.

Erroneous premise #1: Natural is better than artificial.

Natural is the survival of the fittest. The natural condition is for the weak, the lame, the sick to be mercilessly exterminated by predators and climate. Dying of old age is

not natural. In a state of nature, most deaths are violent, painful, or agonizing. The most common modes of demise are being killed and eaten or starving to death. The natural world is not the “playland” depicted by Disney cartoons. It is the constant struggle for survival perceived by Charles Darwin. Some 99 percent of extinctions that have occurred on this planet occurred before human beings existed. The environment does not preserve species or habitat. Left alone, the environment is ruled by an undiluted principle of “might-makes-right.”

Civilization is artificial. This creation of the human species has modified the “might-makes-right” rule of nature. The artificial institution of law helps to channel human predatory instincts to more humane purposes. One does not have to watch too many nature documentaries before it becomes clear that theft, assault, rape, and murder are common behaviors in the animal kingdom. Nature has no law respecting property. The strong dispossess the weak. Abandonment, exile, and death are the fate of those who cannot compete in the Darwinian struggle.

Technology is artificial. The inquiring minds of the human species have discovered or created the means to enable the survival of the weak, the lame, and the sick. Medicine has lowered the mortality rates from disease, accident, and violence. Improved production methods have made starvation a relatively rare cause of death in the Western world. Devices like eyeglasses and wheelchairs have helped to offset disabilities that

Mr. Semmens is an economist with Laissez-Faire Institute in Chandler, Arizona.

would imperil survival in a state of nature. As a result, we have the opportunity to lead lives that are less violent, painful, and precarious than would be natural.

“Environmentalism” itself is an artifact of civilization. The abundance generated by our technologically advanced civilization allows people to contemplate more than just survival. Creatures living in a natural state of subsistence cannot afford the luxury of refraining from unbridled exploitation of the environment. For example, without abundance, wilderness is a barrier for humans to overcome or avoid. With abundance, wilderness can be perceived as worthy of being preserved.

**Erroneous premise #2:
Resources are finite.**

The very concept of what constitutes a resource is a creation of the human mind. No “thing” is a resource by nature’s decree. All “resources” are “man-made.” That is, it is only the application of human valuation to objects that make them resources. If humans place no value on an object it is not going to be called a resource. Its supply in a state of nature will exceed the demand for it. An example of a “thing” that has undergone a transition from a non-resource to a highly valued resource is crude oil. At one time, in the not too distant past, oil was seen mainly as a blight on agriculture. The few places where oil bubbled to the surface posed hazards to livestock and crops. However, during the nineteenth century, human ingenuity discovered a means of converting this substance to useful purposes.

Even such a highly prized substance as crude oil is not valued for itself. Rather, it is valued for the service it can perform in meeting human wants. If some other substance can be found or made that offers better or cheaper service, it will supplant crude oil, just as crude oil supplanted whale oil in the nineteenth century. That some other substance will eventually be found or made seems highly probable. The high prices of scarce resources stimulate the search for better or cheaper alternatives for meeting the same human wants. So, in the

final analysis, it is not the “finiteness” of any substance that is critical. The critical factor is the scope of the human imagination. This scope seems to be getting broader. The accelerating pace of technological advancement should give us confidence that, barring the implementation of oppressive government meddling, we are not likely to run short of intellectual resources in the foreseeable future.

**Erroneous premise #3:
Population growth is a problem.**

One participant in the World Future Society debate showed a graph of world population growth that he described as “scary.” Frankly, I would find a graph showing a comparable plunge in world population far more scary. The growth in population that has characterized the modern era is due primarily to lower mortality rates. Fewer people are dying at young ages. More are living longer lives. For most, the prospect of living a longer life would not be considered a fearful event. Fear is more aptly associated with an untimely early demise.

The fear of population growth seems to be driven by the notion that eventually there will be too many people for the planet to support. Such a fear is grossly exaggerated. Most of those familiar with the “carrying capacity” concept agree that given the current level of technology the sustainable human population figure is in the 30 to 40 billion range. Inasmuch as the present population is under 6 billion and no credible forecast projects a figure even close to the 30 billion mark for the next few centuries, the planet seems far from overloaded. Besides, as the mortality rates have fallen in the industrialized portions of the globe, so too have the birth rates. Once parents are more assured that their children will survive to adulthood, the need to produce enough offspring to compensate for a high death rate is alleviated. Obviously, human reproduction is influenced by factors more complicated than pure sexual instinct.

It is not population, per se, that could pose a problem for humanity, but the polit-

ical and social institutions that affect human behavior. In this regard, the paternalistic welfare state is a serious problem. Government programs that entitle people to consume without their having to produce turns them into drones and parasites. Energy conservation is an important survival trait. Individuals that can obtain more goods for less cost will tend to thrive. The welfare state seduces individuals into behavior patterns that exploit this survival trait, but at the cost of imposing extra burdens on the productive individuals. The more generous the welfare benefits, the larger the number of people that will be drawn into this parasitic mode of existence. At some point, the burden of the parasitic portion of the population may overwhelm the output capacity of the productive portion. Thus, it is the ratio of parasitic to productive individuals that is crucial, not the total size of the population.

Absent parasite-inducing paternalism, a larger population could offer significant advantages. More people means more minds. Having more minds working on human problems improves the chances of finding solutions. There is more opportunity for specialization and the depth of expertise that specialization brings. The dramatic acceleration in science and technology in our high population era is evidence for the potential advantages of a growing population.

Erroneous premise #4:

The environment is getting worse.

On balance, the environment is getting better. Consider the case of transportation. The internal combustion engine is frequently singled out as a prime culprit in the pollution of the environment. Yet, the internal combustion engine vehicle is clearly less polluting than the animal-powered transportation it supplanted. A horse produces 45 pounds of manure per day. This emission, in an urban context, typically generated a horrible smell and mess. Further, it provided a breeding ground for insects, vermin, and the diseases associated with filth. In contrast, the emissions of

internal combustion engine powered vehicles pose a much smaller threat to human health.

Neither should the efficiency aspect be ignored. A gasoline powered vehicle can travel farther in one hour than a horse can in a day. Therefore, on an emissions per mile of travel basis, automobiles are less polluting than horses.

Automotive technology has not stood still since supplanting animal-powered travel. Autos last longer, travel faster, and use less fuel per mile now than they did when first invented. In terms of pollution emitted during the operation of autos, noxious emissions per vehicle mile are down 70 percent to 95 percent since 1970. In most cities, the ambient air is cleaner now than it was 20 years ago.

Erroneous premise #5:

More government control is the answer.

The awesome power wielded by government has persuaded many that it should be the instrument of choice for dealing with environmental problems. Plausible as the resort to government's awesome powers may at first appear, experience would seem to indicate that this would be a poor choice.

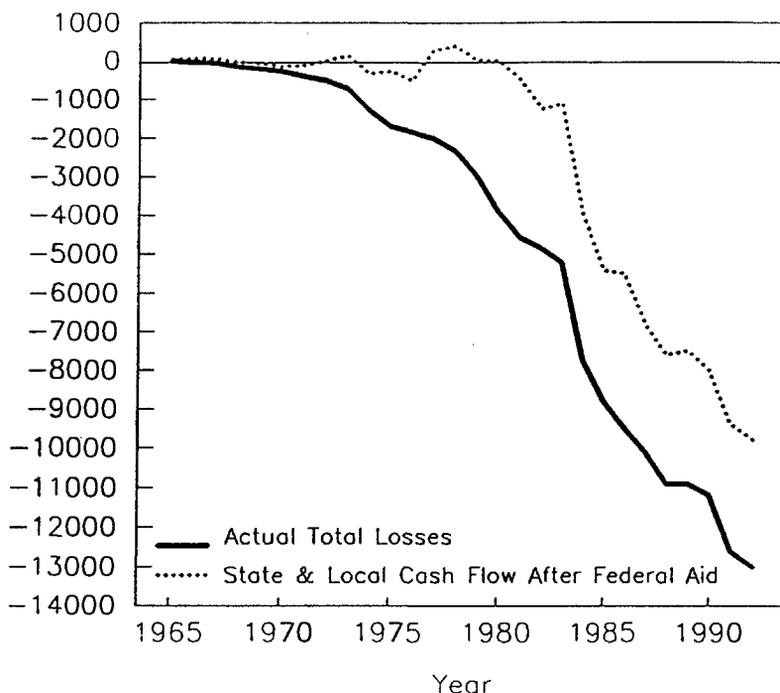
The first source of difficulty for those wont to rely upon government solutions is that government is inherently irresponsible. Because government has the might to compel compliance with its dictates, it cuts itself off from essential feedback on the success or failure of its efforts. Government coercion rides roughshod over differing values. Its "one-size-fits-all" standard ignores the differing needs of diverse individuals. The balancing of values that typically occurs in the marketplace is suppressed. In its place, costly, and frequently ineffective measures are imposed.

The fact that government is funded through taxation increases the odds that government programs will fail to achieve their announced objectives. Taxes sever the link between costs and benefits. This creates a "problem of the commons." The "problem of the commons" is that everyone has an incentive to demand more than can be

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Millions of Dollars



Source: Transit Fact Book (American Public Transit Association)

provided by the resources available. At the same time, no one has an incentive to provide more resources. Those who receive the benefits do not have to pay the costs. Those who pay the costs do not receive the benefits. This is the formula for failure that contributed to the demise of socialistic societies like the Soviet Union, East Germany, and Poland.

One of the clearest demonstrations of the "problem of the commons" in the American economy is in our urban transportation systems. Almost all of the urban transportation systems in America are operated under conditions that could most accurately be characterized as socialistic. The roads and rails are owned and operated by government. Most of the funding comes from taxes. Decisions regarding investment, services, and prices are all made through a political rather than a market process.

Since they don't have to pay in proportion to the cost to obtain access to roads, drivers demand more than can be provided. Highway agencies go through recurring financial crises in a futile effort to sate this demand. Meanwhile, a massive waste of precious time is underway during every "rush hour." Some would have us address this waste by building heavily subsidized rail transit systems. However, even with two-thirds of the cost of transit trips being borne by taxpayers, this mode has continued to lose riders. Continuing to pour more money into these transit systems is the kind of irresponsible misallocation of resources that only government is prone to inflict on society. (See the chart of "Public Transit Operating Results" for an illustration of the inauspicious results of government subsidies to transit.)

A second source of difficulty for those who look to government for solutions is that government planning is inherently inept.

Reality is too complex to fit into any plan that government can devise. Government lacks adequate information on the subjective values of individuals, on the world's continuously changing circumstances, and on what the future might bring. Further, government lacks sufficient incentives to avoid mistakes. The burdens of its errors fall on others. Its failures serve as a rationale for further meddling.

If granting more power to government is not the best way to achieve prosperity and reduce pollution, what is? Well, since the attainment of both prosperity and a cleaner environment is likely to hinge upon the application of human creativity to perceived problems, an obvious option would appear to be to attempt to encourage more creativity. Creativity is likely to be encouraged if individuals are (1) free to use their minds and (2) have sufficient incentive to do so.

This argues for reducing the scope of government intervention and control over society and increasing the scope for voluntary human interactions. Government spending and taxing should be reduced. The lessening burden on private transactions

that would result would permit more investment in innovations and technological advancement. The lure of greater "net-of-taxes" returns on investment would provide added incentive for innovations and technological advances.

The socialistic enterprises of government, like highways and transit systems, should be privatized. Selling such operations to private-sector owners would enable the powerful forces of market incentives to more efficiently direct resources to meet consumers' most urgent needs. More rational pricing of services will reduce the deadweight losses epitomized by traffic jams. The fixed capacities of urban roads could be more effectively used and avert the need to pave over more of the environment.

Environmentalists urging a government-mandated return to a more natural mode of living are misperceiving the past and the true implications of "natural." There is no "Garden of Eden" to which humanity can return. Human creativity is the key to a more livable future in both economic and environmental terms. To foster creativity we must have freedom to think and act. □

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by Eric Hagen and James Worman

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89 pages

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James Madison— Checks and Balances to Limit Government Power

by Jim Powell

James Madison didn't originate the idea of checks and balances for limiting government power, but he helped push it farther than anyone else before or since. Previous political thinkers, citing British experience, had talked about checks and balances with a monarch in the mix, but Madison helped apply the principle to a republic. Contrary to such respected thinkers as Baron de Montesquieu, Madison insisted checks and balances could help protect liberty in a large republic.

If one must endure a central government, it seems hard to improve on the highly sophisticated checks and balances provided in the U.S. Constitution, which reflects a good deal of Madison's handiwork. Stalwart republican Thomas Jefferson embraced it. He told Madison, his best friend: "I like much the general idea of framing a government which should go on of itself peaceably, without needing continual recurrence to the state legislatures. I like the organization of the government into Legislative, Judiciary and Executive. I like the power given the

Legislature to levy taxes; and for that reason solely approve of the greater house being chosen by the people directly . . . preserving inviolate the fundamental principle that the people are not to be taxed but by representatives chosen immediately by themselves. I am captivated by the compromise of the opposite claims of the great and little states, of the latter to equal, and the former to proportional influence. . . . I like the negative given to the Executive with a third of either house. . . ."

Madison didn't have a grand vision of liberty like Jefferson, but he acquired practical insights about how to protect liberty. Madison, recalled William Pierce, a Georgia delegate to the Constitutional Convention, "blends together the profound politician, with the Scholar. In the management of every great question he evidently took the lead in the Convention, and tho' he cannot be called an Orator, he is a most agreeable [sic] eloquent, and convincing Speaker. From a spirit of industry and application, which he possesses in a most imminent degree, he always comes forward the best informed Man of any point in debate . . . a Gentleman of great modesty,—with a remarkably sweet temper."

Like his compatriots from Virginia, Madison's record was stained by slavery, an

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inheritance he could never escape. He tried several business ventures aimed at generating adequate income without slaves, but none worked. Ultimately, he didn't even liberate his slaves upon his death, as George Washington had done.

Madison, a shy man, was perhaps the least imposing Founder. He stood less than five feet, six inches tall. He had a sharp nose and receding hairline. He suffered a variety of chronic ailments including fevers, gastrointestinal problems, and seizures. "I am too dull and infirm now," he wrote at 21, "to look out for any extraordinary things in this world for I think my sensations for many months past have intimated to me not to expect a long or healthy life." The most distracting ailment, Madison recalled much later, was "a constitutional liability to sudden attacks, somewhat resembling Epilepsy, and suspending the intellectual functions. They continued thro' life, with prolonged intervals."

But he blossomed when, at 43, he met the 26-year-old, black-haired, blue-eyed widow Dolley Payne Todd. One of her friends reported: "At Night he Dreams of you & Starts in his Sleep a Calling on you to relieve his Flame for he Burns to such an excess that he will be shortly consumed. . . ." They were married September 15, 1794, and for the next four decades were the "first couple" of republican politics, keepers of the Jeffersonian flame.

James Madison was born March 16, 1751, at his stepgrandfather's plantation on the Rappahannock River, King George County, Virginia. His ancestors had come to America not as persecuted people seeking a sanctuary but as entrepreneurs hoping to profit. He was the eldest child of Nelly Conway, a tobacco merchant's daughter. His father, James Madison Sr., was a tobacco farmer in Orange County.

Biographer Ralph Ketcham describes Madison as "a sandy-haired, bright-eyed, rather mischievous youth." He had private tutors who taught Latin, arithmetic, algebra, geometry, history, and literature. Although most Virginians considering college would have chosen William and Mary, it had



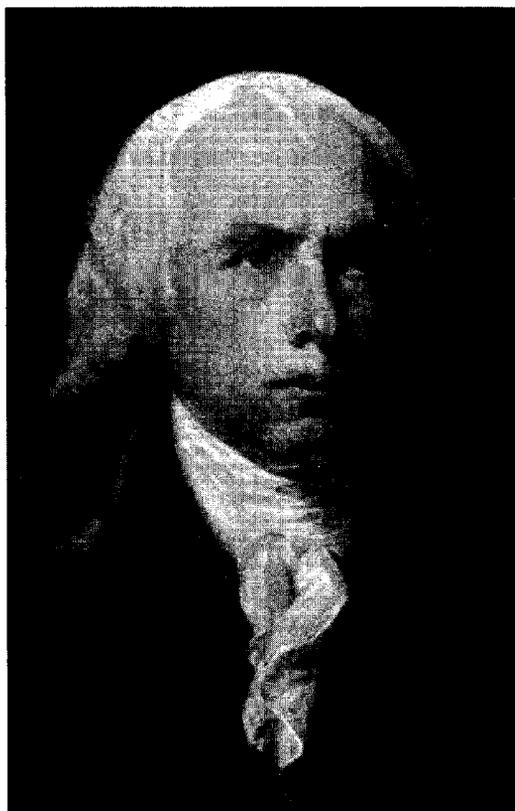
Dolley Madison

a reputation as a "drinking school," and in 1769, Madison left home for the College of New Jersey, which later became Princeton University. Its library was well stocked, and included books by Scottish Enlightenment authors like Adam Smith and Adam Ferguson as well as influential works on natural rights by John Locke and John Trenchard and Thomas Gordon, co-authors of the radical *Cato's Letters*. Madison graduated in September 1771.

Madison was drawn to current affairs. He devoured newspapers. He read more books about liberty, such as Josiah Tucker's *Tracts*, Philip Furneaux's *Essay on Toleration*, Joseph Priestley's *First Principles on Government*, and Thomas Paine's pamphlet *Common Sense*.

An Early Dedication to Liberty

On April 25, 1776, 25-year-old Madison was elected a legislator to help draft a state constitution for Virginia. Proposals came



James Madison

from Thomas Jefferson and Richard Henry Lee, who were in Philadelphia preparing to declare American Independence. Madison's first contribution to liberty: a measure which affirmed that "all men are equally entitled to enjoy the free exercise of religion according to the dictates of conscience, unpunished and unrestrained by the magistrate, unless the preservation of equal liberty and the existence of the State are manifestly endangered."

Madison worked with Thomas Jefferson who shared his passion for religious liberty. The two men began meeting frequently after Jefferson was elected governor of Virginia. They both loved books, ideas, and liberty, and they remained best friends for a half-century.

In 1784, Madison persuaded the Virginia legislature to enact Jefferson's "Bill for Establishing Religious Freedom." He defeated Patrick Henry's proposal that the state subsidize the Anglican church. Madison

declared government money corrupts. Christianity, he noted, "flourished, not only without the support of human laws, but in spite of every opposition to them. . . ."

During these debates on religious freedom, Madison got a key idea for protecting individual rights: ". . . freedom arises from that multiplicity of sects which pervades America, and which is the best and only security for religious liberty in any society."

Meanwhile, in December 1779, Madison had been appointed to the Continental Congress which, meeting in Philadelphia, performed legislative, executive, and judicial functions during the Revolutionary War. The government was broke and financed the war effort with vast issues of paper money known as "continentals," which triggered ruinous runaway inflation. Madison became the most articulate advocate of an alliance with France, and he supported Benjamin Franklin who was lobbying King Louis XVI for help. Madison participated in negotiations with Spain, which controlled Louisiana, aimed at assuring vital American access to the Mississippi River.

Madison served in Congress under the Articles of Confederation, ratified March 1, 1781. It was a voluntary association of states. Congress depended on voluntary contributions, not taxes. If people in a particular state didn't approve what Congress was doing, they kept their money, and that was that. Although states squabbled with each other, they were bit players in world politics, unlikely to become entangled with foreign wars. Amending the Articles required unanimous consent—the general rules people lived by couldn't be upset easily. Voluntary cooperation worked well enough that the states defeated Britain, the world's mightiest naval power, and they negotiated tremendous territorial concessions.

Madison, however, was frustrated at what he considered the irresponsible behavior of states. He objected to their trade wars and continued paper money inflation—a result of Revolutionary War costs. Devious New Englanders tried to arrange a monopoly on codfish sales to Spain in exchange for

giving up American rights on the Mississippi River, which would have devastated people in the Kentucky territory. Madison believed things would be better if Congress could function as a centralized government. Just 12 days after ratification of the Articles, he conceived the dubious doctrine of *implied power*: if a government agency were assigned a particular responsibility, it could assume power it considered necessary to fulfill that responsibility even if the power wasn't enumerated in a constitution.

A "Fatal Omission"?

Madison, incredibly, insisted that to be legitimate, a government must coerce people. "A sanction is essential to the idea of law, as coercion is to that of Government," he wrote in his paper *Vices of the Political System of the United States* (April 1787). The Confederation, he continued, "being destitute of both, wants the great vital principles of a Political Constitution. Under the form of such a constitution, it is in fact nothing more than a treaty of amity of commerce and alliance, between independent and Sovereign States." Madison called the lack of coercion "a fatal omission" in the Confederation.

On February 21, 1787, Madison and Alexander Hamilton, Washington's former assistant who believed passionately in a powerful central government, persuaded Congress to name delegates who would revise the Articles of Confederation.

Madison got George Washington to attend the National Convention, where he served as presiding officer. This meant serious business would be done, convincing distinguished citizens that they, too, should attend. Benjamin Franklin would be present as well, lending his international prestige to the gathering.

Madison arrived in Philadelphia May 3, 1787. He was to be among 55 delegates from 12 states (Rhode Island refused to send delegates). The delegates included attorneys, merchants, physicians, and plantation owners. Thirty-nine delegates had served in the Continental Congress, and they were

inclined to seek more power than permitted by the Articles of Confederation.

A quorum of seven states was present by May 25th. Proceedings began on the first floor of the Pennsylvania State House. During the next four months, delegates met six days a week from late morning till early evening. Details of what went on were kept secret at the time. "I chose a seat in front of the presiding member, with the other members on my right & left," Madison recalled. "In this favorable position for hearing all that passed . . . I was not absent a single day, nor more than a casual fraction of an hour in any day, so that I could not have lost a single speech, unless a very short one." Madison was a major influence, rising to speak 161 times through the Convention.

The Virginia Plan

Defying explicit instructions to revise the Articles of Confederation, Madison launched the debates by helping to draft the "Virginia Plan," which called for a brand-new constitution. It described a two-branch national legislature. The House would be elected directly by the people, the Senate by the House. Seats would be proportionate to population. There would be a national executive and a national judiciary, both chosen by the legislature. Madison insisted the proposed national government must be the supreme power with a "negative" over state legislatures. Large states supported this plan.

Small states rallied to the "New Jersey Plan," which aimed to revise the Articles of Confederation with a single legislative body where each state had equal representation. The "New Jersey Plan" accepted the principle that all acts of Congress "shall be the supreme law of the respective States."

The Convention stalemated on the issue of state representation, and it was referred to a committee which proposed the "Great Compromise": each state would have equal representation in the Senate, the House would be apportioned by population, and money bills would originate in the House.

As for the executive, Madison hadn't worked out his ideas before the Convention. The Committee on Detail recommended an executive who would be called "President," be elected by the legislature, serve a single seven-year term and function as commander-in-chief of armed forces. Once delegates decided that each state would have an equal number of Senators, Madison became convinced that the executive should be elected independently of the legislature. He helped draft the final proposal to have the president selected by electors whom the people choose—the "electoral college."

Madison's collaborator, Alexander Hamilton, was the most outspoken critic of democracy at the Convention. After praising Britain's hereditary monarchy, he declared: "Let one branch of the Legislature hold their places for life or at least during good behavior. Let the Executive also be for life."

Slavery was an explosive issue. If the Constitution had prohibited it, Southern states would have surely bolted the Convention. Madison successfully pressed for a clause permitting the end of the slave trade in 20 years (1808), and he kept direct support for slavery out of the Constitution. The Constitution provided that the census count slaves ("other persons") as three-fifths of a person, thereby reducing Southern representation in the House.

The final draft of the Constitution, about 5,000 words, was engrossed and signed by 38 delegates on September 17, 1787. Sixteen delegates had quit the Convention or refused to sign it at the end. It was sent to Congress which, in turn, referred it to states for ratification by conventions of elected delegates. The Constitution would be adopted upon ratification in nine states.

By eliminating state tariffs, the Constitution created a large free trade area, eventually the world's largest, which made possible America's phenomenal peacetime prosperity starting in the early nineteenth century. Entrepreneurs could travel freely without the myriad tolls, tariffs, and other obstacles that plagued business enterprise in Europe.

Checks and Balances

The Constitution attempted to limit the power of central government through intricate checks and balances. A key principle was separation of powers: those who make laws, enforce laws, and interpret laws should be substantially independent and capable of limiting each other's power. The two houses of Congress provide a check on each other. The President can veto legislation, but he can be overruled by a two-thirds majority in both houses. The judiciary can strike down laws considered unconstitutional. Proposed amendments become part of the Constitution when approved by two-thirds of Congress and by legislatures in three-quarters of the states.

Yet the Constitution did establish unprecedented government power in America. The Constitution authorized federal taxes which never existed before. It gave the federal government power to overrule elected state and local officials who were closer to the people. Control over larger territory increased the temptation for U.S. presidents to become entangled in foreign wars, which had the consequence of further expanding federal power. There's some irony here, since many people supported the Constitution because of dissatisfaction with high inflation, high taxes, and other economic consequences of the Revolutionary War.

Madison accepted Alexander Hamilton's invitation to help promote ratification in New York State. Between October 1787 and March 1788, Madison wrote 29 essays which, together with 56 more essays by Hamilton and lawyer John Jay, appeared in New York newspapers. The essays became known as *The Federalist Papers*. All were signed "Publius" after the Roman lawmaker Publius Valerius Publicola who helped defend the Roman republic. In July 1788, the essays were published as a two-volume book. Madison seems to have recognized that by setting up a central government, the Constitution conflicted with ideals of liberty. Not until August 1788 did he finally tell Jefferson about his collaboration: "Col. Carrington tells me he has sent you

the first volume of the federalist, and adds the 2nd. by this conveyance. I believe I never have yet mentioned to you that publication.”

Because the Constitution proposed to expand government power, there was substantial opposition, spearheaded by the so-called “Antifederalists.” They included New York governor George Clinton, Revolutionary War organizer Samuel Adams, and Virginians George Mason and Patrick Henry. Respected pro-Constitution historians Samuel Eliot Morison, Henry Steele Commager, and William E. Leuchtenburg admitted “There is little doubt that the Antifederalists would have won a Gallup poll.”

The Antifederalists presented a wide range of often conflicting points against the Constitution. Most important: the lack of a Bill of Rights. Madison considered bills of rights to be mere “parchment barriers” which an oppressive majority could easily ignore. He was convinced that liberty would be best protected in a large republic with many competing interests, where it would be difficult for a single one to oppress the others.

Bill of Rights

Jefferson made clear he opposed the Constitution without a bill of rights. For example, on December 20, 1787, he told Madison he objected to “the omission of a bill of rights providing clearly and without the aid of sophisms for freedom of religion, freedom of the press, protection against standing armies, restriction against monopolies, the eternal and unremitting force of the habeas corpus laws, and trials by jury. . . .” Jefferson added: a Bill of Rights is “what the people are entitled to against every government on earth, general or particular, and what no just government should refuse, or rest on inference.” Madison resisted. “I have never thought the omission a material defect,” he wrote Jefferson, “nor been anxious to supply it even by subsequent amendment. . . .”

Madison, however, came to realize the

Constitution wouldn’t gain acceptance without a bill of rights. The Constitution was ratified in Delaware (December 7, 1787), Pennsylvania (December 12th), New Jersey (December 18th), Georgia (January 2, 1788), Connecticut (January 9th), Massachusetts (February 7th), Maryland (April 28th), South Carolina (May 23rd), New Hampshire (June 21st), Virginia (June 25th), and New York (July 26th), but the Antifederalists still had some aces. They threatened to campaign for a second constitutional convention, which Madison didn’t want.

Madison, elected a Congressman, became the key advocate for a bill of rights. On June 8, 1789, he rose on the House floor and presented his version. He declared: “. . . those who have been friendly to the adoption of this constitution, may have the opportunity of proving to those who were opposed to it, that they were as sincerely devoted to liberty and a republican government. . . .” Madison led the debates and parliamentary maneuvering which involved conferences between House and Senate. The House voted for the proposed Bill of Rights on September 24, 1789, and the Senate followed the next day. State legislatures ratified the Bill of Rights on December 15, 1791.

Madison conceived a limited role for this new government. “The powers delegated by the proposed Constitution to the federal government,” he explained, “are few and defined. Those . . . will be exercised principally on external aspects, as war, peace, negotiation and foreign commerce. . . .”

Madison was shocked at how fast the Federalists, led by President Washington’s Treasury Secretary Alexander Hamilton, expanded central government power beyond the limits he helped set up. As early as November 1789, Madison expressed opposition to Hamilton’s recommendation that the self-interest of wealthy investors should be linked to the central government by issuing bonds—running up a big national debt.

Hamilton convinced President Washington to approve the establishment of a government bank as a convenience for the

government, and Madison opposed it because the Constitution didn't say anything about a bank. Indeed, the Constitutional Convention had specifically rejected a proposal that the federal government charter corporations such as a bank. Madison rejected the doctrine of implied powers which he had previously advocated during his campaign for central government. Implied powers, he declared, struck "at the very essence of the Government as composed of limited and enumerated powers."

Countering the Federalists

Madison became nearly as radical as Jefferson. Both men praised Thomas Paine's *The Rights of Man* (1791), a clarion call for liberty which alarmed the Federalists. Hamilton unleashed nasty attacks against Jefferson in Philadelphia newspapers, and Madison together with James Monroe wrote counterattacks. Madison denounced Hamilton's view that the President should have considerable discretionary power to conduct foreign policy, even if it undermines Congressional power to declare war. In 1793, Madison spoke out against the military build-up sought by the Federalists. Three years later, Federalists wanted to suppress American societies sympathetic to the French Revolution, but Madison insisted they were innocent until proven guilty of some crime. Federalists warned that aliens posed grave dangers, while Madison introduced a bill which made it easier for aliens to become American citizens. Madison resisted Federalist demands for higher taxes. He denounced the Alien and Sedition Acts (1798), which empowered the government to silence, even deport critics. His was a crucial, courageous voice during the Federalist assault on liberty.

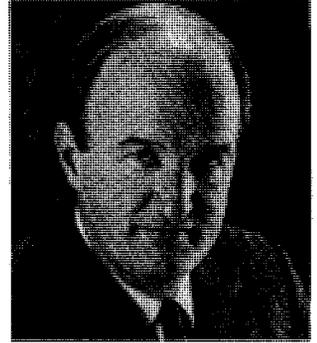
Jefferson won the 1800 presidential election, turning the Federalists out, and Madison became Secretary of State for two terms. Then Madison won the presidency twice himself. These years were marked by frustration as he groped for a way to dis-

courage the warring British and French from seizing American merchant ships. He pursued an embargo which backfired, devastating American port cities. He stumbled into the War of 1812, and the British torched Washington, D.C.—retaliation against the United States, which had torched Toronto. Demands of wartime finance spurred Madison to ask for higher taxes and a second government bank, since the term of Hamilton's bank had expired. Madison was vindicated on one point, though. He relied on volunteers, not conscripts, and it was American privateers who ravaged the British coastline, forcing the British government to negotiate peace. London merchants couldn't even get maritime insurance between Britain and Ireland.

Despite his inconsistencies, Madison outlived all the other Founders and continued expressing the ideals of republican liberty. As Jefferson wrote in his most poignant letter, February 17, 1826: "The friendship which has subsisted between us, now half a century, and the harmony of our political principles and pursuits, have been sources of constant happiness to me. . . . It has also been a great solace to me, to believe that you are engaged in vindicating to posterity the course we have pursued for preserving to them, in all their purity, the blessings of self-government. . . . To myself you have been a pillar of support through life. Take care of me when dead, and be assured that I shall leave with you my last affections."

Madison's time came a decade later when, in early 1836, he began suffering from chronic fevers, fatigue, and shortness of breath. On June 27th, Madison wrote his final words, about his friendship with Jefferson. During breakfast the next day, he suddenly slumped over and died. He was buried in the family plot a half-mile south of his house.

For all their flaws, constitutional checks and balances endure as the most effective means ever devised for limiting government—a tribute to the insight, industry, and devotion of James Madison. □



What Do You Make of This Graph?

“It was felt that if the policy prescriptions of the New Economics were applied, business cycles as they had been known would be a thing of the past.”

—Hyman P. Minsky, 1968¹

In the 1960s, the heyday of Keynesian economics, economists spoke optimistically of an end to the dreaded business cycle. Then came the stagflationary jolt of the 1970s, the credit crunch and banking crisis of the 1980s, and Japan’s depression of the 1990s. In short, the business cycle seems alive and kicking.

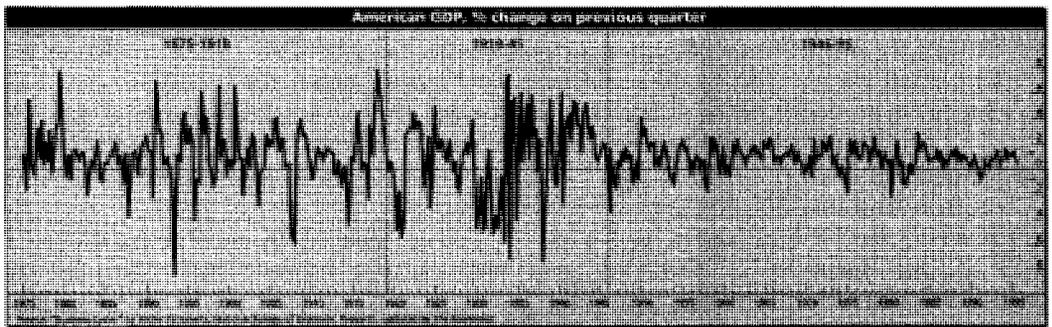
Now, however, comes a graph recently published by the National Bureau of Economic Research (NBER) showing that the cycle has been tamed since World War II, resurrecting the “business cycle is dead” thesis. The graph is printed below.

According to these GDP statistics, the American economy has become more stable since World War II. Expansions are longer and slumps are milder. Moreover, the trend appears to be improving, and some economists are once again predicting that recessions will disappear altogether.

Big Government: Boom or Bane?

So what do we make of this graph? I asked an MIT economist, who immediately responded, “Keynesianism works!” Then I asked a Chicago professor, who exclaimed, “Monetarism works!”

Can we surmise from this graph that big government, as reflected in activist fiscal and monetary policy, has permanently re-



Source: Victor Zarnowitz, *Business Cycles* (NBER and University of Chicago Press, 1995), reprinted in *The Economist*, Oct. 28, 1995.

versed the prewar ups and downs of America's GDP?

Granted, there have been significant increases in the size and scope of government policy since the 1940s—the introduction of so-called automatic stabilizers (unemployment compensation, federal deposit insurance, Social Security), the increase in total government spending to over 40 percent of GDP, and a resolve by federal authorities to inflate in the face of any sign of economic downturn or crisis. All these policy changes have created an environment that errs on the side of inflation, rather than deflation. And an inflation-biased economy is likely to give you more boom than bust over the long term.

Of course, there could be other explanations for a milder and less frequent postwar business cycle:

—no world war since 1945;

—expanding free trade and globalization, which tends to ameliorate economic ups and downs;

—improved methods of inventory control, thus minimizing fluctuations in industrial output; and

—shifts in the economy away from volatile agricultural markets toward more stable manufacturing and service industries.²

The Cost of Artificial Stability: Less Growth

But there is no free lunch. Interestingly, greater stability in the business cycle has also coincided with less growth in the postwar U.S. economy. There has clearly been a secular decline in the economic growth rate, particularly the late 1960s when the size of government began to explode up-

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ward. According to real growth rates provided by Milton Friedman, the U.S. economy grew between 3 and 4 percent a year in inflation-adjusted terms between 1869 and 1969, except during the 1929–39 depression. However, since 1969, the annual real growth rate fell to only 2.4 percent, and lately, in the 1990s, the real growth rate has declined even further.

What is the cause of this malaise? A ubiquitous and unproductive state has clearly left a huge and growing burden on society. Government at all levels is strangling business and individual initiative through excessive taxation and regulation. Not surprisingly, most federal regulatory agencies (EPA, OSHA, FDA, etc.) burgeoned in the late 1960s and early 1970s—the same time the growth rate began falling. It was also the time that the government broke the last link to sound money (the gold standard).

In sum, we must not fall into the trap of supporting big government because of its allure of economic stability and a safety net. For stability may simply be a camouflage for economic lethargy and a declining standard of living. As Ben Franklin remarked, “Those who would give up essential liberty to purchase a little temporary safety, deserve neither liberty nor safety.”

Leviathan Is Not Benign

Before we join the “business cycle is dead” school, let us not forget that Leviathan is not benign. More than likely, it will blunder again in the face of a world crisis—whether it be a financial panic, a natural disaster, or a war. As Adam Smith once remarked, “There is much ruin in a nation.” According to the Austrian theory of the business cycle, as developed by Ludwig von Mises and Friedrich Hayek, monetary inflation does not simply raise prices, but also de-stabilizes the economy. In a world of fiat money inflation and fractional reserve banking, business cycles are inevitable.

Just because we have avoided another Great Depression over the past fifty years does not guarantee that we will avoid it in the next fifty years. The U.S. economy may be Depression-resistant, but it is not Depression-proof.

1. Quoted in Martin Bronfenbrenner, ed., *Is the Business Cycle Obsolete?* (New York: Wiley, 1969), p. vi.

2. Some economists, especially Berkeley economist Christina Romer, emphasize this point and question whether there has been much improvement in postwar business cycles. See "The Postwar Business Cycle Reconsidered," *Journal of Political Economy*, Feb. 1989. However, even accepting Romer's revised GDP figures, a huge difference exists between prewar and postwar business cycles.

THE LUSTRE OF GOLD

Why is the gold standard viewed with disfavor by many? What is it that causes politicians and economists, such as John Maynard Keynes, to disparage and decry a monetary system which has been man's standard for thousands of years?

The gold standard is a monetary system in which gold is proper money and all paper moneys are merely substitutes payable in gold. It is as old as man's civilization. Throughout the ages it emerged again and again because man needed a dependable medium of exchange and gold was found to be such a medium.

The gold standard that builds on freedom does not fail of its own accord. It springs eternally from freedom but succumbs to force and violence. Its implacable enemy is government in search of more revenue.

The seventeen essays in this collection examine the rejection of gold, the history of the gold standard and private coinage in the United States, and the prospects for monetary reform.

Contributors include Hans F. Sennholz, Mark Skousen, Henry Hazlitt, Elgin Groseclose, Robert G. Anderson, and Lawrence W. Reed.

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BOOKS

Albert Speer: His Battle With Truth

by Gitta Sereny

Alfred A. Knopf • 1995 • 757 pages • \$35.00

Reviewed by Bettina Bien Greaves

Ever since the appearance in 1944 of F. A. Hayek's masterpiece, *The Road to Serfdom*, it has been generally accepted that it is always "the worst" who get to the top in an interventionist/socialist society. But so do some of the best and the brightest. We know about the thugs and sadists who surrounded Adolf Hitler. But architect Albert Speer was also close to Hitler. Yet he has gained the reputation of being different somehow—intelligent, better than the others, and not directly involved in the Nazi cabal.

Speer was among the top National Socialists put on trial at Nuremberg. There he incurred the wrath of his co-defendants by blaming Hitler and admitting personal guilt for having contributed to his evil regime. This sincerity on Speer's part may have saved him from the hangman's noose, for when the penalties were announced, he was not condemned to death, but "only" to twenty years in Spandau prison.

In his two books (*Inside the Third Reich* and *Spandau*), both based on notes written in prison and smuggled out, he portrays himself basically as "unpolitical" and generally unaware of the Nazi atrocities. But now to set history straight, we have Gitta Sereny's account.

Sereny, Austrian-born, educated in France and England, and married to an

American, has lived for years in London and is a British journalist.¹ *Into That Darkness*, her book about Franz Stangl, Nazi Commandant of the Treblinka death camp, attracted Speer's attention when it was published. He wrote Sereny in 1977, and after some correspondence and months of lengthy phone calls, they collaborated on a profile of him for the London *Sunday Times Magazine*. They spent almost three weeks in conversation working on the profile and in the course of this decided to work together on a book.

Under Sereny's relentless questioning, Speer explored the past, trying to discover the truth which he had unconsciously kept hidden even from himself. Sereny gained respect for his sincerity in his personal "battle with truth." Four years into their relationship, in September 1981, Speer died.

Sereny decided to complete the book alone and proved herself a skillful sleuth. She interviewed every friend and associate of Speer's who agreed to see her. In time Sereny found out a great deal about Speer, his life, family, friends, emotions, ideas, and the Nazi regime. This prodigiously researched book is a remarkable *tour de force*—it is biography, history, psychoanalysis, and detective story all combined.

Speer was bright, ambitious, hard-working, and energetic, but by his own account not a particularly brilliant architect. Yet, he was an exceptional person—capable, disciplined, thoughtful, conscientious, resourceful, and talented, as evidenced by his account of how he survived twenty years of confinement at Spandau. But he was also aloof, self-centered, proud, and incapable of close friendship.

Speer's early success began when, after completing in record time a couple of assignments for the National Socialist Party, he came to Hitler's attention. Hitler, a frustrated architect himself, felt drawn to this attractive young architect and Speer soon became one of Hitler's inner circle. Speer was seduced in large part by the opportunities Hitler gave him to fulfill his architectural ambitions—to design grandiose structures, spectacular parade grounds,

¹ Gitta Sereny's father died when she was just two years old. She and her older brother were raised by their mother, Margit Herzfeld Sereny, in chaotic, inflationary Vienna of the 1930s. In 1938 their mother remarried and became Mrs. Ludwig von Mises. As a student and friend of Professor and Mrs. Mises, I came to know Gitta personally.

elaborate government offices, and even the entire city of Berlin with a massive triumphal arch and an ostentatious domed hall.

In the summer of 1941, however, Speer turned to war work and erected factories all over Europe for war production and air raid shelters. He also directed the repair of bomb-damaged transport facilities in the conquered East. Then in February 1942, Speer was named Hitler's Minister of Armaments and Munitions Production. Speer's efficiency in planning and organizing production, which had been demonstrated in his construction projects, made him invaluable to the war effort. He became No. 2 in Germany in terms of power and authority. Thus Speer, one of the best and brightest, joined the "worst" at the top of the Nazi hierarchy. As Minister of Armaments he had to use great ingenuity to acquire workers and keep armament production going during the war. Millions of forced laborers were brought from the east, from concentration camps, and from German-occupied territories to work long hours, often under dreadful conditions, in the plants he willingly controlled. His use of forced labor was the basis for the principal charge against him at Nuremberg.

In spite of his powerful positions and his close association with Hitler, Speer claimed at Nuremberg that he had always remained ignorant of most of the Nazi crimes. After *Kristallnacht* (November 9, 1938) when Jewish synagogues, shops, and homes were burned, he admitted only to having been disturbed by the disorder of broken windows and smoldering buildings; he claimed no knowledge of what such maltreatment of the Jews foretold. He admitted that he should have known but, teflon-coated to the end, he succeeded in convincing himself and others that he had known little about the Nazi brutalities.

Sereny was determined to discover the true extent of his knowledge about the maltreatment of forced laborers and about the persecution and extermination of the Jews and other minorities. She became convinced that he was concealing the truth even from himself. For weeks, with his too

pat answers to all such questions, well-honed and practiced over years, he succeeded. Only at the very end did she ferret out a confession from him which, she believed, if stated at Nuremberg would have condemned him to death. □

Mrs. Greaves is FEE's resident scholar.

Noah's Choice: The Future of Endangered Species

by Charles C. Mann and Mark L. Plummer

Alfred A. Knopf • 1995 • 336 pages • \$24.00

Reviewed by Doug Bandow

For some people, nature is sacred. To them, little is more important than preserving biodiversity—the great expanse of animal species. For instance, in the view of Paul and Anne Ehrlich, extinctions must be stopped because of their “religious” conviction “that our fellow passengers on Spaceship Earth . . . have a right to exist.”

A cynic might say that if animals have this right, let them assert it. But they don't have to, since the federal government currently does so for them through the Endangered Species Act (ESA). The result has been costly: economic growth foreclosed, draconian mitigation procedures imposed, and private property effectively seized. Of greatest concern may be the devastating impact on people's liberty. For example, development of large stretches of property around Austin, Texas, ground to a halt after the Fish and Wildlife Service listed the golden-cheeked warbler as “threatened.” When a rancher asked if he could cut a couple of posts to fix his fence, one agency official responded: “We can't generalize. We have to do it on a case-by-case basis. You'll have to contact us.”

Into the emotional issue of endangered species delve Charles Mann and Mark Plummer, science journalist and economist, respectively. The result is an entertaining book that mixes policy analysis with snap-

shots of the actual impact of government policies on communities across America.

Estimates of the number of discovered species range as high as 1.8 million, “but one cannot be sure,” explain Mann and Plummer. The number of undiscovered species is almost certainly higher—between two and four million are common estimates. But some scientists think the total number of insects alone could be six million. As Mann and Plummer put it, “our planet is stuffed to bursting with life.”

An inevitable result of so much life is a certain amount of death. Species do disappear—most spectacularly the dinosaurs. Man didn’t start the extinction process, though his impact has been significant.

At what rate man kills is in dispute. Apocalypics abound: Thomas Lovejoy of the World Wildlife Fund predicts that fully one-quarter of the earth’s species could be eliminated by the year 2025. Thomas Ehrlich even contends that “*Homo sapiens* is no more immune to the effects of habitat destruction” than any other creature.

However, as with such controversies as global warming and ozone depletion, real scientists are increasingly weighing in against the scaremongers. Many are genuinely concerned, but nevertheless reject hysteria. Observe Mann and Plummer:

Is the extinction crisis, then, a chimera, the figment of some biologists’ imagination? The answer is more complex than a simple yes or no. Extinction rates are surely on the rise, but the number of verified disappearances is a tiny fraction of the multitude of species thought to exist. . . . We need much more evidence to believe that the world is in the midst of an immediate extinction crisis.

Species preservation is not cheap. The problem is much more than denying profits to wealthy developers. It involves everyone’s quality of life. Mann and Plummer begin their book with Oklahoma’s *Nicrophorus americanus* burying beetle, which held up construction of a road connecting a community of poor Choctaw Indians to a hospital. Who is to say that the protection of this one of perhaps six million insects was

more important than the health and comfort of several thousand impoverished people?

The federal government, that’s who. There are several important technical issues involving the implementation of the ESA, the history of which Mann and Plummer relate in fascinating detail. But more fundamental is the question: why? Why work so hard to preserve species at all? Mann and Plummer neatly debunk the practical arguments, such as the potential for developing new, life-saving cures for diseases.

The real issue is what Mann and Plummer call the Noah Principle: “Because it’s there.” Purists want to protect anything that exists. In contrast, the public likes what can be best termed charismatic megafauna: eagles and elephants, for instance. Most creatures, like burying beetles, generate no public support. Then there are varieties of life that most people would prefer to kill, like the species of monkey in which the AIDS virus is thought to have first developed.

Mann and Plummer call for balance. They warn: “We *must* choose, a nerve-wracking selection among praiseworthy ends that has tragic overtones, and sometimes tragic consequences.” The ESA does not allow us to make such choices, however. Although it intends to enact the Noah Principle, it has failed, despite its enormous cost. It has not halted the decline of species, with successful removals from the endangered list outnumbered one-hundredfold by additions.

Thus, the authors make a number of practical proposals, the most important of which is to sharply reduce the legal duties imposed on owners of property with wildlife habitat. Where the government wants to preserve habitat, it should purchase the property—something already done by private groups like the Nature Conservancy. Forcing the government to pay would force it to trade off the protection of species against other, competing goals.

The environment matters, including the diversity of species. But man, too, is part of the environment. Federal policies must be changed to better reflect this reality, some-

thing much more likely to occur if policymakers read *Noah's Choice*. □

Doug Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Envy: Statism as Theology (Transaction).

The Sword of Imagination: Memoirs of a Half-Century of Literary Conflict

by Russell Kirk

William B. Eerdmans Publishing Company • 1995 • 514 pages • \$34.99

Reviewed by William J. Watkins, Jr.

Russell Kirk (1918–1994) was proof of the power of individuals. Kirk's influence on the blossoming of contemporary American conservative thought cannot be measured. His 30 books on everything from economics to history will inspire their readers for years to come.

Kirk's final work, completed shortly before his death in April 1994, ranks among his best. *The Sword of Imagination: Memoirs of a Half-Century of Literary Conflict* contains his entertaining and informative ruminations spanning the 1920s to the 1990s. It is a personal chronicle of tumultuous times that anyone interested in ideas should not miss.

How Russell Kirk, enemy of omnipotent government, became interested in ideas and began his higher education is indeed ironic. As his secondary education drew to a close, Kirk felt he had had enough formal learning. Fortunately, he was persuaded by his high school principal to apply for a scholarship to Michigan State College. So as not to appear rude to the principal, Kirk applied for and won a scholarship that he really didn't want. "Off he went to college against his will," writes Kirk in the third person that he uses throughout the work, "having nothing better to do during the Roosevelt Recession in 1936. . . ." Hence, we can credit the New Deal and its ruinous economic policies as the impetus behind the career of one of this century's great men of letters.

The year after he finished his formal education with a Doctor of Letters degree from St. Andrews in Scotland, Kirk pub-

lished his most influential book, *The Conservative Mind*. He went on to become one of the intellectual leaders of the conservative movement as he clearly delineated its principles. The America of the 1950s was still very much FDR's America. Voices of opposition to statist policies were not welcomed, much less understood.

Kirk describes the nomination of Dwight Eisenhower by the Republican convention in 1952 as an enormous setback for conservatism. Had the delegates not betrayed Senator Robert A. Taft, whom Kirk describes as the true leader of the party at the time, "the United States might have entered early upon far-reaching conservative measures. . . ." So instead of the repeal of the New Deal, the United States got the interstate highway system. Defeats of principle like this are one reason why Kirk almost titled *The Conservative Mind, The Conservatives' Rout* instead.

The publication of *The Conservative Mind* was a watershed event. It helped give coherence to an inchoate opposition to the fads of modernity. The book sparked debate and revived interest in such seminal thinkers as John C. Calhoun and John Adams. Now in its seventh edition, the book continues to inspire thought in new readers as well as old. It is destined to become part of The Permanent Things that Kirk loved so dearly.

Of course his memoirs don't stop with *The Conservative Mind*. Kirk goes on to recount how the political climate of the nation slowly changed. "The Remnant he had addressed had grown in numbers," writes Kirk approvingly, "now and again it had taken a town or a castle." Though it would be presumptuous to credit Kirk for the victories, his influence should not be given short shrift. Russell Kirk made an enormous difference in the intellectual environment.

Kirk's memoirs are an honest and enlightening account of the intellectual battles of the past half-century. *The Sword of Imagination* is testimony to a life lived in defense of principle. It is a proper farewell from a giant of our times. □

Mr. Watkins is assistant editor of The Freeman.

The Solzhenitsyn Files

Edited and with an introduction by
Michael Scammell

edition q, inc. • 1995 • 470 pages • \$29.95

Reviewed by Robert Batemarco

“Freedom without a literature is like health without food. It just cannot be. To be sure, the yearning for freedom is deep in the hearts of men, even the slaves of the Soviets. But the yearning can turn into hard, numb despair if the faith upon which freedom thrives is not revived from time to time by reference to its philosophy. It is not without reason that the communists do away with writers on freedom. . . .”

So wrote Frank Chodorov, former editor of *The Freeman*, over 40 years ago. The story of Alexander Solzhenitsyn provides a case in point. Michael Scammell skillfully teases out that story from over 150 recently declassified documents from Soviet archives. The only thing that detracts from the drama of the events described therein is that many of us already know how it turned out. For those readers not familiar with the whole affair, Scammell's excellent introduction places everything in context. The book covers a 17-year period starting with the beginning of the end of Nikita Khrushchev's thaw in 1963 through Solzhenitsyn's being awarded the Nobel Prize in literature and his years of exile.

In between, we are treated to a fly-on-the-wall view of Soviet Politburo agonizing over how to stop Solzhenitsyn's searing criticism of the Soviet system without provoking adverse reaction from the West. The alternatives they consider range from “editing down” his works to the point of eliminating their appeal abroad to trying and imprisoning him. They eventually settle on exile and revocation of his Soviet citizenship.

It is enlightening to hear firsthand the Politburo's morbid fear of criticism, their straitened views of free expression (“the Soviet writer will go his own way. Together with the Party”), the extent of their surveil-

lance activities (knowing where he shops, what he spends, and recording his conversations with his children), their attempts to discredit him even after his expulsion, accusing him of employing some of their very own *modus operandi* (“lies, juggling of facts, intentional distortion of the truth, etc.”) and being out of touch with reality (KGB head and later party chairman Yuri Andropov claims, “there are indications that domestic and foreign policies of the Party enjoy the unanimous support of all the Soviet people,” for instance).

We also hear from Solzhenitsyn himself, in his courageous letter to the Fourth Congress of Soviet Writers as well as some of his seized manuscripts. We can see for ourselves the qualities of mind and character which made him such a threat in the eyes of the Soviets. Contrast the prescience of the following statement with the self-delusion of the Andropov quote cited above: “This is a government without prospects. They have no conveyor belts connecting them to ideology, or the masses, or the economy, or foreign policy, or to the world communist movement—nothing. The levers to all the conveyor belts have broken down and don't function. They can decide all they want sitting at their desks. Yet it's clear at once that it's not working. You see? Honestly, I have that impression. They're paralyzed.”

Although the documents included here of necessity reflect the Party's perspective, most readers will take them not at face value, but rather as a glimpse into the pathology of power. The lesson of the demise of that power is that nothing is more effective in curing its pathology than the truth. □

In addition to editing the book review section of The Freeman, Dr. Batemarco is a marketing research manager in New York City and teaches economics at Marymount College in Tarrytown, New York.



Ayn Rand: The Russian Radical

by Chris Matthew Sciabarra

Pennsylvania State University Press • 1995 •
477 pages • \$55.00 cloth; \$18.95 paperback

Reviewed by David M. Brown

Much to my surprise the author of *Ayn Rand: The Russian Radical*, a comprehensive new study of Rand's thought and its genesis in Russian culture, has persuaded me that something called "dialectics" is integral to Ayn Rand's philosophic approach and crucial to its success.

Russian Radical is a different kind of look at Ayn Rand, a full-fledged "hermeneutic" on the contours, development, and interpretation of her thought. Not to fear. Chris Sciabarra is a visiting scholar at New York University who easily deploys crypto-post-modernist scholarly lingo, but he does not seem to be entirely depraved. His fundamental sympathy with Rand's thought is obvious; and clearly, Sciabarra wants to convey its complexity and power to an academic audience that has often dismissed Rand's rational egoism and libertarianism as polemical and shallow.

Sciabarra wants to approach Objectivism "as an evolved response to the dualities Rand confronted in Soviet Russia. Although she rejected both the mysticism of Russia's religious traditions and the secular collectivism of the Russian Marxists, she nonetheless remained a profoundly *Russian* thinker." The author argues, "Rand's Russian nature was not reflected merely in her heavy foreign accent or in the length of her novels. She was Russian in more fundamental ways. In the sweeping character of her generalizations, and in her passionate commitment to the practical realization of her ideals, Rand was fully within the Russian literary and philosophic tradition." The historical inquiry and speculation about Rand's Russian roots is core to Sciabarra's project. As political scientist and intellectual historian, his goal in the book is not to evaluate the validity of Rand's radical ideas (although his analysis is frequently suggestive on that

score) but to interpret them in their historical context.

After examining the historical background in Russia, Sciabarra goes on to consider how Rand's dialectical rejection of dualism, as a "by-product" of her Russian heritage, saturated every aspect of her thought. From this angle he dissects the systemic relations of being and knowing, ethics, art, politics, sex, and "history and resolution," critically illuminating not only Rand's own thought but also its development and amendment in the hands of her followers, orthodox and non-orthodox alike. At every step, Sciabarra's scrupulous scholarship, dispassionate tone and dialectically dynamic argument are calculated to render Rand as palatable as possible to serious academic consideration. But the book is not aimed only at academics. It also invites those who already appreciate Rand to consider her thought anew.

Rand has repeatedly been read as a kind of "vulgar" Nietzschean egoist herself. But true to her non-dualism, Rand's mature theory in fact transcends the false alternative of sacrificing one's self to others or sacrificing others to one's self. She rejects not only the masochism of conventional altruism but the sadism of conventional, other-trampling "egoism." To pursue one's long-range interests rationally, one functions as neither master nor slave. Rand vividly illustrates these themes in her novel *The Fountainhead*, in which the Nietzschean kinds of egoist are contrasted with the more independent-minded, self-sufficient Howard Roark. Roark succeeds by earning the trust and rational agreement of others, and by trading values with them, not by getting anyone's self-sacrificial submission (despite dramatic opportunities to do so).

Sciabarra's insight into the import of Rand's integrative, contextualist dialectic is part of what makes his book distinctive and challenging. His methodology will be controversial, and here I cannot begin to suggest its playing out in the skein of the "hermeneutic." I take his understanding of Randian dialectic to be somewhat problem-

atic as enunciated, less so as applied in Sciabarra's actual interpretation of Rand. There is room for much more controversy, too: for example, in Sciabarra's comparison of Rand to other thinkers, including provocative wondering about, say, whether Rand may have picked up her emphasis on productive work from Karl Marx. In terms of sheer new information, the material on Rand's education is invaluable, but of a necessarily speculative character.

Sciabarra also rehabilitates Rand's advocacy of limited government and repudiation of anarchism as an expression of her non-dualistic, dialectical approach (and, yes, it turns out that anarchism really is "context-dropping"). He reconstructs Rand's analysis of power relations on the interlocking personal, cultural, and "structural" levels, and notes that her capitalist ideal is set forth as "the only social system that makes possible a triumph over social fragmentation."

The Aristotelian philosopher Henry Veatch has asked whether Objectivism will ever be academically respectable. That formerly open question must now be answered with an unequivocal "Yes," inasmuch as Chris Matthew Sciabarra's profound and subtle study has made it inevitable. But more important, *Ayn Rand: The Russian Radical* is a fundamental challenge to everyone to reassess the remarkable thought of a remarkable woman. □

Mr. Brown is a freelance writer.

Payback: The Conspiracy to Destroy Michael Milken and His Financial Revolution

by Daniel R. Fischel

HarperCollins Publishers • 1995 • 326 pages • \$25.00

Reviewed by George C. Leef

Daniel Fischel is eminently qualified to write a book on the attack on Michael Milken and the changes he wrought in the

financial world in the 1980s. Fischel is a professor of law at the University of Chicago and also an expert in finance and the securities markets. He writes fearlessly, taking politicians, journalists, judges, and prosecutors to task for their ignorance but mostly venality in the entire affair. And in the course of it all, the reader learns a great deal about the world of finance, particularly the benefits of corporate restructurings financed by high-yield bonds. Any book that accomplishes so much good deserves hearty praise indeed.

The root of a vast amount of economic good and his own success (and later downfall) was Michael Milken's insight that there was a great untapped reservoir of capital available to entrepreneurs in "junk" (more appropriately called "high-yield") bonds. These are bonds with a higher risk of non-repayment than investment-grade bonds and a correspondingly higher interest rate. Wall Street traditionally looked down its nose at such securities; the bond markets were for the blue chips. Those who wanted to borrow large quantities of capital for risky ventures had a very hard time doing so.

Michael Milken changed that. Working at an insignificant New York investment bank, Drexel Burnham Lambert, Milken convinced management to allow him to give his theory a try. Beginning with its first high-yield bond deal in 1977, Drexel swiftly rose to prominence in the industry.

In creating this success at Drexel, Milken also made many enemies. In selling billions worth of junk bonds, Milken angered the Wall Street patricians. Wall Street etiquette was that on big underwritings, the lead underwriter would form a syndicate to spread the risk and share the fees. Drexel rarely ever did this. Milken also made enemies of the old-line Fortune 500 executives who felt threatened by the emergence of competitors for control over their corporations.

One of the book's virtues is Fischel's ability to set the record straight about financial dealings, such as leveraged buyouts, which have been so demonized in the press that most of the public believes them to be

no different from pillage. But all the "raiders" were doing was competing for control by purchasing stock. In the '70s and '80s, there were many overextended and ineptly run corporations in the country. That made it possible for the takeover specialists to profit by taking control, replacing complacent management teams and selling off parts of the corporation that didn't fit in. In the free market, you don't make money by destroying things. When the "raiders" made money, they did so by increasing efficiency.

The destruction of Michael Milken, Drexel, and a host of other firms and individuals was accomplished by the use of prosecutorial tactics that are the twentieth-century counterparts of the rack. The prosecutors were out to make big names for themselves by bringing down the high and mighty. Many of the convictions were later reversed by the Second Circuit Court of Appeals, but that was back-page news.

Just what was it that Milken had supposedly done? Fischel writes, "After the most thorough investigation of any individual's business practices in history, the government came up with nothing. In fact, the government never established that Milken's 'crimes' were anything other than routine business practices common in the industry."

Milken would eventually plead guilty to six felonies. Four of them were in conjunction with an alleged "stock parking" deal between Milken and Ivan Boesky. Stock parking is a harmless practice whereby one individual purchases and holds securities on behalf of another under an agreement that the true owner will later buy back the stock, taking all gains or losses. The SEC regulates stock parking, however, so that it will not be used to evade other regulations. The so-called crime was over a failure of record-keeping. Such violations had never before been treated as anything but a minor regulatory infraction. Milken had in all probability, Fischel concludes, not even committed the offenses charged. "Felonies" five and six were likewise feeble, more proof that the SEC's regulation is absurdly over-

blown than as an attack on the integrity of the financial markets.

If the case against Milken was so weak, why did he plead guilty? The answer is that the government had also indicted Michael's brother, Lowell, who had no involvement with any of the counts in the indictment, but was used by the government to increase its leverage against Michael. He knew that the government could and would ruin his brother if he didn't cooperate. One of the most disturbing facts that Fischel brings out is how easy it is for the government to conjure up allegations of securities law violations and use the threat of prosecution to force people's hands. Guilt isn't necessary. The prospective financial and emotional costs of a trial are sufficient to bend most people to the government's will.

After Milken's coerced guilty plea, numerous demagogic politicians piled on, claiming that he was responsible for the savings and loan crisis that had become a major political and financial debacle by the late '80s. Milken made the perfect scapegoat. Congress enacted a law forcing remaining S&Ls to divest themselves of ownership of all junk bonds. Fischel's discussion of the facts of the S&L crisis is excellent, refuting numerous popular myths, and his analysis of the destructive effects of forcing still-solvent S&Ls to dump their junk bond portfolios is razor sharp.

Fischel sums up the campaign against Michael Milken this way: "Milken's downfall proves only that the government, with its unlimited ability to harass and change the rules in the middle of the game, is more powerful than any individual. . . . The unholy alliance of the displaced establishment and 'decade of greed' rich-haters, aided by ambitious but unscrupulous government lawyers . . . combined to destroy him. The whole episode is a national disgrace." Read this excellent book and see if you don't agree. □

Mr. Leef is an adjunct scholar at the Mackinac Center, Midland, Michigan, and legislative aide to state Senator David Honigman.



To Renew America

by Newt Gingrich

HarperCollins Publishers • 1995 • 260 pages • \$24.00

Reviewed by Wesley Allen Riddle

To Renew America is a good book worth reading. That said, one hastens to add that it is not a profound book; moreover, it is not as good as it should have been. Indeed, while the book is provocative and far superior to anything on the other side of the ideological aisle, it lacks depth and even coherence in some places. *To Renew America* fails to develop the essential philosophical groundwork for cultural and spiritual renewal or the economic and political rationale for any other type. The argumentation is built on platitudes and an almost boyish, naive optimism. Hence the book does little to achieve the purpose implied by its title. It leaves the serious reader annoyedly disappointed.

Gingrich writes instead for popular consumption. His style is straightforward like the conservative talk radio commentary he celebrates. There is nothing inherently wrong with the approach, but the approach is persuasive as opposed to reasoned. *To Renew America* does give the reader some heavy doses of common sense, an increasingly uncommon commodity. The book's treatment of welfare and health-care issues is particularly good in this regard. Gingrich also writes lucidly about the wrongheadedness of the current tax code, as well as the incessant running of budget deficits. But few conservatives and libertarians will take the simplistic and programmatic approach in this book as seriously as the liberals.

Gingrich is at his best when he explains history. The former history professor presents a clear exposition of what amounts to an emerging neoconservative revisionist interpretation of the modern period. Slowly but increasingly, this new school of thought is also affecting established academe. Gingrich assesses the American predicament today as one of cultural disintegration and civilizational decline. In Reaganesque fash-

ion, he asserts it is within our power to mold the future—to succumb or forge ahead toward a boundless bounty. “To renew or to decay”—that is the question. Got problems? Take six steps and all will be well when it's morning again in America: (1) reassert American civilization; (2) accelerate entry into the Third Wave Information Age; (3) become more competitive in the world market; (4) replace the welfare state with an opportunity society; (5) decentralize power by shifting it to states, locales, and individuals; and (6) balance the federal budget.

Few would disagree per se with the six steps, which are really goals. Many should be a bit wary, however, because every step entailing an active verb above also employs the agency of the federal government. Gingrich reveals a so-called pragmatic conservatism in the book, which smacks of means justifying ends. Even the step to decentralize power is a bit disingenuous, since he does not predicate his argument on constitutionalism or morality.

Gingrich pictures a kind of political internet, in which the devolution of power plan goes out through the modem of centralized state policy. The policy exists as long as Republicans happen to be in charge—and while everyone behaves. Jack Kemp has identified this central inconsistency, namely the faith that individuals must be empowered but also harnessed to inexorable historical forces such as technology (helped along by government).

Waves don't make history. People do. In the final analysis, *To Renew America* lacks imagination, even as it sports a futuristic and sometimes far-fetched vision. Gingrich conceives of everyone marching to the beat of the same Third Wave Information Age drummer. By doing so, he fails to give people proper credit for their ability to envision and pursue still greater potentialities. He also fails to acknowledge people's natural right to choose one or a combination of such—or to reject them all. □

Wesley Allen Riddle is Assistant Professor of History at the United States Military Academy, West Point, New York, where he teaches the elective course in the American political tradition.

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Pride and the Nanny State

I do not come from a rich family, and the other day it struck me that I am, in a way, glad of this. My wife and I recently purchased our first house, and, after we had inspected it one Sunday while it was still being completed, I remarked to her that it was a satisfying feeling to be purchasing the house ourselves.

While other aspects of our lives, such as relationships with spouses, family, and friends, are undeniably meaningful and essential to achieving happiness, we humans also live in the economic world. So it is natural that surviving, flourishing, and prospering would also be a significant source of happiness. It is deeply satisfying to have truly earned something—a car, a new computer, a job, even if these are derided as “material” by some.

But this source of satisfaction is being threatened by the welfare state of liberals’ and socialists’ dreams.

Well-meaning people often proclaim that people have a right to food, to employment, housing, education, pension plans, medical care, and so on, and that government should therefore provide us with them. Surely we should not let people starve, or be reared illiterate and uneducated, these humanitarians say. But when government gives us these things and relieves us from the responsibility of providing them, it also removes the possibility of our achieving them, and of taking pride in such accomplishments. Even feeding one’s family and educating one’s children, provide a feeling of serene accomplishment. When I stand in a grocery line and purchase groceries with money I have earned myself, I feel a self-satisfaction that I doubt any welfare recipient cashing in his food stamps ever could. Parents who pay for their children’s education in private schools undoubtedly derive satisfaction from this, a feeling that is denied to the bulk of parents whose children are state-educated.

If the nanny state took care of all our wants, one could, I suppose, attempt to convince himself that he really paid for it through taxes. But I doubt that this contrivance would succeed any better than “play-

ing market” did in socialist economies. It is just not the same.

This is how it seems, in any event, in my own experience. I attended a large state university. Although students pay tuition, because the school is heavily subsidized by tax revenues, tuition covers only a small portion of the cost of their education. The rest is given to them free by the state. If I tell someone I paid my own way through college—well, it’s not quite true, is it? Unconvincingly arguing, “Well, I probably paid more in taxes than it cost to educate me” simply cannot substitute for unambiguously saying “I earned this” or “I paid my own way.”

Nor would our benevolent providers long let us say even this. I frequently receive requests for contributions to my alma mater, with the underlying implication that I should “give back,” since I obviously was given something for free. I have even heard liberals entertain the idea that some sort of “fee” be paid by rich Americans trying to emigrate to escape taxes, on the grounds

that they must “pay back” the government for all the benefits conferred on them, such as education, roads, or even for the freedom they had that “allowed” them to earn their fortune in the first place. So in practice, the omni-provider state not only removes a huge source of satisfaction and accomplishment from people’s lives, it also turns the tables on its wards and imposes obligations on them, telling them that they are “in debt” to the state for all it’s done for them. In the land where “self-made man” used to be one of the highest marks of praise, it has become almost impossible to be one.

If we want individuals to be able to achieve meaningful satisfaction in their lives, to take pride in their accomplishments, we must allow them to fail, as well as succeed, and we must replace the nanny state with a regime of self-reliance and self-respect.

—N. STEPHAN KINSELLA

Mr. Kinsella practices patent law with Schnader Harrison Segal & Lewis in Philadelphia.

Forty Years Ago in *The Freeman* . . .

Frank Chodorov: “. . . whenever government undertakes to solve an economic problem, it simply creates other problems. This is because the laws of economics operate without regard to political ‘expediency.’

“As Nock observed in *Our Enemy, the State*: ‘Every intervention by the State enables another, and this in turn another, and so on indefinitely. . . .’”

Leonard E. Read: “. . . there doesn’t appear to be any widespread, lively recognition of the fact that conscience, reason, knowledge, integrity, fidelity, understanding, judgment, and other virtues are the distinctive and exclusive properties of individual persons.

“Somehow, there follows from this lack of recognition the notion that wisdom can be derived by pooling the conclusions of

a sufficient number of persons, even though no one of them has applied his faculties to the problems in question. With this as a notion the imagination begins to ascribe personal characteristics to a collective—the committee, the group, the association—as though the collective could think, judge, know, or assume responsibility. . . . With this as a notion, the responsibility for personal thought is relieved and, thus relieved, fails to materialize to its fullest.”

Paul Poirot: “*The only security any person can have lies within himself.* Unless he is free to act as an individual, free to be productive in his own behalf, free to determine what part of that production he will consume now and what part he will save, and free to protect his savings, there is no chance that he can find security anywhere.”

Insurance: True and False

by Llewellyn H. Rockwell, Jr.

The movie classic *Double Indemnity* tells the story of a couple's attempt to commit murderous insurance fraud. Their plans were foiled through the investigation of a hard-bitten insurance executive. At the time, audiences were shocked that a middle-class couple would attempt such a scam.

The film shows how insurance is *supposed* to work. The company offered double payment on life insurance if the policyholder fell off a train and died. Why did the company offer such a policy? Because the data from past experience suggested that it virtually never happened. When it did in fact happen, executives at the company suspected foul play.

As the story makes clear, the business of insurance is the business of making money, not granting welfare. That requires collecting more in premiums than is paid out in settlements. To do that, firms must assess the risks inherent in every conceivable set of conditions.

Most of us don't know the odds of falling off a train. That's not our job. But insurance companies do know, because that *is* their job. When a company grants insurance against some random event, they are betting that it is not going to happen.

For example: What are the chances someone will be killed by an asteroid? Pretty low. If a company wants to insure against that, it will charge low premiums and make high payoffs.

But what are the chances that a drug-dealing gang member in the inner city is going to be gunned down? These days, pretty high. That means high premiums and low payoffs, or, more likely, no insurance at all.

The risk inherent in most insured events falls somewhere between the impossible and the very likely. It's a tricky business assessing risk and staying ahead of the uncertainties with which life confronts us. It is best handled by hard-bitten capitalists.

Sound insurance requires that people who attempt to beat the company through fraud be weeded out. The astronaut who applies for an asteroid-protection policy, for example, had better tell the truth about his profession, or face penalties. Neither can a member of the Crips be allowed to lie about his occupation or his address.

Government Insurance Fraud

Insurance fraud, like that committed in *Double Indemnity*, is still illegal—for people in the *private* sector. The federal government, on the other hand, perpetrates huge insurance frauds every day, and taxpayers are enlisted to pay double indemnity settlements in perpetuity.

The most prominent example is the extension of health insurance to the entire country through programs such as Medicaid and Medicare, and the never-ending call for making these schemes or something similar universal. To insure people for their medical bills regardless of a pre-existing condition is

Mr. Rockwell is president of the Ludwig von Mises Institute in Auburn, Alabama.

like an insurance company offering a widow a life insurance policy for her husband after he has been buried.

It does not make economic sense. And it creates a moral hazard. If insurance companies don't root out insurance fraud, they create a perverse incentive structure that can turn a portion of their customer base into plunderers. The result is bankruptcy.

When governments offer insurance regardless of risk, they create the same sort of moral hazard. They reduce the incentive to avoid the very behavior they are insuring against, which in this case is sickness.

Ironically, any form of government-mandated health insurance will increase the degree of unhealthiness in society. It reduces, as Ludwig von Mises pointed out, the will to health. If medical care comes at zero price, risky behaviors carry less of a penalty, and healthy behaviors carry less reward.

In private markets, your behavior determines your risk pool. When you get a speeding ticket, your auto insurance goes up. Keep up the behavior, and you won't be able to get insurance. This is as it should be.

In a market economy, there is no affordable flood insurance for people who live on rivers that flood every year. There is no affordable fire insurance for people who live on combustible underbrush. We can live in these areas, but we do so at our own risk.

Under government health insurance, those who are covered qualify for reasons other than profitability. Risk pools are chosen with politics, not demographic risks, in mind. Not even joining the Bloods or jumping canyons in a motorcycle increases your premium.

So long as they qualify as "poor" or "aged," health-club addicts pay no less than couch potatoes. Government likes to brag that its insurance can't be taken away, but that is the exact opposite of the market-based insurance message.

From the government's point of view, providing health insurance has one great benefit. It draws people into a dependency relationship with the government. Bureaucrats get more customers. The long history of government insurance shows how suc-

cessful this trick is, and how much long-term damage can be done.

Welfare for the Middle Class

Otto von Bismarck was an innovator in promoting middle-class welfare in the guise of social insurance and selling it as a conservative program. Decent people disapprove of the dole. But social insurance? Now that's another matter, he found. That's just government protecting people against uncertainties, just like private insurance. Germany still suffers today as a result.

The English and Swedish governments also excelled at duping the public into buying varieties of insurance with their tax dollars. In each case, the public formed a dependency relationship with the State. The Fabians much preferred this form of socialism over revolution, though the long-run consequences are not that much different.

Our federal government offers a variety of false forms of insurance that invite the "policyholders" to squander the contents of the public purse. One of these policies is offered to bankers. It's called deposit insurance.

Like the insurance company in *Double Indemnity*, banks once had an incentive to keep costs and risks low. Market pressures of competition—and the threat of bank runs—forced bankers to remain solvent. If banks lent out more deposits than they promised to keep available for withdrawal on demand, they went belly up. Bankers would compete by advertising high reserve ratios and pursuing only sound investments. This made for soundness in banking and more economic stability.

But with the Great Depression, Franklin D. Roosevelt had the idea of offering insurance for all deposits. The bankers did not mind. They no longer had to compete for customers in the same way. Bad loans would be bailed out by Washington's printing presses.

If the wad of cash you take to Las Vegas is your own, you're more careful about what you gamble on. But if you're using someone else's credit card, high-stakes poker is def-

initely the way to go. You get all the returns and suffer none of the losses.

So it is with deposit insurance. Bankers get double indemnity payments on errors of their own creation. Depositors don't care, so long as they get the cash when they want it. But the public pays, through taxation or the hidden tax of inflation that comes with running the Federal Reserve's printing presses.

Throughout its history, deposit insurance has caused bankers to make unsound loans and to invest irresponsibly. And as we saw in the savings and loan scandals, or the Mexican bankruptcy, it has caused moral hazards that cost taxpayers tens of billions.

Unemployment Insurance

The government has another policy to offer. This one is for workers. It's called unemployment insurance. If you lose your job, you start collecting benefits. If the government had advertised this as welfare, it might not have been so successful. The dole has never been dignified. But with unemployment insurance, you collect a "monthly settlement" financed with "prior premiums."

In fact, by its very nature, employment cannot be insured in a market, any more than entrepreneurship can be. It is not a random event. Only involuntary events, with premiums carefully controlled for risk, are conducive to profit-making insurance.

Unemployment insurance nearly destroyed the British economy. It protected people from the ravages of unemployment all right. It protected them so much that the unemployed decided to *stay* unemployed, which drove the economy into the tank. Jobless insurance, combined with other labor interventions, prolonged the depression in this country as much as seven years.

This type of insurance creates the illusion of sticky wages and a stagnant job market. In a recession, wages are supposed to fall. With insurance, wages stay high. They then induce mistaken Keynesian policies like fiscal stimulus, monetary stimulus, jobs programs, and price supports. If labor markets

are allowed to correct downward, the political support for such programs would not exist.

For some reason, unemployment insurance remains among the most untouchable aspects of the welfare state. It has led people to believe that they have a right to a constant income stream.

We were much better off in the old days, when wages were tied to productivity. There was no profit to be gained from endless looking or waiting for a job. Now idling about pays double indemnity.

When George Bush was confronted with growing unemployment a year before his term was up, he extended the term length of benefits. No surprise that joblessness became an even greater problem.

We could yet see this program explode out of control. It has been a long time since we have had a serious and sudden all-round recession. When that happens again—and it will, thanks to the Federal Reserve—and as many people begin drawing on their insurance as are eligible, we could see a fiscal crisis and a deepening and spiraling loss of jobs.

Such a situation would look very much like a bank run. Every one will want what has been promised by the insurance scheme. But everyone will know that all the claims cannot be paid out without bankrupting the Treasury, or hyperinflation.

Social Security

Government still has another policy to sell you. It insures you against old age. In the old days, the best protection against poverty in the older years was saving and a large family. But Social Security—the most insidious form of government insurance—did away with some of the need for private savings or marriage and children. And like the other forms of government insurance, it was a welfare program that created a new class of state dependents.

Today, Social Security is widely recognized as a Ponzi or pyramid scheme. It is insurance fraud on a massive scale. Recipients get checks for far more than they paid in. What is this? Quadruple indemnity?

Social Security and Medicare have turned the people that society ought to look toward for leadership and wisdom—the elderly—into social pariahs with lobbies demanding handouts at the expense of the next generation.

Ronald Reagan and Alan Greenspan “saved” Social Security in the early eighties by raising taxes, but everyone knows that the system will eventually burn itself out. What young person today believes that Social Security is going to care for him in his old age?

Social Security, in other words, is going bankrupt. Good, I say. Maybe that will cause people to start having children and saving their money again. Maybe that will cause the middle class to sever this most insidious dependency relationship with the State.

Squandered Resources

The current administration had another policy it wanted to sell you: access to health care at very little cost. Of course, this promise was a fraud. It was as fraudulent as the claim made by a murderous couple against the insurance company. Except that it would be the middle class being pushed off

the train, and the government collecting the benefits.

Whether the government is providing insurance for banks, workers, the elderly, or the sick, the mechanism is always the same. Premiums do not match risks, payers end up getting looted, beneficiaries transfer their loyalty to the State, and massive quantities of public and private resources are wasted.

If you see this in private markets, chances are that illegal fraud is involved. If you see this in the public sector, chances are that legal fraud is involved. Despite promises to the contrary, the middle class is the ultimate victim of this subversive form of welfare provision.

The insurance industry is a respectable market institution. It provides services for people at profit, like any business. What the government calls insurance works like anything else the government does. It takes other people’s property by force and deception, and uses it to gain more power for itself.

So long as we know the difference between true and false forms of insurance, we can know insurance fraud when we see it. And maybe someday, we can make the government’s managers and employees pay a double indemnity out of their own pockets for this crime. □

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Globalism and Sovereignty: A Short History of the Bricker Amendment

by Thomas E. Woods Jr.

Historically, conservatives and libertarians have always maintained a suspicion of supranational governing bodies. Their central fear has been that foreign bodies may serve to compromise self-government and American liberties in favor of egalitarian and universalist political goals.

Closely related to this fear were misgivings about the steady accretion of power in our own executive branch. American conservatives maintained that socialist projects dreamed up by global bureaucrats would be held at bay if Congress, the branch of government closest and most accountable to the people, made a determined stand for American independence. If too much control over the direction of foreign affairs were concentrated in the executive, questions of such grave import might be placed beyond the reach of popular opinion.

The coupling of executive power with an internationalist political agenda became a force on the American political scene soon after the ratification of the United Nations treaty. It quickly became clear that President Harry Truman favored a strong executive. His 1952 seizure of U.S. steel mills

Mr. Woods, an Intercollegiate Studies Institute Richard M. Weaver Fellow, is a doctoral candidate in history at Columbia University.

and his actions in Korea seemed to justify conservative apprehensions.¹ In the latter case, Truman argued repeatedly that the United Nations Charter was a treaty he had the duty to execute, and whose authority obviated the need to consult Congress for a declaration of war. If Truman could invoke the Charter to justify a measure as serious as the deployment of American troops abroad, many conservatives wondered, might he not appeal to the same authority to implement wide-ranging initiatives of social reconstruction?

Acutely aware of such concerns, the American Bar Association (ABA) and its president, Frank S. Holman, laid the intellectual groundwork in the late 1940s and 1950s for what would become the Bricker Amendment. Holman, an early opponent of the New Deal and an outspoken champion of states' rights, viewed supranational institutions with distrust. In 1948, he ordered the ABA's Committee on Peace and Law through the United Nations to assemble reports on several UN-proposed treaties—the Statute of the World Court, the Genocide Convention, the Freedom of Information Covenant, the News Gathering Convention, and the Covenant of Human Rights—with respect to their potential impact on American sovereignty. Alarmed by

the results, the ABA in 1952 endorsed the idea of a constitutional amendment that would safeguard the Constitution from erosion by international treaty.²

Missouri v. Holland

Many of the concerns shared by the ABA and other proponents of what would become the Bricker Amendment can be traced to the obscure and seemingly innocuous case of *Missouri v. Holland* in 1920. Its rulings on state regulation of the treatment of certain species of migratory birds were ripe with significance for the future conduct of American foreign relations.

The dispute dated back to 1913, when Congress passed a measure establishing federal regulations over the killing, capturing, or selling of such birds. At the time, federal courts ruled it a usurpation of rights reserved to the states under the Tenth Amendment. But when President Woodrow Wilson codified these regulations in a 1916 treaty with Great Britain, the Supreme Court upheld them by citing the so-called supremacy clause of the Constitution. The Court concluded that if "the treaty is valid there can be no dispute about the validity of the statute . . . as a necessary and proper means to execute the power of the Government."³

The decision was a fateful one, for it would be cited in several subsequent cases that served to expand the power of the central government.⁴ Decades later, in the wake of U.S. ratification of the United Nations Charter, the precedent set in *Missouri v. Holland* and subsequently elaborated in *United States v. Pink* (1942) took on a profound significance. The Charter had been ratified with the explicit assurance that it authorized no UN interference in the domestic concerns of the United States, or of any other member nation. There can be little doubt that the United States would never have lent its support had the document not contained such a stipulation. These Court decisions, however, raised difficult questions regarding that portion of American sovereignty that UN membership may have forced the United States to relinquish.

It would not be long before these precedents would be invoked by American social reformers to justify progressive legislation or the abolition of state and local infringements on what the UN considered "human rights." Only a year after the ratification of the Charter the left-wing National Lawyers Guild, citing *Missouri v. Holland*, concluded that lynching fell under federal jurisdiction and hence anti-lynching legislation within federal authority, on the grounds that such legislation would serve to satisfy America's human-rights obligations under the United Nations Charter.⁵ Nor were such arguments limited to left-wing groups. In 1948, four Supreme Court justices offering concurring opinions in the case of *Oyama v. California* cited the UN Charter as a rationale for the abolition of a California law that restricted land ownership among aliens ineligible for citizenship, since in practice it applied only to Japanese aliens. Two years later, the companion case of *Sei Fujii v. California* yielded a similar outcome.⁶

A conservative backlash against such developments was not long in coming. The constitutional ruminations of the National Lawyers Guild and some of the legal reasoning employed in *Oyama* and *Fujii* may well have been isolated cases, but they were rich enough with implications for state autonomy to alarm right-wing congressmen who were notoriously protective of local liberties.

Senator Bricker's Efforts to Safeguard American Sovereignty

One such legislator was the fiery Senator John Bricker of Ohio. For several months, Bricker had closely followed the discussions in the *American Bar Association Journal* regarding the ambiguity of the supremacy clause of the Constitution.⁷ If any senator could have been expected to act on such concerns, it was John Bricker. In 1951, he had introduced Senate Resolution 177 in opposition to the proposed International Covenant on Human Rights, which the UN had unsuccessfully attempted to draft since

1949. The attempt to foist a legally binding covenant on the nations of the world, Bricker maintained, demonstrated beyond any doubt that the United Nations was attempting to establish itself as a world government. The Covenant, he insisted, "would be more appropriately entitled as a Covenant on Human Slavery or subservience to government. . . . [T]hose who drafted the Covenant on Human Rights repudiated the underlying theory of the Bill of Rights—freedom to be let alone."⁸ Significantly, Bricker cited the *Fujii* case as evidence of the ominous potential of UN authority over American domestic policy.⁹

In early 1952, Bricker decided that the rights of the states and the people were sufficiently imperiled to warrant the otherwise extreme recourse of introducing a constitutional amendment to safeguard them. In his view, the jurisprudential trends exemplified in *Oyama* and *Fujii* gravely jeopardized the integrity of "existing laws which are in our Bill of Rights and our Constitution, thereby forcing unacceptable theories and practices upon the citizens of the United States of America."¹⁰ For this reason, he warned, a constitutional amendment was critical to the long-term health, independence, and sovereignty of the American republic.

The Bricker Amendment contained several crucial provisions. First, any provision of a treaty that conflicted with the letter of the Constitution would be rendered null and void. Second, a treaty would become effective as internal law only with the passage of appropriate legislation by Congress; that is, treaties would not be self-executing. Finally, the Amendment would rein in the executive with the requirement that all executive agreements between the President and any international organization or foreign power "be made only in the manner and to the extent to be prescribed by law." Such agreements "shall be subject to the limitations imposed on treaties, or the making of treaties." This stipulation would ensure that the executive could not evade the requirements for treaties merely by signing executive agreements instead.¹¹

The Amendment's supporters hoped that these provisions would clear up the ambiguity in the Constitution over the exact implications of the claim in Article VI that "[t]his Constitution and the laws of the United States which shall be made in pursuance thereof and all treaties . . . shall be the supreme law of the land . . . anything in the Constitution or laws of any state to the contrary notwithstanding." In the pages of *The Freeman*, Frank Holman described the Amendment as necessary to preserve "our basic rights as protected by our own Constitution and the Bill of Rights."¹²

The Amendment would obviously strike a forceful blow against members of Congress who may have wished to cite the Charter when drafting civil-rights measures.¹³ In hearings held to discuss the Amendment, Eberhard Deutsch, a member of the ABA's Committee on Peace and Law, cited the dangers of the *Fujii* case and suggested that without passage of the Bricker Amendment, the American Left could well hold "that the entire civil rights program has already effectively been imposed on the United States through the United Nations Charter itself, without the need for any congressional action whatever."¹⁴

While the Bricker Amendment earned the contempt of influential members of the Washington Establishment, the libertarian journalist Garet Garrett recognized its populist origins. What was really at stake, Garrett insisted, was the people's ability to have a voice in the kind of international agreements that would be binding on them, and the protection of everyone's constitutional rights from the whims of executive fiat. "The people are told they know not what they do," he wrote. "They would weaken American leadership in the world and perhaps destroy mankind's hope of peace. But all they wanted was simply to be let alone."¹⁵

The editors of the conservative weekly *Human Events* agreed with Garrett, gratified by the outpouring of support for the Amendment by ordinary Americans. Early in 1954 the editors exulted in the success of "The Vigilant Women of the Bricker

Amendment," who had established regional coordinators in 39 states and whose officers succeeded in bringing 500,000 signatures to Washington.¹⁶

Ultimately, the George Amendment, a watered-down version of Senator Bricker's original proposal, failed by one vote to receive the necessary two-thirds majority of the Senate.

A good many Republicans, upon learning of the Eisenhower Administration's staunch opposition to the Amendment, withdrew their support out of loyalty to the President. Not surprisingly, the vast majority of the most liberal senators in each party—whom the Old Right *Chicago Tribune* contemptuously described as "all the New Dealers"—also voted against it.

Positive Effects of the Bricker Amendment

Some conservatives maintained that all was not necessarily lost. Indeed, the Bricker fight may itself have had some positive effects on the conduct of U.S. foreign policy. John Foster Dulles, for example, hoped that the State Department's refusal to ask for ratification of the Genocide Convention and its decision to end the U.S. role in securing a universal human rights covenant would help to mollify supporters of the Bricker Amendment.¹⁷ President Eisenhower, moreover, proved himself reasonably trustworthy in his handling of foreign affairs, consulting Congress during crises in Indochina in 1954, the Far East in 1955, and the Middle East in 1957—perhaps in part as a consequence of John Bricker's efforts and the popular support they received.

Free-market economist Henry Hazlitt even remained cautiously optimistic of future victory. One way to carry on the struggle, he proposed, would be to introduce a new amendment by which the House of Representatives, as "the body that most directly represents the people," would be given a voice in treaty ratification. Since House members, more than their colleagues in the Senate or in the other two branches of government, were subject to swift removal

by an angry populace, Hazlitt believed that they would be less likely to compromise American sovereignty. By shifting some of the authority over ratification to the House, the people would have much greater recourse if they believed their rights had been threatened by international treaties.¹⁸

Others were less sanguine. The editors of *The Freeman* lamented that the defeat symbolized the ascendancy of the Cold War notion that old-fashioned republican, constitutional government had grown outmoded and even dangerous for the United States, and that the President needed "great freedom of action" in foreign affairs. "Freedom from what?" asked the editors. "Well, freedom from the slow and meddlesome restraints of Congress, freedom from the bickerings of partisanship, freedom from a too narrow interpretation of the Constitution, and, above all, freedom from the anticries of the people."¹⁹

The story of the Bricker Amendment is more than a historical curiosity. The 1990s have witnessed a renewed assault on American sovereignty. We have seen the ratification of trade agreements whose supranational commissions seek to exercise a kind of veto power over American trade, labor, and environmental policy. Just last year, the UN met to determine the "rights" of women and children around the globe. Before that, global functionaries were busy with plans to dictate the environmental policies of every nation on the planet.

Today the treaty power poses as grave a threat to self-government as ever before. The voices that speak for American independence are few and far between. As the twentieth century comes to a close, post-Cold War America awaits its John Bricker. □

1. Duane Tananbaum, *The Bricker Amendment Controversy: A Test of Eisenhower's Political Leadership* (Ithaca, N.Y.: Cornell University Press, 1988), p. 49.

2. Terence L. Thatcher, "The Bricker Amendment, 1952-54," *Northwest Ohio Quarterly* 49 (Summer 1977): 107-108.

3. *Missouri v. Holland*, 252 U.S. 416 (1920).

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10. U.S. Congress, Senate, *Congressional Record*, 82nd Cong., 1st sess., 97, pt. 9: 11361. The quotation is taken from a resolution adopted by the Tampa Rotary Club, the text of which Senator Bricker inserted into the *Record*.

11. Tananbaum, *The Bricker Amendment Controversy*, p. 223.

12. Frank E. Holman, "American Rights vs. 'Treaty Law,'" *The Freeman* 3 (August 10, 1953): 803–805.

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14. U.S. Congress, Senate, Committee on the Judiciary, *Treaties and Executive Agreements, Hearings*, 82nd Congress, 2nd session, 1952, pp. 46ff.

15. Garet Garrett, "Nullification by Treaty," *The Freeman* 3 (May 4, 1953): 549–50.

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Born Again: The Resurgence of American Prohibition

by Mark Edward Lender

Seventy-six years ago, America outlawed beverage alcohol. Initially popular, national Prohibition eventually collapsed amid a chorus of public resentment. The nation learned then what we know now: Prohibition doesn't work.

For all of its good intentions, prohibitionism is fatally flawed as public policy. It injects government into private lives. It makes criminals out of law-abiding citizens. And it tramples on our heritage of individual freedom and responsibility.

Yet prohibitionism is alive and well. In fact, the nation could be on its way to making some of the same mistakes it made during the 1920s. This time the target isn't alcohol, it's tobacco.

No one with any sense is calling for a constitutional amendment against smoking. But prohibition doesn't require such a drastic step. In 1920, when the nation voted for Prohibition, the majority of districts in America were already dry. Local option laws, temperance publicity, and tax policies had produced a *de facto* or "backdoor" prohibition in most of the country.

Professor Lender is Director of Advanced Study and Research at Kean College of New Jersey and a Visiting Professor at the Rutgers University Center of Alcohol Studies. He is co-author of Drinking in America: A History (Free Press, 1987) and he has written widely on prohibition. With James Kirby Martin, Lender is completing a history of the controversies over alcohol and tobacco reform for New York University Press.

Similarly, smoking now faces "backdoor" prohibition. Restrictions on advertising, increasing bans on smoking, FDA efforts to regulate tobacco products, assaults on the tobacco industry, and abuses heaped on smokers all have the ring of the old crusade against Demon Rum.

Prohibition has never been just about drinking or smoking. Most reformers have wider social agendas. And the risk-free society some seem bent on creating today looks a lot like the perfectionist idealism of a century and more ago. Ardent dries were not content to mitigate problems; they wanted a nation fully cleansed of its "evils."

The same is true today, despite evidence that intrusive legal remedies are unnecessary. Drinking declined before Prohibition. Under the impact of temperance education, millions of Americans voluntarily gave up the bottle well before the first dry laws. Yet anti-liquor crusaders drove on, unwilling to tolerate *any* drinking. Today, the anti-smoking crusade persists despite declines in smoking. Since the 1964 Surgeon General's Report, perhaps 40 million or more have quit. But the legal quest for social perfection continues; voluntary choice doesn't suit the reform mentality.

Unfortunately, prohibitionism has degraded public discourse. Zealous to eliminate drinking, dries eventually demonized drinkers. The current anti-tobacco movement has targeted smokers for similar treat-

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Carry Nation, hatchet-wielding crusader for American temperance.

ment. The matter goes well beyond forcing smokers to huddle in doorways; it has struck at the ability of the nation to conduct a civil public policy debate.

All too often reformers have let advocacy outrun evidence. Their claims of addiction are a case in point. Temperance zealots insisted that all drinking led to addiction. This was obvious nonsense, and the public ultimately called them on it. Similarly many smokers may find it hard to quit, but millions have quit. Exaggerated claims of addiction are the rhetoric of a movement determined on victory at all costs.

How far will the logic of prohibition extend? Using arguments similar to those employed against drinking and smoking, a few social critics already have targeted strong perfumes because they offend others or trigger allergies. Some would tax low-nutrition foods because those who eat them could pose a burden on the health-care system.

The implications of these prohibitionist

initiatives are staggering. Heart disease remains America's greatest killer, so should we tax beef or eggs because of their cholesterol content? Do we ban suntanning because it causes cancer? Or any other personal behavior because someone else has determined that it is not good for us?

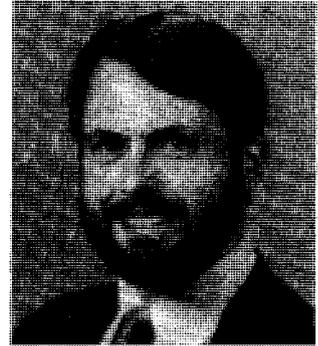
However well-meaning its goals, the results of prohibition have been disappointing. In the early 1920s, national Prohibition posted only short-term successes in reducing drinking and alcohol-related problems. Illegal markets grew steadily. Consumption levels climbed. So did disrespect for the law and the corruption of law enforcement.

Severe anti-tobacco regulations could lead to the same kinds of trouble. It is clear that illegal markets will fill any void created through cigarette bans. In 1993, for example, Canada imposed draconian cigarette taxes in an effort to discourage smoking. Smugglers were soon supplying about one-third of all Canadian cigarette sales. Michigan tried to tax tobacco into extinction a year later and saw citizens turn to bootlegged products. Moreover, serious First Amendment issues have arisen from efforts to curb tobacco advertising. Unreasonable legal and regulatory attacks on behavior as personal as smoking and drinking have caused at least as many problems as they have solved.

Clearly the excesses of prohibitionism are unnecessary. Today, the public is served well through educational campaigns. These are noncoercive and they work: witness the dramatic decline in smoking after 1964.

Furthermore, all states and many cities have laws against tobacco sales to children. These should be enforced. The consistent application of such laws does not inhibit the free choice of adults. Yet it may serve to eliminate an emotional propaganda theme among anti-tobacco zealots.

America is a democracy and Americans can obviously ban behavior that they find objectionable. They have in the past. They may again. Before they do, they should be aware of the damaging implications of banning tobacco. And we all should be honest enough to call it what it is—prohibition. □



That Taxing Time of Year Again

Despite their extended budget wrangling, the two major parties agree on one thing: Social Security is sacrosanct. Taxpayers are suffering as a result.

Today government takes more in payroll than income taxes from many people. The 15.3 percent levy effectively doubles the marginal tax rate for those with modest incomes. Moreover, the payroll tax is highly regressive, since top wage earners pay nothing on most of their salaries and those relying on investment income are exempt. The Social Security tax also acts as a direct penalty on job creation.

Alas, it's not just the tax that is flawed. The program itself is a public Ponzi scheme built on a financial foundation of unfunded liabilities. Early next century Social Security is likely to hit fiscal reality and collapse.

The Washington, D.C.-based Tax Foundation recently detailed the bad news for recipients. According to economist Arthur Hall, "most members of the baby-boom generation—those born between 1946 and 1964—can expect to lose money on Social Security when it is viewed as an investment for retirement." That's bad enough. But if Congress does what comes naturally, adopt short-term palliatives rather than address fundamental problems, the news will get uglier. Explains Hall: the negative returns "will almost certainly become worse if law-

makers enact traditional reforms to keep the Social Security system from going broke in the year 2029." That is, in a desperate attempt to preserve the system Congress is likely to hike the taxes on and cut benefits for baby-boomers. Hall figures that a typical 36-year-old would then suffer a nearly two percent negative rate of return. And that's just the average. The same age high-earner would enjoy a negative three percent return. It adds new meaning to the line, "I'm from the government and I'm here to help you."

Even these numbers understate the magnitude of Social Security's bad deal. A better measure is to compare the annual after-tax Social Security benefit with the private, after-tax annuity that could be purchased with the same employee/employer "contribution." A 36-year-old, low-wage worker would receive \$52,132 (for a couple, after taxes), compared to an annuity of \$58,664. The difference is not just an extra 12.5 percent year-in and year-out, however. When a worker dies, Social Security benefits cease, while the annuity's principal remains. For a low-wage worker that would be a savings of *a half million dollars or more*. The gap for a high-wage worker is even greater: annual after-tax earnings of \$101,014 versus \$137,530, respectively, or 36 percent more for private retirement. Plus principal worth between one and two million dollars. Looked at another way, William Shipman of State Street Global Advisors in Boston figures that even a low-income worker entering the market today would

Mr. Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Envy: Statism as Theology (Transaction).

earn up to three times as much investing in the stock market.

Social Security taxes would have to be cut up to 30 percent, depending upon the recipient's income and age, to accurately reflect the annuity value of the expected benefits. As Hall says with admirable understatement: "most boomers will pay too much for their Social Security." Indeed.

However, this entire discussion assumes that Social Security survives. Round about the year 2013 (if current estimates hold, and they have always been too optimistic in the past) outgo will begin to exceed income. By 2030, admits the Social Security Administration, the system will be running in the red. But the news gets worse. The \$3 trillion surplus supposedly accumulating in the Social Security trust fund to pay benefits between 2013 and 2030 doesn't exist. Social Security merely possesses federal bonds representing cash spent. To redeem those bonds—in order to pay retirees, as promised—will require some combination of massive borrowing, tax hikes, and benefit cuts. That's only the start of the fun, however. By 2070 the annual flood of red ink will be \$7 trillion. In fact, between 2010 and 2070 the system is committed to paying out *\$140 trillion* more than it is projected to take in. Oh, well

A Flawed Program

The basic problem with Social Security, which no one in Washington wants to admit, is that the program is flawed in its conception. It should never have been created. Government has no right to redistribute income, even if the beneficiaries are elderly. Nor is there any cause for Uncle Sam to guarantee everyone's retirement. People have a responsibility to make themselves financially secure; families have an obligation to care for their older generations. The burden does not belong on taxpayers.

What of those who are incapable of caring for themselves through no fault of their own? Associations, businesses, churches, individuals, and neighborhoods should all help look after those in need. If there is a

proper role for government, it comes next, as a last, rather than a first, resort. It is not Social Security, which recipients view as a matter of right and treat as their primary retirement income.

Of course, when Franklin Roosevelt established Social Security in 1935, benefits were far more modest. But an election-minded Congress raised payments by 25 percent in 1972 alone. Demographics has also transformed the program. In 1935 life expectancy was only 62—three years less than the eligibility age for full benefits. It has since risen to 76. In short, Roosevelt kept Social Security cheap by ensuring that many Americans—almost half of men and 40 percent of women—died before receiving their first check!

Then there's the bulge of 76 million baby-boomers who start retiring around the year 2010. As late as 1945, 42 workers supported every retiree, which allowed taxes to be fairly low. The ratio today is 3.3, and early next century it will be less than two. In sum, Social Security has more people collecting more benefits for more years. It's no wonder, then, that the system is hurtling towards financial disaster.

As people tote up their tax bills, they should contemplate the future. Without change, the combined Social Security tax rate will have to be raised to upwards of *40 percent*—that's in addition to income tax levies to pay for the rest of government. Conventional remedies are a mixture of more modest tax hikes combined with benefit reductions, such as raising the retirement age, capping cost-of-living-adjustments, and modifying spousal benefits. These would help put off fiscal Armageddon. However, as Hall points out, they would also worsen the deal for baby-boomers.

Opting Out

The only way to simultaneously avoid generational war and treat baby-boomers fairly is to allow workers to opt out of Social Security. Radical though this may sound, in 1981 Chile created just such a system. More

than 90 percent of citizens now invest in private pension plans rather than participate in the government program. Hall proposes a similar approach: baby-boomers would receive a government bond worth their employee/employer contribution (adjusted for inflation), which could be used at retirement to purchase a private annuity. It would be even easier to design an escape mechanism, such as tax credits for IRA contributions,

for younger workers. The specific details matter less than returning to people control over their retirement futures.

April 15th will continue to be a taxing time of year as long as Americans expect Uncle Sam to play a combination of fiscal Santa, national nanny, and global cop. Unfortunately, the burden will grow far worse unless officials begin planning to replace rather than save Social Security.

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Creative Destruction—Again

by David N. Laband and John M. Wells

Whose heart bleeds for the virtually nonexistent blacksmith? In 1900, there were 226,477 blacksmiths counted by the U.S. Census. Today the number is negligible. Who laments the slide into occupational oblivion by tallow-renderers? The invention of electricity and electric lights killed off the candle-making industry. Henry Ford almost singlehandedly wiped out buggy manufacturers (as well as cartwrights and wheelwrights). Have the violins stopped playing yet?

The recent announcement by AT&T that company management intends to eliminate 40,000 jobs over three years sent shock waves through New Jersey, in which a large number of the job losses are anticipated, while precipitating a 5 percent jump in the price of AT&T stock over a two-day period. Media reaction to the announcement was predictable: interviews of wary workers likely to lose their jobs filled newspapers and the airwaves. The anticipated human misery makes for good copy and even better 60-second sound bites. Yet to focus attention on this aspect of the job losses and not on the underlying causes and consequences is to completely overlook one of the most fundamental and positive aspects of America's market economy: job destruction for a relative few is a by-product of a vibrant economy that enhances the welfare of many millions of individuals.

Dr. Laband is Professor of Economics at Auburn University in Auburn, Alabama. Dr. Wells is an assistant professor of economics at Auburn.

Typically, in a growing economy, job losses result from two sources: competitive pressures that force firms to economize on production costs, and technological developments that either improve the production process of firms or lead to the marketing of new products that make other products "outmoded." Both lead to structural unemployment and associated hardship for the adversely affected individuals.

When the media focus only on individual hardships, they fail to consider the long-term economic consequences of the job losses. Lost is the fact that literally millions of Americans' lives are enhanced by virtue of the lower prices they pay for goods and services they consume and by virtue of the new, perhaps revolutionary, products that previously were unavailable. As Joseph Schumpeter pointed out in *Capitalism, Socialism and Democracy*, "[t]he opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism."

The value of the aggregate economic enhancement to millions of lives utterly swamps the aggregate economic suffering of displaced workers. An example is illustrative. Suppose that, in the aggregate, each

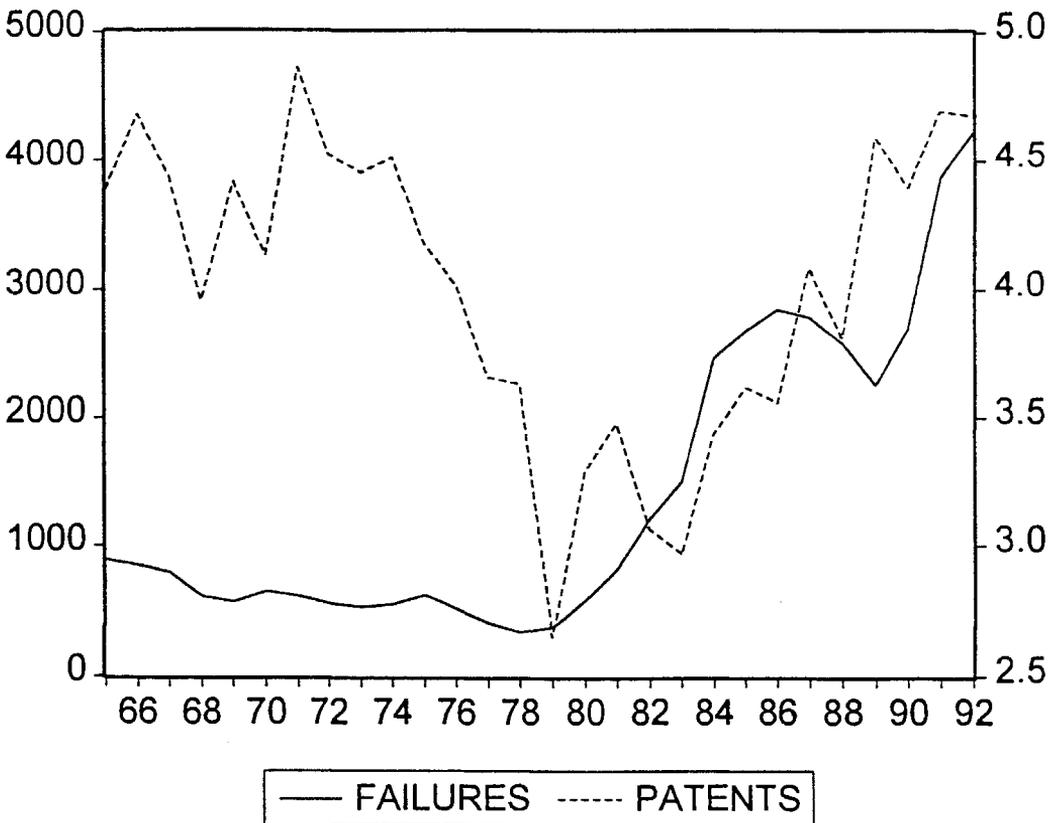
individual in America will gain the equivalent of \$10 worth of added value to his/her life each year from price cuts and new products produced in 1996, and that, again in the aggregate, the developments that promoted these gains by consumers were achieved at a loss of 100,000 existing jobs. With 260 million (or so) consumers, the aggregate well-being of Americans increases by some \$2.6 billion.

In truth, the typical consumer probably gains far more than \$10 worth of added value to his life (especially in a present-value sense) from the introduction of new products and services, as well as by development of new methods of production that lead to price cuts on existing merchandise. Think of the enrichment to human lives generated by computers and word processors, microwave ovens, fax machines, automobiles, airplanes, radios and televisions, washing machines, disposable diapers, electricity, hearing aids, contact lenses, pharmaceutical drugs, and so on. The average American

probably values these advances to the tune of thousands, if not tens of thousands or even hundreds of thousands of dollars, each year.

Moreover, the job losses suffered by displaced workers are typically temporary. These individuals (or others who might have followed them into their old employment) develop new skills that contribute to the production of other, valuable goods and services.

Who weeps for the nearly 37 percent of Americans who no longer are engaged in farming? In 1900 nearly 40 percent of all workers were engaged in farming; today that fraction is less than 3 percent. Did the lost jobs impoverish America? Were job losses in the agricultural sector "bad"? Of course not. Far from reflecting evil times in agriculture, occupational flight from farming reflected simply stunning gains in farm productivity during the first half of the twentieth century. The fact that it took only three Americans per 100 workers to feed America



in 1995 rather than the 40 in 1900 reveals prosperity that freed up 37 percent of our workforce to pursue other types of productivity: designing and building automobiles and aircraft, communications systems, electric power systems, developing new medical procedures and drug therapies, and inventing new products and processes by the thousand that contribute to a standard of living in 1996 that could perhaps barely be imagined in 1900.

A comparison of measures of innovative activity over time against measures of business failure over time reveals the essential relationship between creation of new products and processes and the obsolescence and death of old products and processes. The dotted line in the figure on page 211 depicts the number of per capita (times 1,000) new inventions patented over the 28-year period, 1965–92, inclusive; the solid line represents per capita (times 1,000) business failures. Over the first half of this period (roughly 1965–77), the intensity of innovative activity falls, as does the incidence of business failures. By contrast, during the more recent 15 years (1978–92), the incidence of innovative activity has generally been rising, accompanied by a general increase in the incidence of business failures. Obviously, there are many factors that influence both the pace of innovative activity and business failures, so an exact relationship between these two data series may be hard to define specifically. Nonetheless, the two graphs suggest, at a minimum, that the innovative activity that is so vital to enhanced economic well-being over time is associated positively with the obsolescence of products and industries that, in turn, leads to displaced workers.

Government Regulation

Government regulation tends to exacerbate the job destruction associated with innovative activity. This is because the effect, if not the intent, of many government regulations is to insulate the affected industries from competition. This creates conditions under which domestic firms not only charge higher prices to consumers than would exist in a more competitive environment, they lack incentive to produce efficiently. Additional innovative activity by potential competitors eventually breaks down the barriers imposed by regulation. When this occurs, high-cost, regulation-driven firms are forced suddenly to compete with low-cost, efficient, consumer-oriented firms. The result tends to be quite sudden, massive layoffs in the affected industries, as opposed to the more measured and continuous labor force adjustment that firms would undertake in a more competitive environment.

The fact that we are now experiencing declining unemployment with little evidence of any upward pressure on inflation is puzzling to many economists, as well as non-economists. We believe that this is not surprising at all, given the constant economic metamorphosis that characterizes the modern American economy. The dual processes of innovation and re-engineering production imply continuous job creation as well as job displacement, and an expanding economy with little inflationary pressure. The announced job reductions at AT&T and other large (and small) firms may not make the displaced workers rejoice, but they should make everyone else feel pretty good. □

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Jack the Radical

by Alastair Segerdal

In the late nineteenth century, despite fabulous wealth, gracious living, and an industrial revolution that had reached the far corners of her empire, Britain was also an island of social unrest. Working-class discontent with poverty and disease was fueling the rise of socialism, and new doctrines were calling for revolution and an end to the monarchy. Parliamentary controversy over the age-old “Irish Question” was bitter as rioting from the Emerald Isle spread to the not-so-United Kingdom. Its capital, London, was a city of great commerce, high fashion, and sophisticated culture—a city of wealthy gentlemen and gentle ladies, their children attended by nannies as they played in Hyde Park.

London was also a city of unfathomable poverty. Its East End housed nearly a million hungry and impoverished souls living in cramped filth. Although working conditions had improved in Britain since the early days of the Industrial Revolution, working-class discontent in London had been building up since the late 1870s. Inspired by Karl Marx, who lived and wrote in London, the growing voices of socialism were eager to boost this discontent, and by 1886 things turned violent. In early 1886, one of the coldest winters on record caused such hardship that, despite the subnormal temperatures, thousands of out-of-work men and women from the East End docks gathered in Trafalgar Square to hear violent speeches from eminent social-

ists. Meanwhile, thousands more protesters went on a rampage of property damage and looting as rioting spilled over into the residential environs of upper-class Mayfair and the upscale West End shopping districts of Oxford Street, Regent Street, and Piccadilly.

On November 13, 1887, Queen Victoria’s Jubilee year, a battle known as “Bloody Sunday” erupted in Trafalgar Square when 100,000 demonstrators, including George Bernard Shaw and the poet William Morris, fought with four thousand police constables. Three months later, another Trafalgar Square riot prompted Queen Victoria to write to the prime minister, William Gladstone: “The Queen cannot sufficiently express her *indignation* at the monstrous riot which took place the other day in London, and which risked people’s lives and was a *momentary* triumph of socialism and disgrace to the capital.”

London’s East End was vilified and ignored, yet despite the anger and disruption, Britons of all classes possessed an inbred distaste for revolutionary ideas designed to overthrow the established order. No matter how poor and impoverished, British working men and women cherished their freedom of speech and right of assembly. Continental-style government regimentation was anathema to this island race. Violence, when it did take place, was not seen by the Left as enhancing the road to reform. They realized that fear of the mob would never inspire the middle and upper classes to comprehend the plight of the poor. The

Mr. Segerdal resides in Glendale, California, where he is a writer.

socialist-minded and their brethren in the press knew that education via speeches and the written word was the only viable means of impingement. By 1888, London's radical press, aware of its growing power to focus attention on the capital's social problems, was constantly on the lookout for a new socio-political drama, preferably one guaranteed to increase circulation and vindicate their left-wing rhetoric. Little did their editorial offices know that before the year was out, a gruesome saga was to present them with the campaign opportunity of a lifetime.

It began as the hot English summer of 1888 drew to a close. Police Constable John Neil, a London policeman with badge number 97 and tired feet, trudged his night beat along Buck Row, a dirty little side street in Whitechapel in the East End of London. Most of the drunks, drifters, and ladies of the night had disappeared as dawn approached on this last day of August, and the only sound along Bucks Row was the slow, steady gait of Police Constable Neil. The assurance of a London bobby's footsteps gave way to an eerie silence as he stumbled on the body of a woman. She had been murdered, but this was no ordinary killing. Mary Ann Nichols had been savagely disemboweled. Poor Annie Chapman met a similar fate on the night of September 8 and three weeks later, on the night of September 29-30, two more wretched souls, Elizabeth Stride and Catherine Eddowes were added to the chain of death, horribly mutilated and displaying similarities to the previous victims.

On October 1, the newspapers ran the story together with the complete text of two letters which had been posted to the London Central News Agency. Both were written in deep red ink and signed under a name that activated the strangest left-wing campaign of all time.

“Dear Boss”

The first letter was addressed to “The Boss, Central News Office, London City,” and opened with: “Dear Boss, I keep on hearing the police have caught me, but they

won't fix me just yet.” The text continues to boast and taunt, ending off with: “Keep this letter back till I do a bit more work, then give it out straight. My knife is nice and sharp. I want to get to work right away if I get a chance. Good luck. Yours truly, Jack the Ripper.” Part of a postscript read: “Don't mind me giving the trade name.” The letter is well written and a careful study of words like “won't” and capital letters after a period show proficiency in punctuation. The phrase “give it out straight,” an Americanism used by newsmen on both sides of the Atlantic, is the first hint that the writer might have been a journalist. Both letters used the word “Boss,” another Americanism familiar to those with close ties to the United States and the internationally minded London press, but not to the broad population and working classes of nineteenth-century England.

The second letter (sent as a postcard) was particularly daunting because it referred to the September 30 double murder in great detail, apparently before these details were fully known to the police and released to the press: “I was not codding [sic] dear old Boss when I gave you the tip. You'll hear about Saucy Jacky's work tomorrow. Double event this time. Number one squealed a bit. Couldn't finish straight off. Had not time to get ears for police. Thanks for keeping last letter back till I got to work again. JACK THE RIPPER.” Once again, observe the correct punctuation as in “You'll” and in the possessive “Jacky's.” Note the capital S and J in “Saucy Jacky.” And note the clipped newspaper-style giveaway in “Had not time to get ears for police.” It was written in the same handwriting as the first letter, and because it recounted the contents of that letter, both were obviously penned by the same person. Yet details of these crimes were not publicly known until October 1, when newspapers published them. So, it was argued, both letters were not only from the same person (which was true), but must have come from the real killer.

What was not published was the fact that a barely visible “OC 1” postmark existed on

the address of the second letter. (The postal service in Central London was very fast, and a letter mailed early in the morning was guaranteed delivery by lunch or early afternoon.) In other words, it was posted after details of the double murder were already in the newsrooms. It also suggests that the writer might have worked at the Central News Agency since the letters themselves were not handed around for other publishers to inspect physically, with the possible exception of the radical *Star*.

Furthermore, the function of the news agency was to deliver news items to newspapers and magazines who subscribed to its service (rather like today's Associated Press), and it is highly unlikely that a serial killer in a working-class district would have known of this function, or even have heard of the agency. Like most serial killers, he would probably have written to one paper only, or taunted the police with notes which might never be made public. On the other hand, a journalist would understand that spicy information addressed to the news agency would generate maximum publicity. Once the name had appeared in print, hundreds of crank "Jack the Ripper" letters were sent to the press and police, and all were rejected as genuine with the possible exception of a note addressed to a Mr. George Lusk, the Marxist head of the Whitechapel Vigilance Committee. It was written "From Hell" and, interestingly, not signed with a Ripper signature, but simply as "Catch me when you can Mishter [sic] Lusk."

More than any previous endeavor, creating the trade name "Jack the Ripper" forced a spotlight on London's destitute and poor, and *what* a creation! Two of London's top-selling radical newspapers, the *Star* and *Pall Mall Gazette*, realized that dramatizing the murders would focus the story directly towards the squalor of "Outcast London." The first two murders had certainly generated publicity, and the next two murders, both on the same night, would normally have proven even more newsworthy, but publishing news of the "double event" with the macabre and threatening text of two

"Jack the Ripper" letters was nothing short of masterful public relations. And it worked.

Within hours of the papers hitting the streets on October 1, 1888, Jack the Ripper—and the social conditions in which his victims lived—stole the show for months on end as a conversation piece. From the stately homes of the aristocracy down to bawdy working-class pubs; from London's Alhambra Theater and Gaiety Music Halls to New York's vaudeville, this unknown killer even spawned mirth over murder. Ripper-mania drifted far from the pathetic rat-infested hovels of Whitechapel and landed on page one of the world's press. The day the double murder story was released in London, "Dismay in Whitechapel" headlines ran on the front page of the *New York Times*. Queen Victoria herself cultivated an unusual interest in what were more politely referred to as the "Whitechapel Murders," and she demanded action. In an age when the Queen's orders were dutifully obeyed, nothing happened. The Ripper was not apprehended, and Victoria was not amused.

A Vehicle for Socialist Propaganda

The "double event" now brought the total number of victims to four, and from this point on, the murders became an important vehicle for socialist propaganda, replacing homicide as the central issue. For instance, a petition with 5,000 signatures was sent to the Queen, but it didn't mention the need to apprehend the killer. It dwelled instead on women "living sad and degraded lives" in the slums of Whitechapel. The *Star* in particular gave extensive coverage of the murders and unashamedly blamed them on "such economic systems as that of unrestricted competition, backed by the devil's gospel of *laissez-faire*." This London daily was well known for its biased socialist crusades, its inflexibility on "Home Rule" for Ireland, and its denunciation of Metropolitan Police Commissioner Sir Charles Warren and his allegedly inept, heavy-handed police force.

The *Star's* large circulation covered a

wide cross-section of readers, including those of a more conservative outlook, and this induced other less radical papers, who were also criticizing Warren, to echo the *Star's* rhetoric, albeit with less rebellious versions. The result was a multi-media push for both the Ripper's arrest and an exposé of the environment in which he operated. Even the staid gentlemen of the Fourth Estate relished the Ripper saga when, almost by default, the highly respected *Times* of London drew attention to the social conditions where the killings took place. As for sensationalism, few could compete with either the *Illustrated Police News* or the *Penny Illustrated Paper*, as issue after issue ran lurid descriptions and artist sketches of the killings.

However, nothing surpassed the publicity that followed the murder of Mary Kelly, the fifth victim. Reports about "Another Whitechapel Horror, More Revolting Mutilation Than Ever" shocked the civilized world and prompted the Queen to telegram her prime minister: "This new most ghastly murder shows the absolute necessity for some very decided action." Led by the socialists, press attacks on the harassed and despondent Sir Charles Warren became so intolerable that he was forced to resign as head of Scotland Yard. It so happened that the attractive Mary Kelly was the last of the Ripper murders, but this was not known at the time and Ripper fervor continued for months on end after her death.

A Radical Campaign?

That the brilliantly conceived "trade name" was part of a socialist campaign against the established social and economic order seems all the more likely when we inspect other aspects of this drama. For instance, Sir Melville Macnaughten, Assistant Chief Constable at Scotland Yard in 1889 (whose notes are the best known of all documents on the case) wrote in his memoirs: "In this ghastly production I have always thought I could discern the stained forefinger of the journalist—indeed, a year later I had shrewd suspicions as to the actual author! But whoever did pen the gruesome

stuff, it is certain to my mind that it was not the mad miscreant who had committed the murders." And in his book, *The Lighter Side of My Official Life*, Sir Robert Anderson, head of Scotland Yard's Criminal Investigation Division during the investigation of the murders, commented specifically on the second letter when he wrote: "So I will only add here that the 'Jack the Ripper' letter which is preserved in the Police Museum at New Scotland Yard is the creation of an enterprising journalist."

Quick to spot what was going on, George Bernard Shaw wrote: "Whilst we conventional Social Democrats were wasting our time on education, agitation and organization, some independent genius has taken the matter in hand." In a series of interviews with this writer, former police chief and pioneer of the FBI's serial crime profiling unit, Pierce R. Brooks, said that, in his opinion, the two letters were almost certainly the work of someone in the media with a social axe to grind. (Brooks also felt that the "From Hell" note might have been genuine in view of the killer's handwriting style, which displayed domination fantasies, cruelty, and inner rage.) One of today's noted historians, Martin Fido, said that the murders became famous because the very first elections to the new London County Council were taking place, and the extreme leftists saw their chance of winning the East End—a tailor-made opening for the radicals.

Until 1888, unified administration of the rapidly growing areas beyond the old City of London was completely neglected. Known as Greater London, its population of five million was governed by a complexity of overlapping authorities and the result was administrative chaos. A long overdue solution to this dilemma was set in motion by the Local Government Act of 1888, for it not only created the London County Council, but established urban self-government throughout England. (The Council did not cover the ancient city itself—the financial district known to this day simply as "The City.") At the time, left-wing proposals and convictions were more or less represented by the so-called "Progressives" who had

very close ties with the Liberal Party and the emerging Labour Party. The Progressives were represented at council elections, but not at parliamentary elections, and although most voters in 1888 voted for Conservative Members of Parliament, many London conservatives were so keen on democratic reforms for their city that they voted Progressive in the Council elections. (It was in this spirit of "Progressive London" that the Fabian Society flourished.)

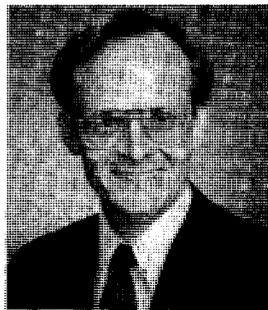
As for the radicals and socialists, their Jack-the-Ripper newspaper campaign worked like a dream. The Progressives won a 73-seat majority out of a total of 118 seats on the new council, including radical theosophist Annie Besant, who won a seat for the East End. In one Council election after another, the Progressives gained a majority of seats, and from its onset the new council burst into life and quickly introduced new programs involving welfare, sanitation, baths, education, and, to a lesser extent, housing. Their influence on the council also curtailed the operations of unrestricted laissez-faire.

In many ways, the Progressive Movement added an aura of "respectability" to the radical cause. Ominous revelations about urban conditions necessitated the involvement of the ruling classes, notably those with vast estates and holdings which were being leased out to meet the demands of urbanization. The newly assertive London County Council demanded and achieved a large increase in such leasehold enfranchisement, and, as the century drew to its close, more and more of the social elite found themselves in demand as urban celebrities. In fact, the London County Council was the prime example of this "titular association of the aristocracy with the new civic democracy" when the Earl of Rosebery was elected as its first chairman in 1889.

We may never know the author of the first two "Jack the Ripper" letters—some documents relating to the Ripper case are missing, and may have been destroyed in the air raids of 1940–41. Nevertheless, these serial murders would never have generated such enormous publicity if the nightmarish name had not been invented. As for the new Council, its enacted reforms became a symbol for continuing social reform, both in London and the rest of the country. The stirring of "Liberal Socialism" fully surfaced in the 1880s and 1890s and gave birth to the new Independent Labour Party, founded in 1893 by Keir Hardie, and renamed the Labour Party in 1906 when 29 of its candidates won seats in the general election of that year. Its backbone was the growing trade union movement and, together with the Fabian Society founded in 1884, Labour became one of the two major political parties from 1922 onward.

Britain's recurring love affair with socialism has extended well into the twentieth century. Although the British Left was never taken by Soviet Communism, notable exceptions in the 1930s such as the "Bloomsbury Set" and the secret Cambridge society, The Apostles, and its spy-master Kim Philby, certainly left their mark. British socialists were more than impressed when the American journalist Lincoln Steffens returned from Russia in 1919 and told Bernard Baruch that, "I have been over into the future, and it works." These words certainly resounded in British (and American) politics, but neither the Labour Party or those who voted for them wanted a revolution against the prevailing British way of life. Not even he who created the trade name "Jack the Ripper" could have foreseen how thoroughly the old Victorian order would be overthrown. □





A Vote for Optimism

As the twentieth century draws to a close and a new millennium begins, should we be optimistic or pessimistic about the course of the human race?

Expect pundits and prognosticators of every persuasion to be offering up their views on this weighty question between now and the year 2000. Count me among the optimists. Not since the Enlightenment swept Europe in the eighteenth century have so many trends been moving in the right direction at one time. Let me make my case.

In political and economic terms, this century began inauspiciously. Individual liberty, free markets, and representative government were in retreat, socialism and dictatorship were advancing all over the globe. Two world wars and a great depression were followed by widespread acceptance of the fiction that governments should heavily spend, tax, and regulate. Communism—the state in charge of everything—claimed to be the wave of the future and millions believed it.

Today, the values of limited, representative government predominate from Moscow to Manila. A chunk of the Berlin Wall sits on the grounds of the Ronald Reagan Library in California. Protectionism is receding as barriers to trade come down. In dozens of

national capitals, the public policy debate now turns on how much less government should do, not on how many new duties to give it.

Among intellectuals, the trend is decidedly in one direction—toward liberating individuals from the constraints of statism. The world is full of *former* socialists; I don't know any former advocates of the free market who have undergone any comparable philosophical transformation. The staggering volume of publications and conferences pouring forth from free-market groups dwarfs anything coming from other directions.

Reinforcing these anti-statist trends is an information/technology revolution that is empowering individuals to take charge of their lives, start new businesses, and communicate freely and instantaneously with others in every corner of the earth. New discoveries and productivity gains are making capital and labor more mobile than ever before, bringing higher living standards almost everywhere.

In a 1988 study, *The Twilight of Government Growth in a Competitive World Economy*, Richard B. McKenzie suggested that one of the greatest threats to the march of the omnipotent state was the personal computer:

These words are being typed in a plane at 33,000 feet en route to St. Louis. The computer I am using is about the size and weight of a small box of Tide but has the internal memory of the University Maryland's entire computer

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center when I was a graduate student there two decades ago. I carry in my shirt pocket enough disks to conduct the business of a modest-size firm. Yet any such observation about the small size but great power of modern computers is remarkable only because it is no longer astounding.

Nonetheless, the computing power on my lap represents an immense, not fully recognized, threat to the economic and political power of the U.S. government and other governments around the world. At the same time, my computer represents a liberation of "people power," because technology is changing the nature of capitalism. Capital is being freed from the strict confines of arbitrary national boundaries; it is becoming internationalized to an extent never before imagined. As a consequence, the power of government to tax and regulate may be in its twilight years.

Not long ago, we were awash in predictions about an imminent crisis in natural resources. In the '70s, forecasters were warning of increasing scarcity and rising commodity prices. An American president in a woolen cardigan gave us a fireside lecture about why we would have to hunker down, settle for less, pay more at the gas pump, even adjust our thermostats and throw more blankets on our beds.

A funny thing happened on the road to disaster: factoring out inflation, natural resources are now half as expensive as they were in 1980. Between 1980 and 1992, the worldwide inflation-adjusted price of food declined by 49 percent; timber, by 13 percent; and petroleum, by 62 percent. Cato Institute economist Stephen Moore says the next century may be "the first era in the history of humanity that natural resource scarcity ceases to act as a significant constraint on economic growth."

The astonishing progress in lengthening life ranks as one of humanity's greatest triumphs. Capitalist countries have slashed infant mortality and added 15 to 20 years to the average life span since 1900. Life ex-

pectancies even in poor countries, with few exceptions, have risen more since 1950 than in the previous 3,000 years. While some may argue the world has too many people, this startling fact cannot be ignored: the earth today sustains more than 5 billion people living far longer and at far higher standards on average than was the case for the mere 1 billion the earth sustained less than two centuries ago.

In the United States and many other countries, the environment is generally on the mend. The air is cleaner, the water is purer. Conditions that once spawned deadly plagues and diseases that killed or crippled vast numbers of people are few and far between, or relegated to historical footnotes. The cover story of the April 1995 *Atlantic Monthly* declared, "[T]he vast reforestation of the eastern United States is the most important environmental story in the nation—one with worldwide implications."

Not all is well, to be sure. Dictatorships still exist. Ignorance about the imperatives of liberty and free enterprise can be found without looking any further than the nearest university. Wars haven't disappeared. Pockets of poverty, disease, and environmental degradation persist. But these scourges are increasingly the exceptions in a world where they were once the rule. Their greatest enemies—freedom and knowledge—have gained the upper hand and promise us more progress for as far as the eye can see.

Historians record that on the eve of the last millennium, around the year 999, the world was rife with dire predictions about the future. Prophesying doom and gloom was the growth industry of the day. This time around, it looks like billions of people will be too busy making the world a better place to indulge in self-fulfilling defeatism.

So there's my vote. As 2000 approaches, I cast my ballot for optimism. □

The U.S. Presidents and the Money Issue

by Greg Kaza

This year marks the 100th anniversary of the most important presidential campaign ever to revolve around an issue largely ignored in contemporary politics—monetary policy.

The Republicans, with William McKinley as their candidate, defended the classical gold standard. The Democratic nominee, William Jennings Bryan, supported silver coinage at an above-market rate, and inspired inflationists with his now-famous “Cross of Gold” speech.

McKinley won the 1896 election, but the money issue would be eclipsed by fiscal policy in the twentieth century. It is fascinating, however, to consider that most U.S. presidents prior to McKinley discussed issues that have virtually disappeared from today’s public discourse. Their opinions on gold, silver, and central banking were not only relevant then, but remain so today.

Establish a Central Bank?

There was no interest in paper money in the early United States after the inflationary experiences of the Revolutionary War. Instead, monetary discussions centered on whether or not to establish a central bank. Alexander Hamilton and the Federalists

Greg Kaza is a Michigan state representative. He has taught economics and history at Northwood University, where he served as an adjunct professor.

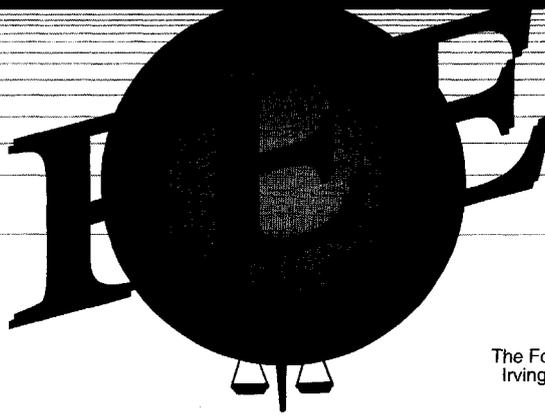
advocated a bank through an expansive interpretation of the Constitution, which made no provision for chartering federal corporations. Thomas Jefferson and other Anti-Federalists urged “strict constructionism” and opposed the bank. In 1791, both Hamilton and Jefferson gave Federalist George Washington (1789–1797) their interpretations. Washington sided with Hamilton, and signed a law creating the First Bank of the United States.

Under Federalist John Adams (1797–1801), all foreign gold coins ceased to be legal tender. Adams also signed a proclamation exempting Spanish silver dollars from similar silver legislation. The United States was on a bimetallic monetary standard of value at this time. Gold served in high-denomination coins, silver for smaller amounts.

Adopting a bimetallic standard is one thing; maintaining it in the face of fluctuating market values is another. Gresham’s Law states that debased coins (those overvalued by government) tend to remain in circulation, while undervalued coins are hoarded. Since silver was overvalued, gold began to disappear from circulation.

Thomas Jefferson (1801–1809) grappled with this problem even before assuming the presidency. Observing that Spanish silver dollars varied in their silver content, Jefferson proposed they be assayed by the government. This led to the Coinage Act of 1792.

Part of Jefferson’s opposition to the cen-



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April 1996

Against the Stream

When, fifty years ago, this Foundation embarked upon its great design, the most important factor was the battle between the creeds — between Marxism and its various opponents. It divided the world into hostile camps which threatened to engulf mankind in yet another bloody confrontation. While the Soviet Union was exporting communist dogma to all corners of the world, the West under U.S. leadership was barely holding its own. Here the general mood was one of despair about the failure of the old order and the lack of a creed of its own.

A few disillusioned socialists were taking their stand against the ruthless control of the lives of individuals by political tyrannies. Observing the inhuman consequences of political doctrines and ideas, some writers expressed a sense of frustration and horror about the systems that crush and destroy human lives. George Orwell expressed it in his satirical novels, *Animal Farm* (1946) and *Nineteen Eighty-Four* (1949), which is a prophetic story describing the dehumanization of man in a mechanistic totalitarian world.

There was a remnant of old-fashioned liberal journalists who questioned the continuous growth of political power and control. John Chamberlain, William Henry Chamberlin, Frank Chodorov, John

Davenport, John T. Flynn, Garet Garrett, and Albert J. Nock joined forces with the disillusioned socialists in presenting an intellectual opposition to the general trend. In the academic world, a few eminent scholars such as B. M. Anderson, H. J. Davenport, F. R. Fairchild, F. H. Knight, and W. A. Paton scorned the New Deal which was holding sway in education and communication. They disputed and refuted John Maynard Keynes' doctrines and theories which offered a new defense for old errors. Lord Keynes and his American disciples elevated deficit spending to a political virtue, popularizing an ancient economic fallacy, inflationism, as an appropriate road to full employment and economic prosperity. Throughout the world Keynesian doctrines were in great vogue with those governments that were not outrightly Marxian.

The critics not only cried out against the inhumanity of a political command system but also reminded their readers of the great heritage of the West, the creed of individual liberty and the private property order. The old order had not failed, they contended, it had been smothered, expunged, and dismantled by political authority. It was not the old order of classical liberalism that had foundered but the new mode of political supremacy in social and economic life. It was the surrender of

freedom that provoked the return of autocracy and tyranny.

The Foundation for Economic Education (FEE) set out to reaffirm, expound, and shed fresh light on the philosophy and movement of classical liberalism which stresses not only the dignity of every individual but also the importance of property rights, natural rights, the need for constitutional limitations on government, and, especially, the freedom of every individual from any kind of political restraint. Building on the writings of such men as John Locke, Adam Smith, David Ricardo, Jeremy Bentham, and John Stuart Mill, the writers affiliated with the Foundation offered a complete doctrine of individual freedom.

In 1946, Henry Hazlitt, one of the seven founders of FEE, published a most popular and influential book, *Economics In One Lesson*, which was to sell more than one million copies in just a few years and which continues to sell briskly. It is probably the best "little book" on the fallacies of popular economic notions and policies ever written.

A year later, Professor Ludwig von Mises, a member of the staff of FEE, published *Planned Chaos* which challenged the popular dogma that capitalism has lost its usefulness and that all-round regimentation of economic life is both inescapable and highly desirable. In 1949, he presented his magnum opus, *Human Action*, which, in the words of Rose Wilder Lane, "is unquestionably the most powerful product of the human mind in our time, and I believe that it will change life for the better during the coming centuries as profoundly as Marxism has changed all our lives for the worse in this century." In 1948, Leonard E. Read, the president of FEE, published *Pattern for Revolt*, which threw all expediency to the winds and set down without compromise what he would say and do if he were president of the

United States or, more specifically, what he would urge a newly elected president to do. Read never ran for political office; he was not even tempted for the sake of popularity to surrender his principles and garble his speeches.

The politicians who managed to be elected subjected the American economy to severe stop-and-go manipulations. Whenever a presidential election approached, the Federal Reserve together with the Treasury would contrive a feverish business boom, stimulating housing construction and consumer purchases through inflation and credit expansion; after each election they temporarily halted their inflationary policies, which brought in their wake a new economic crisis and the beginning of another recession. Three times in the 1950's the American economy fell into a deep recession. Thereafter, all administrations indulged in the pleasures of deficit spending which not only extended the stop-and-go system but also permitted the spenders to buy votes and elections, and acquire great personal wealth. In time, they were to place a \$5 trillion debt on the shoulders of their children and grandchildren.

In politics a man may talk about principle but act on interest. The men and women of FEE never forsook the principles they professed. They kept the faith, proud of their great tradition, and confident of the noble cause they were serving. They lived by George Washington's motto which they proudly display in the FEE library: "If to please the people, we offer what we ourselves disapprove, how can we afterward defend our work. Let us raise a standard to which the wise and honest can repair. The rest is in the hands of God."



Hans F. Sennholz

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

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Religion: Foundation of the Free Society

by Edmund A. Opitz

Introduction by the Right Reverend Robert C. Harvey

Twenty essays eloquently explore the religious roots of American liberty and the free society, the role of the individual in society, and the relationship between religion and the free economy. The economic case for capitalism will not be heard and understood, the Reverend Mr. Opitz contends, until people "have given proper weight to the argument for the free society based on ethics, inherent rights, and free will."

Edmund Opitz, an ordained Congregational minister, founder of The Remnant (a fellowship of conservative and libertarian ministers) and The Nockian Society, is a contributing editor of *The Freeman*. He served as a member of the senior staff of FEE from 1955 until his retirement in 1992. *Religion: Foundation of the Free Society* is vintage Opitz, graced with his elegant style, subtle wit, and gentle erudition.

Second printing, February 1996
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tral bank stemmed from his belief that it catered to commercial and financial interests, while hurting the agricultural sector. While critical of the Bank of the United States, Jefferson did not undermine it as president. But when the bank's charter expired in 1811, his interpretation of the Constitution swayed public opinion against the bank. His successor, James Madison (1809–1817), vetoed a bill rechartering the bank, although he believed in central banking.

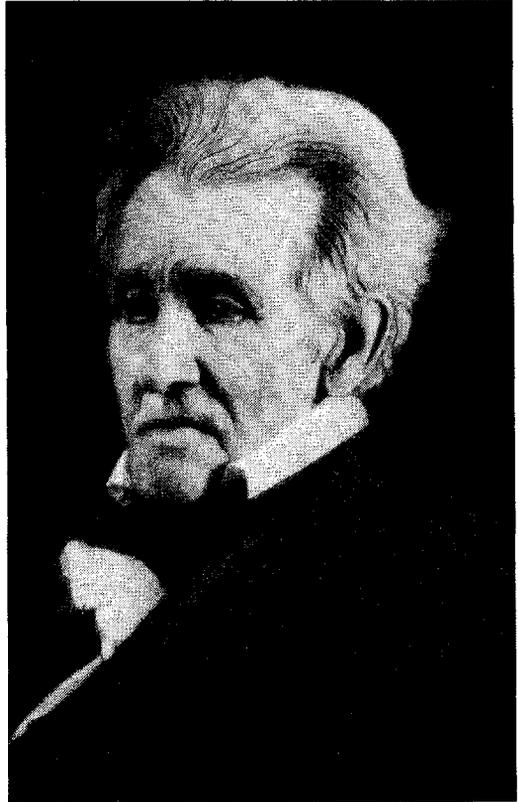
Unfortunately, the War of 1812 caused suspension of specie payments and state bank inflation. This led to creation of the Second Bank of the United States late in Madison's second term of office. Presidents James Monroe (1817–1825) and John Quincy Adams (1825–1829) supported the central bank during their terms of office.

The Jacksonian Democrats

Andrew Jackson (1829–1837) had a profound influence on monetary policy in the mid-nineteenth century. Jackson vetoed a bill rechartering the Second Bank of the United States, and signed the Specie Circular of 1836, which required gold payment of federal debt obligations. In his annual messages to Congress, Jackson discussed monetary matters more than any other president.

By this time, the money issue was more than an economics discussion; it grew out of regional and even class politics. Jackson believed the central bank created an alliance between Big Business and government that benefited a few while costing most Americans. “[B]oth the constitutionality and the expediency of the law creating this bank are well questioned by a large portion of our fellow citizens,” Jackson said in 1829, “and it must be admitted by all that it has failed in the great end of establishing a uniform and sound currency.” He declared in 1830, “Nothing has occurred to lessen in any degree, the dangers of which many of our citizens apprehend from that institution, as at present organized.”

In 1831, Congress rechartered the Bank, but Jackson vetoed the bill.¹ “It is to be



Andrew Jackson was an ardent champion of the gold standard.

regretted,” Jackson said, “that the rich and powerful too often bend the acts of government to their selfish purposes. . . . [W]hen the law undertakes to . . . make the rich richer and the potent more powerful, the humble members of society—the farmers, mechanics and laborers . . . have a right to complain of the injustice of their government.” Central bank abolition was a cornerstone of Jackson's successful 1832 re-election campaign. He confided to Charles Carroll, the last surviving signer of the Declaration of Independence, “No bank and Jackson—or bank and no Jackson.” After his re-election, Jackson attacked bank officers in 1833 for “actively engaging in attempting to influence the elections of the public officers by means of its money . . . [in] violation of its charter.”

In his second term, Jackson struck a further blow against central banking by sending the Bank's assets to state banks, dubbed “pet banks” by critics. He termed

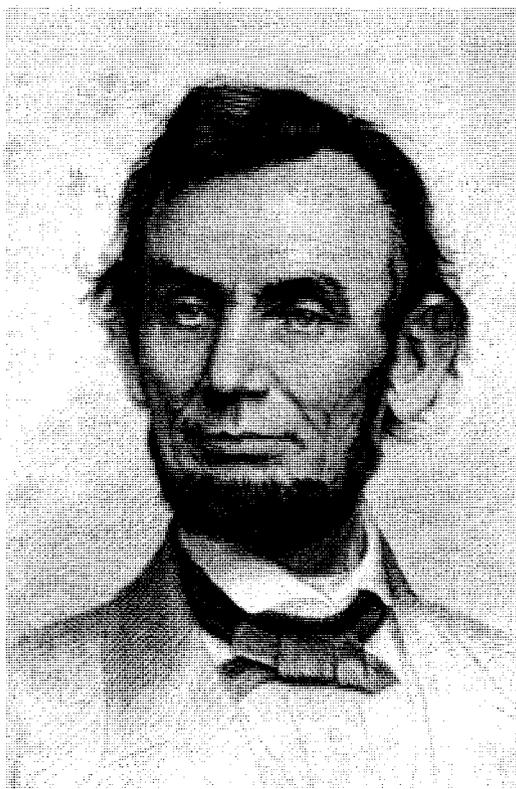
central banking “the scourge of the people,” and described gold coins as “a sound and portable currency.” In 1836, Jackson signed the Specie Circular, which increased gold coinage.² That same year, he proposed suspension of all paper bank notes less than \$20. “The attainment of such a result,” Jackson said, “will form an era in the history of our country which will be dwelt upon with delight by every true friend of its liberty and independence.”

Jackson was not a monetary nationalist; he saw no reason why foreign gold or silver should not circulate in competition with U.S. coins. In two separate measures, the Jacksonians legalized the circulation of *all* foreign gold and silver coins.³ In his farewell address, Jackson warned, “The paper system . . . having of itself no intrinsic value . . . is liable to great and sudden fluctuations, thereby rendering property insecure, and the wages of labor unsteady and uncertain.” He attacked fiat money and central banks as undermining free institutions.

Martin Van Buren (1837–1841) continued Jackson’s policies. One of his first acts was to address the Panic of 1837, a mini-depression. Van Buren’s solution: stand fast on gold and propose an independent Treasury to further wrest control of the federal government from central bank supporters. In 1840, Congress passed a bill establishing an independent Treasury, which Van Buren hailed as a “Second Declaration of Independence.”

Whig William Henry Harrison (1841), a hero of the War of 1812, was told by advisers to keep his lips “hermetically sealed” on the money issue during the 1840 campaign. Harrison died after one month in office. His successor, John Tyler (1841–1845), vetoed two bills creating a new Bank of the United States, terming them “unconstitutional.” After the second veto, Bank advocates demanded Tyler abide by the views of the Whig-controlled Congress and sign the bill, or resign the presidency. Tyler refused.

Democrat James Polk (1845–1849) resumed Jackson’s policies. As a congressman, Polk had fought the bank’s recharter as chairman of the House Ways and Means



Abraham Lincoln's greenback policies led to wide-spread inflation.

Committee. His successor, Whig Zachary Taylor (1849–1850), a hero of the Mexican-American War, had little to say on the issue. Whig Millard Fillmore (1850–1853) reversed Jacksonian policy, devising a monetary system that was the forerunner of the National Banking Act of 1863.

Gresham’s Law finally caught up with bimetalism in the early 1850s. Gold production exploded with the discovery of new mines in California, and then burst, causing a fall in the price of gold relative to silver. Silver coins disappeared rapidly from the United States. In response, Democrat Franklin Pierce (1853–1857) supported a gold monometallic standard⁴ with silver coins circulating at weight. Silver was no longer drastically overvalued versus gold, and remained in circulation.⁵ Pierce had opted for a temporary gold standard, but it was short-lived.

Part of the Jacksonian program was repealed under James Buchanan (1857–1861).

In a show of monetary nationalism, the legal tender power of foreign coins was repealed, except for Spanish-American fractional silver.⁶ But it was the next president who would alter the “hard money,” anti-central bank policies of the Jacksonians more than any other U.S. leader.

Lincoln Inflation

To his admirers, Abraham Lincoln (1861–1865) is remembered as “the Father of the Union.” But the first Republican president was an inflationist in monetary affairs, and his policies led to consequences that are still visible today. To pay for the Civil War, Lincoln abandoned specie and launched a paper dollar (the “greenback”) that resulted in rampant price inflation.

The Civil War led to an enormous growth of federal spending, from \$66 million in 1861 to \$1.3 billion four years later.⁷ Lincoln tried to finance the war initially with government bonds, but public demand for specie payments led to their suspension at year’s end. Lincoln took advantage of the fact that the United States was on an inconvertible paper standard by signing the Legal Tender Act of 1862, which authorized greenbacks to pay for the war. Initially limited to \$150 million, a second \$150 million issue was approved in July and a third \$150 million issue passed in early 1863.⁸ By mid-1864, greenbacks were worth 35 cents in gold. But at war’s end, they had risen to 69 cents on the prospects of future gold redemption.⁹ Prices rose 110.9 percent from 1860 to war’s end.

Not surprisingly, greenbacks depreciated against gold, leading Lincoln to scapegoat “gold speculators.” Failing to regulate the gold market, he tried to destroy it by passing a Gold Bill in mid-1864 that prohibited all gold futures contracts, and imposed severe penalties. Public opposition, however, forced the bill’s repeal that year.¹⁰

Another important consequence of Lincoln’s term was the creation of a new, quasi-centralized, fractional reserve banking system. This laid the groundwork for the Federal Reserve System, which was eventually established in 1913. The National

Banking Act of 1863 forever ended the federal government’s separation from banking. Lincoln built upon the Federalist/Whig policy of central banking, implanting the soft-money tradition permanently in the United States.¹¹

Public support for gold specie resumption grew after the war. The Loan Bill of 1866, signed by Republican Andrew Johnson (1865–1869), provided for greenback contraction from the market.¹² But Johnson refused to sign a bill in 1869 that would have provided for specie resumption. That task fell to Republican Civil War hero Ulysses S. Grant (1869–1877) in his first act of office. The Panic of 1873 did not shake Grant’s fear of inflation; he vetoed a bill proposing greenback expansion.¹³ In 1875, Grant signed another bill pledging specie resumption by decade’s end.

The Gold Standard

Specie payment was finally resumed in 1879 under Republican Rutherford Hayes (1877–1881), but greenbacks could be redeemed in silver, along with gold, as a result of the Bland–Allison Act. In 1877, Representative “Silver Dick” Bland of Missouri sponsored a bill providing for the free and unlimited coinage of silver. The measure was supported by the Democratic “silver bloc” emerging in the western United States, and called for overvaluing silver versus gold. The bill was modified in 1878 by Senator William Allison of Iowa, who fashioned a compromise between Democratic free silverites and conservative Republican business interests. The Bland–Allison Act permitted limited silver coinage and required the Treasury to purchase \$2 to \$4 million of silver each month. Hayes vetoed the legislation, but his veto was overridden.

Republican James Garfield (1881) urged government debt payments in gold. Although he opposed free silver, Garfield expressed interest in a bimetallic standard before his assassination. Republican Chester Arthur (1881–1885) called for repeal of Bland–Allison. “They [paper silver] form an unnecessary addition to the paper

currency," Arthur declared in 1881. "In respect to the coinage of silver dollars and the retirement of silver certificates," Arthur said in 1882, "I have seen nothing to alter but much to confirm [these] sentiments."

Democrat Grover Cleveland (1885–1889, 1893–1897) may have been the greatest gold standard advocate ever to serve as president. In his first term, Cleveland singlehandedly preserved the gold standard at a time when the Democrats split bitterly over the money issue and populism. However, his opposition to tariffs cost him the 1888 election.

When Cleveland left office after his first term, the Treasury had a large gold reserve, but it was depleted by Republican Benjamin Harrison (1889–1893). In 1890, Harrison signed the Sherman Silver Purchase Act, requiring the Treasury to buy 4.5 million ounces of silver monthly. To buy the silver, Treasury was to issue a new type of paper money known as Treasury notes. The act was a victory for the Populists, who held that deflation, which hurt farmers, could be reversed by free silver policies. Deflation continued, the gold reserve dropped, private banking tightened, and the Panic of 1893 ensued.

Re-elected and back in the White House, Cleveland attacked the Silver Purchase Act as a "dangerous and reckless experiment. . . ." He called for its repeal to restore confidence in the dollar. Cleveland knew Gresham's Law and defended gold against inflationists in his own Democratic Party. Congress tried to compromise, but Cleveland would not yield and the act was repealed. Cleveland was the last Democratic president to support gold. The Populists, whose presidential candidate won more than a million votes in 1892, returned to the Democrats four years later as supporters of William Jennings Bryan.

Lessons for Today

McKinley's victory in 1896 also contained the seeds of central banking and political manipulation that has led to the rampant inflation of the twentieth century. The Dem-

ocratic Party was no longer the great laissez-faire, hard-money party of Jefferson, Jackson, and Cleveland, and the Republicans soon emerged as the party of the corporate State.¹⁴

Republican Theodore Roosevelt called for additional legislation and elasticity in the monetary system. By 1906, he was calling for "a considerable increase in bills of small denominations." William Howard Taft (1909–1913) went even further, declaring in his inaugural, "One of the reforms to be carried out . . . is a change of our monetary and banking laws, so as to secure greater elasticity . . . and to prevent the limitations of law from operating to increase the embarrassment of a financial panic." By this time, the Federal Reserve's establishment was a forgone conclusion and America was soon to be saddled with the inflationary, fractional-reserve system that sets American monetary policy to this day.

There is a glorious tradition of hard-money advocates in the history of the United States. Reviving that heritage is essential to our economic well-being. Further, the decline of the dollar after it was severed from its last links to gold in 1971 has affected all Americans, even if it has been ignored by most elected officials. Economic law cannot be repealed. Easy money leads to inflation in any century. The truths about hard money recognized by many of our best presidents need to be brought back into the public square. □

1. Jackson's veto was more than 7,500 words in length.

2. The Specie Circular's author, U.S. Senator Thomas Hart Benton of Missouri, was nicknamed "Old Bullion" for his pro-gold views.

3. Ron Paul and Lewis Lehrman, *The Case for Gold* (Washington: The Cato Institute, 1982), p. 62.

4. Under a gold monometallic standard, the dollar is defined only as a weight of gold, with silver circulating by weight. This is an example of "free metallism," in which two or more metal coins are allowed to fluctuate freely in the same range.

5. Paul and Lehrman, *ibid.*, pp. 63–65.

6. *Ibid.*, p. 66.

7. *Ibid.*, p. 74.

8. *Ibid.*, p. 75.

9. Wesley Clair Mitchell, *A History of the Greenbacks* (Chicago: University of Chicago Press, 1903), pp. 232–38, 423–28.

10. Paul and Lehrman, *ibid.*, pp. 76–77.

11. *Ibid.*, p. 74.

12. *Ibid.*, p. 96.

13. *Ibid.*, p. 96.

14. *Ibid.*, pp. 117–18.

Mary Wollstonecraft— Equal Rights for Women

by Jim Powell

In Western Europe during the late eighteenth century, single women had little protection under the law, and married women lost their legal identity. Women couldn't retain a lawyer, sign a contract, inherit property, vote, or have rights over their children.

As Oxford law professor William Blackstone noted in his influential *Commentaries on the Laws of England* (1758): "The husband and wife are one person in law; that is, the very being or legal existence of the woman is suspended during the marriage or at least is incorporated and consolidated into that of the husband: under whose wing, protection and cover, she performs every thing."

Then along came passionate, bold Mary Wollstonecraft who caused a sensation by writing *A Vindication of the Rights of Woman* (1792). She declared that both women and men were human beings endowed with inalienable rights to life, liberty, and the pursuit of happiness. She called for women to become educated. She insisted women should be free to enter business, pursue professional careers, and vote if they wished. "I speak of the improvement and

emancipation of the whole sex," she declared. "Let woman share the rights, and she will emulate the virtues of man; for she must grow more perfect when emancipated. . . ."

Wollstonecraft inspired people because she spoke from the heart. Although she was reasonably well-read, she drew more from her own tumultuous experience. "There is certainly an original defect in my mind," she confessed, "for the cruelest experience will not eradicate the foolish tendency I have to cherish, and expect to meet with, romantic tenderness."

She dared do what no other woman had done, namely pursue a career as a full-time professional writer on serious subjects without an aristocratic sponsor. "I am then going to be the first of a new genus," she reflected. It was a harsh struggle, because women were traditionally cherished for their domestic service, not their minds. Wollstonecraft developed her skills on meager earnings. She dressed plainly. She seldom ate meat. When she had wine, it was in a teacup, because she couldn't afford a wine glass.

Contemporaries noted Wollstonecraft's provocative presence—thin, medium height, brown hair, haunting brown eyes, and a soft voice. "Mary was, without being a dazzling beauty, . . . of a charming grace," recalled a German admirer. "Her face, so full of expression, presented a style

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of beauty beyond that of merely regular features. There was enchantment in her glance, her voice, and her movements.”

Mary Wollstonecraft was born April 27, 1759, in London. She was the second child and eldest daughter of Elizabeth Dixon, who hailed from Ballyshannon, Ireland. Mary’s father, Edward John Wollstonecraft, was a handkerchief weaver. He decided to become a gentleman farmer after he got an inheritance from his father, a master weaver and residential real estate developer, but farming was a bust. The family moved seven times in ten years as their finances deteriorated. Edward drank heavily, and Mary often had to protect her mother from his violent outbursts. She had rocky relations with her siblings.

Mary’s formal schooling was limited, but one of her friends in Hoxton, outside London, had a respectable library, and Mary spent considerable time exploring it. Through these friends, she met Fanny Blood, two years older and skilled at sewing, drawing, watercolors, and the piano. She inspired Mary to take initiative cultivating her mind.

Spurred by family financial problems, Mary resolved to somehow make her own way. She pursued the usual opportunities open to smart but poor young women. At 19, she got a job as live-in helper for a wealthy widow who proved to be a difficult taskmaster.

Young Adulthood

Three years later, in 1781, Mary tried and failed to establish a school at Islington, North London. Then Mary, Fanny, and Mary’s sisters, Eliza and Everina, started a school nearby at Newington Green. After initial success, that, too, failed. She then worked as a governess for an Irish family and saw firsthand the idleness of landed aristocrats. These discouraging experiences were compounded by the death of Fanny Blood from tuberculosis. After Mary’s mother died in 1782, she—not her oldest brother—assumed primary responsibility for taking care of her volatile father.

Meanwhile, through her Newington school experience, Wollstonecraft met many local

Dissenters whose religious beliefs put them outside the tax-supported Anglican Church. Among these Dissenters was minister and moral philosopher Richard Price, who was in touch with Thomas Jefferson, Benjamin Franklin, Marquis de Condorcet, and other radical thinkers of the day. Wollstonecraft also met scientist Joseph Priestley, schoolteacher John Hewlett, and Sarah Burgh, widow of radical author James Burgh. Although Wollstonecraft retained her faith in the Anglican Church, she stood out as a maverick and became good friends with these people.

Dissenters promoted reform of Britain’s cozy political system. The House of Lords consisted of aristocrats who inherited their positions. The House of Commons was chosen by the very few males who were enfranchised—just 15,000, about one-half percent of adult males—determined the outcome of an election. The Test and Corporation Acts disenfranchised religious Dissenters. Moreover, no town had gained the right to representation since 1678, which meant that dynamos of the Industrial Revolution like Birmingham and Manchester were excluded.

The Influence of Joseph Johnson

Hewlett encouraged Wollstonecraft to write a pamphlet on education and submit it to Joseph Johnson, the radical publisher and bookseller with a shop at St. Paul’s Churchyard. He was known as a visionary entrepreneur who backed a number of unknowns including the poet-printmaker William Blake. Johnson published works by Joseph Priestley and poets William Cowper and William Wordsworth, too. He distributed materials for Unitarians.

Hewlett’s suggestion turned out to be a lifeline because, as Wollstonecraft biographer Claire Tomalin explained, “Mary was homeless again, without a job or a reference; she had nothing to live on, and she was in debt to several people. She had no marriage prospects. She was 28, with a face that looked as though it had settled permanently

into lines of severity and depression around the fierce eyes . . . her most remarkable trait was still that she had refused to learn the techniques whereby women in her situation usually attempted to make life tolerable for themselves: flattery, docility, resignation to the will of man, or God, or their social superiors, or all three.”

Johnson told Wollstonecraft that she had talent and could succeed if she worked hard. He published her pamphlet in 1786 as *Thoughts on the Education of Daughters; with Reflections on Female Conduct, in the More Important Duties of Life*. Sales were negligible, but the work launched Wollstonecraft’s literary career. She sent her author’s fee to the impoverished Blood family and redoubled her efforts. “I must exert my understanding to procure an independence and render myself useful,” she wrote. “To make the task easier, I ought to store my mind with knowledge—The seed time is passing away.”

By 1788, Johnson offered her steady work. She translated books from French and German into English. She served as an assistant editor and writer for his new journal, *The Analytical Review*. She contributed to it until her death, perhaps as many as 200 articles on fiction, education, sermons, travelogues, and children’s books.

Johnson was a good man. He helped Wollstonecraft find lodgings. He advanced her money when needed. He dealt with her creditors. He helped her cope with her father’s chaotic situation. He calmed her bouts of depression. “You are my only friend,” she confided, “the only person I am intimate with—I never had a father, or a brother—you have been both to me. . . .”

Wollstonecraft met more radicals who visited Johnson, including William Blake, Swiss painter Henry Fuseli, and Johnson’s publishing partner, Thomas Christie. On one occasion, she met philosopher William Godwin and Thomas Paine, the Englishman who helped inspire the American Revolution by writing *Common Sense*. Wollstonecraft dominated the conversation. “I heard her very frequently,” Godwin recalled, “when I wished to hear Paine.”

The French Revolution

The outbreak of the French Revolution in July 1789 triggered explosive controversy. In November, Richard Price gave a talk before the Society for Commemorating the Glorious Revolution of 1688, defending the right of French people to rebel and suggesting that English people should be able to choose their rulers—an obvious challenge to the hereditary monarchy. This alarmed Edmund Burke, a Member of Parliament previously known for having defended the American Revolution. Burke wrote *Reflections on the Revolution in France* (November 1790), a rhetorically brilliant attack on natural rights and a defense of monarchy and aristocracy.

Burke’s ideas as well as his swipes at Price made Wollstonecraft indignant. Drawing on the ideas of John Locke and Price, she rushed into print with *A Vindication of the Rights of Men*, among the earliest of some 30 replies to Burke. Although this polemic was repetitious and disorganized, and Wollstonecraft overdid her attacks on Burke as vain, unprincipled, and insensitive—she had an impact. She faulted Burke for being blind to poverty: “Misery, to reach your heart, I perceived, must have its cap and bells. . . .” She denounced injustices of the British constitution which evolved during the “dark days of ignorance, when the minds of men were shackled by the grossest prejudices and most immoral superstition.” She singled out the aristocratic practice of passing family wealth to the eldest son: “the only security of property that nature authorizes and reason sanctions is, the right a man has to enjoy the acquisitions which his talents and industry have acquired; and to bequeath them to whom he chooses. . . .”

She lashed out at arbitrary government power: “Security of property! Behold, in a few words, the definition of English liberty. . . . But softly—it is only the property of the rich that is secure; the man who lives by the sweat of his brow has no asylum from oppression; the strong man may enter—when was the castle of the poor sacred?—and the base informer steal him from the

family that depend on his industry for subsistence. . . . I cannot avoid expressing my surprise that when you recommended our form of government as a model, you did not caution the French against the arbitrary custom of pressing men for the sea service."

Wollstonecraft's work, and everyone else's for that matter, was later dwarfed by Thomas Paine's far more powerful reply to Burke—*The Rights of Man*—but she established herself as an author to reckon with.

A Vindication of the Rights of Woman

She had generally supposed that when revolutionaries spoke of "man," they were using shorthand for all humanity. Then on September 10, 1791, Talleyrand, former Bishop of Autun, advocated government schools which would end at eighth grade for girls but continue on for boys. This made clear to Wollstonecraft that despite all the talk about equal rights, the French Revolution wasn't intended to help women much. She began planning her most famous work, *A Vindication of the Rights of Woman*. She wrote for more than three months and was finished January 3, 1792. Johnson published it in three volumes.

She despised the government class. "Taxes on the very necessities of life," she wrote, "enable an endless tribe of idle princes and princesses to pass with stupid pomp before a gaping crowd, who almost worship the very parade which costs them so dear."

She specifically cited laws that "make an absurd unit of a man and his wife; and then, by the easy transition of only considering him as responsible, she is reduced to a mere cipher. . . . how can a being be generous who has nothing of its own? or virtuous who is not free?"

Wollstonecraft issued an early call for women's suffrage: "I really think that women ought to have representatives, instead of being arbitrarily governed without having any direct share allowed them in the deliberations of government."

Wollstonecraft attacked those like collec-

tivist Jean-Jacques Rousseau who wanted to keep women down. He had written that "The education of the women should always be relative to the men. To please, to be useful to us, to make us love and esteem them, to educate us when young, and take care of us when grown up, to advise, to console us, to render our lives easy and agreeable; these are the duties of women at all times, and what they should be taught in their infancy."

Wollstonecraft believed education could be the salvation of women: "the exercise of their understanding is necessary, there is no other foundation for independence of character; I mean explicitly to say that they must bow only to the authority of reason, instead of being the modest slaves of opinion." She insisted women should be taught serious subjects like reading, writing, arithmetic, botany, natural history, and moral philosophy. She recommended vigorous physical exercise to help stimulate the mind.

To be sure, she had a naïve faith that the same governments which restricted women could inexplicably be trusted to run schools uplifting women. Twentieth-century government schools have been catastrophes for women as well as men, graduating large numbers at high cost without the most fundamental skills.

Wollstonecraft called for eliminating obstacles to the advancement of women. "Liberty is the mother of virtue," she asserted, "and if women be, by their very constitution, slaves, and not allowed to breathe the sharp invigorating air of freedom, they must ever languish like exotics, and be reckoned beautiful flaws of nature."

She envisioned a future when women could pursue virtually any career opportunities: "Though I consider that women in the common walks of life are called to fulfill the duties of wives and mothers, by religion and reason, I cannot help lamenting that women of a superior cast have not a road open by which they can pursue more extensive plans of usefulness and independence. . . ." Finally: "How many women thus waste life away the prey of discontent, who might have practiced as physicians,

regulated a farm, managed a shop, and stood erect, supported by their own industry, instead of hanging their heads surcharged with the dew of sensibility.”

With *A Vindication of the Rights of Woman*, Wollstonecraft emerged in a class by herself. She went beyond her contemporary Catherine Macaulay who had written passionately about educating women. Wollstonecraft was opposed by “Bluestockings” like Hannah More, Elizabeth Montagu, and Hester Chapone who had fared well by making the most of the subordinate position of women. A succession of women novelists—Fanny Burney, Clara Reeve, Charlotte Smith, and Elizabeth Inchbald, for instance—had portrayed women who achieved heroic moral stature, but they didn’t always celebrate women with brains.

A Vindication of the Rights of Woman sold out within a year, and Johnson issued a second edition. An American edition and translations into French and German followed.

Wollstonecraft crossed the English Channel so she could see the French Revolution for herself. She was welcomed by expatriots such as the American patriot Joel Barlow, English poet Helen Maria Williams, and Thomas Paine. She sided with liberal Girondists who, including Marquis de Condorcet, favored a constitutionally limited government and equal rights for women. But she was horrified at how fast the totalitarian Jacobins seized power and launched the Reign of Terror.

Wollstonecraft dreamed that someday men and women would nurture each other as equals. “The man who can be contented to live with a pretty, useful companion, without a mind, has lost in voluptuous gratifications a taste for more refined enjoyments,” she wrote, “he has never felt the calm satisfaction that refreshes the parched heart like the silent dew of heaven—of being beloved by one who could understand him.”

Alas, she had an agonizing time applying these ideas to her own life. She became infatuated with the eccentric genius Henry Fuseli, but he was married and brushed her off after extended flirtation. While still in

France, she fell in love with an American adventurer named Gilbert Imlay, who was always looking for a scheme to strike it rich. They had a daughter, Fanny, but he lost interest in both of them and walked out. Wollstonecraft attempted suicide twice. After the second incident, when she was being dragged out of the Thames, she renewed her resolve: “it appears to me impossible that I shall cease to exist, or that this active, restless spirit, equally alive to joy and sorrow, should only be organized dust. Surely something resides in this heart that is not perishable—and life is more than a dream.”

While recovering from despair over Imlay, she took a three-month break with Fanny in Scandinavia and produced one of her most poignant works, *Letters Written During a Short Residence in Sweden, Norway and Denmark*. The letters were addressed to the unnamed American father of her child. They provide a travelogue laced with commentary on politics, philosophy, and her personal life. After witnessing the French Terror, she tempered her hopes for social change: “An ardent affection for the human race makes enthusiastic characters eager to produce alterations in laws and governments prematurely. To render them useful and permanent, they must be the growth of each particular soil, and the gradual fruit of the ripening understanding of the nation, matured by time, not forced by an unnatural fermentation.” Throughout the book, Wollstonecraft struggled to cope with her grief about Imlay, and she conveyed an immediacy and tenderness that touches the heart. “If ever there was a book calculated to make a man in love with its author, this appears to me to be the book,” remarked William Godwin.

Relationship with William Godwin

Wollstonecraft decided to pursue her acquaintance with Godwin, calling on him April 14, 1796. He had a large head, deep-set eyes, and a thin voice. “He seems to have had some charm which his enemies could not detect or his friends define, but which

had a real influence on those who attained his close friendship," reported Godwin biographer George Woodcock.

Like Wollstonecraft, he had started a school, but his ideas were too radical, and the effort failed. His literary career had begun with a dull political biography, a book of sermons and some potboiler novels. Then London publisher George Robinson offered to pay Godwin enough of an advance that he could work out his philosophy. The result was *Enquiry Concerning Political Justice* (1793), describing his vision of a harmonious society without laws or war. The book established him as England's foremost radical thinker.

Godwin courageously spoke out against the British government's campaign to suppress the Corresponding Societies which were debating clubs interested in revolutionary ideas. Godwin wrote public letters supporting defendants. He charged that the government's campaign was illegal since none of the defendants had committed revolutionary acts of violence. These writings won widespread sympathy for the defendants, and further prosecution was abandoned.

At the time Wollstonecraft called, Godwin was a 42-year-old bachelor courting Amelia Alderson, a doctor's daughter. But he was intrigued with Wollstonecraft, despite his initial impression that she talked too much. He invited her to a dinner party the following week. Included were James Mackintosh and Dr. Samuel Parr, both of whom had written rebuttals to Burke's *Reflections on the Revolution in France*.

After Alderson rejected Godwin, he became more responsive to Wollstonecraft, and her passion overwhelmed him. "It was friendship melting into love," he recalled. But Wollstonecraft was haunted by fear of another betrayal. Godwin reassured her that he longed for a relationship between equals. Her passion surged again. "It is a sublime tranquility," she wrote him, "I have felt it in your arms." By December, she was pregnant. Both Wollstonecraft and Godwin had criticized marriage as a vehicle for exploitation, but they tied the knot on

March 29, 1797. She rejoiced that she had found true love at last.

She went into labor during the early morning of Wednesday, August 30, 1797. She was attended by one Mrs. Blenkinsop, an experienced midwife. After 11 o'clock that night, a daughter was born—Mary, who grew up to be Mary Shelley, author of *Frankenstein*. For a while, it appeared things were fine, but three hours later, Mrs. Blenkinsop notified Godwin that the placenta still hadn't come out of the womb. The longer the placenta remained, the greater the risk of infection. Godwin called a Dr. Poignand who succeeded in removing much of the placenta. Wollstonecraft reported that the procedure was the most excruciatingly painful experience of her life.

That Sunday, she began suffering chills, an ominous sign of infection. Doctors offered wine to help ease the pain, and tried other measures to stimulate her body to eject the remains of the placenta. Wollstonecraft continued to decline. She died Sunday morning, September 10, 1797. Godwin was so overcome that he didn't attend the funeral, held at St. Pancras church where they had been married just five months before. She was buried in the churchyard.

Posthumous Influence

Soon afterwards, ever-loyal publisher Joseph Johnson issued Godwin's edition of the *Posthumous Works of the Author of a Vindication of the Rights of Woman*, together with Godwin's candid memoir about her. Although Godwin believed telling all would boost her reputation, it unleashed a firestorm of controversy, and her unsettled personal life became an easy excuse to belittle her ideas.

But as author Virginia Woolf remarked about Wollstonecraft decades later, "we hear her voice and trace her influence even now among the living." American crusaders for equal rights like Margaret Fuller, Lucretia Mott, and Elizabeth Cady Stanton were all inspired by *A Vindication of the Rights of Woman*.

In recent years, the women's movement

has become linked with preferential treatment and hatred of men. Today, happily, more people are rediscovering Mary Wollstonecraft who established the individualist roots of equal rights. She took responsibility for her life. She educated herself. She

showed how a woman can succeed with her wits. She urged everyone to achieve his or her human potential. She spoke out for vital economic liberties. She demanded justice. She championed relationships based on mutual respect and love. □

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Russell Kirk's Economics of the Permanent Things

by John Attarian

While Russell Kirk (1918–1994) is properly recognized for his role in reviving American conservative thought, his ruminations on economics have received little attention. Yet he gave economics due consideration, and was a sturdy friend of economic freedom and a foe of statism. Moreover, because he drew on religion, morality, and a comprehensive view of human nature, Dr. Kirk achieved important insights in political economy that a purely economic approach would have missed.

Kirk's starting point was belief in God and a "belief in an order that is more than human,"¹ which rules both society and individuals. A transcendent God implies that eternal truths exist, that "human nature is a constant, and moral truths are permanent."²

This conviction that certain norms, or enduring moral standards, exist was central to Russell Kirk's world view; upholding them was his life's work. These "Permanent Things"—norms of courage, duty, justice, integrity, charity, and so on—owe their existence, and authority, to a higher power than social good.

For Kirk, loyalty to the Permanent Things is the standard for judging individuals, societies, and institutions. "Real progress consists in the movement of mankind to-

ward the understanding of norms, and toward conformity to norms. Real decadence consists in the movement of mankind away from the understanding of norms, and away from obedience to norms."³

One of the central elements of Kirk's view of human nature was his belief in the tenets of orthodox Christianity. Made in God's image and likeness but fallen and imperfect, man is a mixture of good and evil. And as a spiritual being, man has deep needs of a spiritual nature. People are inherently restless, and need challenges and adversity to keep them and their love of life keen:

Something in human nature seems to call for the possibility of a real victory in life—and the possibility of a real defeat. Life is enjoyable only because Hope exists: hope for success of one sort or another. And hope for success cannot exist without a corresponding dread of failure. In a very real sense, life is a battle; we never could be happy were it otherwise.⁴

A crucial corollary is that "life without obstacles is boredom, just as life without purposeful work is infinitely dreary," and wealth "without duties or challenges" spells lifelong unhappiness. "Mankind," Kirk warned, "can endure anything except boredom."⁵ Without challenges, people turn to mischief and escapes.

Kirk also stressed prudence. Human nature is imperfect, society is complex and reckless, shortsighted policies may not only

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fail, but produce worse evils than they address. Necessary reforms should be thoughtful and judicious.

Moral Foundations of the Market

These beliefs were the foundation of Kirk's advocacy of the free-market system. Kirk insisted that economics cannot be separated from morals and character: "material prosperity depends upon moral convictions and moral dealings"—specifically, a high degree of honesty, industry, charity, and fortitude. Intellect, initiative, shrewdness, vigor, and imagination are also crucial.⁶ He argued that a free economy is the best economic system for encouraging these characteristics and virtues:

"Ordinary integrity," Edmund Burke wrote, "must be secured by the ordinary motives to integrity." Men and women are industrious, thrifty, honest, and ingenious, in economic life, only when they expect to gain certain rewards for being industrious, thrifty, honest, and ingenious . . . the vast majority work principally out of self-interest, to benefit themselves and their families. There is nothing wrong with this state of affairs; it is merely a condition of ordinary human nature. Competition puts a premium on industry, thrift, honesty, and ingeniousness, for the slothful, the spendthrift, the known cheats, and the stupid fall behind in the economic contest of free enterprise.⁷

Like Adam Smith, Kirk held that pursuing self-interest serves the public interest. Moreover, "Industry, thrift, honesty, and ingeniousness deserve concrete rewards. A competitive economy provides these rewards."⁸ He argued that free enterprise is not only useful in rewarding these virtues, but good and just: better than other economic systems, it encourages loyalty to the Permanent Things.

Similarly, Kirk recognized that "Ability is the factor which enables men to lift themselves from savagery to civilization." Like virtues, ability requires rewards—including material rewards. A society which doesn't reward ability stagnates.⁹

Competition

With keen insight, Kirk argued that free enterprise best suits our nature in another way: its competition provides the struggle against obstacles which true happiness and fulfillment require. Its freedoms and choices, e.g., of occupation, help meet "the fundamental human longing for self-reliance. They make men and women free."¹⁰

Morally, too, competition surpasses other systems. If ethical and governed by conscience, competition benefits all:

As Samuel Johnson said once, "A man is seldom more innocently occupied than when he is engaged making money. . . ." Economically and morally, a competitive system is nothing to be ashamed of. On the contrary, it provides for human wants, and respects human freedom, far better than any vague scheme of reliance solely upon altruism, or any system of forced labor. In essence, it is not competition which is ruthless; rather, it is the lack of competition that makes a society ruthless; because in a competitive economy people work voluntarily for decent rewards, while in a non-competitive economy a few harsh masters employ the stick to get the world's work done.¹¹

Property

Private property too received Kirk's vigorous endorsement. Besides making the argument that private property is essential to freedom,¹² Kirk went much further. Property is a prerequisite of civilization and culture. "Unless property is secure, there can be no civilized life; for without the right to keep what is one's own, and to add to that if possible, there can be no leisure, no material improvement, no culture worthy of the name."¹³

Moreover, property fosters right soulcraft; "it is one of the most powerful instruments for teaching men and women responsibility, for providing motives to integrity."¹⁴

Finally, Kirk deemed saving a bulwark of freedom, since it gives material independence and security, thereby averting servile dependence on government. In rewarding

saving, the market economy promotes freedom.¹⁵

In sum, Dr. Kirk saw a free economy as the economic system best suited for promoting loyalty to the Permanent Things he cherished. But Kirk's endorsement of the market sprang not from spiritual and moral truths alone. Its other root was a firm grasp of economic realities. He never forgot Irving Babbitt's wise admonition that imagination and theorizing should be "disciplined to the facts."¹⁶

The State

Like his defense of the free economy, Dr. Kirk's rejection of statism combined philosophical and economic considerations. Keenly aware of human imperfectibility and reality's constraints, he categorically rejected all utopian economic schemes. Utopia, he reiterated, means Nowhere. Only incremental improvements in the human condition are possible—and the only real progress is within individual characters and consciences.¹⁷

Prudence, too, argues powerfully against statism. "Society is not a machine," Kirk saw, but rather "a delicate growth or essence,"¹⁸ with causality running between economy, society, and culture in complex ways. Prosperity makes a flourishing culture possible; but Rome's decline shows that government economic mismanagement "may undo a high culture."¹⁹ Also, "our industrial economy, of all systems man ever created, is that most delicately dependent upon public energy, private virtue, and fertility of imagination."²⁰ Hence the need for caution, lest government disrupt the economy and exact unforeseen forfeits. For example, while government cannot create ability, statism *can* extirpate it. "The thing has been done before."²¹ Better that we not meddle with things we don't understand.

Furthermore, imperfect people cannot be trusted with much power. Kirk exploded both statist's moral pretensions and democratic ideologues' crass error of confusing democracy with liberty:

To say that the "democratic" state would not deprive anyone of liberty is to play upon words. The democratic state, like any other, is directed by individuals, with all the failings to which humanity is heir, especially . . . the lust for power. To suppose that the mass-state would be always just and generous toward its slaves is to suppose that there would exist, upon all its levels, a class of philosopher-kings superior to human frailty, purged of lust and envy and petty ambition. But in modern America we have no such class to draw upon; indeed, often we seem to be doing what we can to abolish that sense of inherent responsibility and high honor which compensates a patriarchal or feudal society for its lack of private liberty.²²

A command economy is not only unfree, it stifles individual growth: providing for people's wants and making their choices for them keeps them in "perpetual childhood," thus discouraging "full development of mind and character."²³

Desire for security inspired much of modernity's drive to statism, but Kirk warned that swapping freedom for security is "a devil's bargain." Political freedom, individual rights, and economic freedom stand or fall together. And once the free market's ordinary rewards for ordinary integrity disappear, economic performance inevitably declines. "In the modern industrial world, it really is not possible to buy economic security at the price of liberty."²⁴

Since productive work is indispensable, and requires material rewards as both incentives and rightful "ordinary rewards for ordinary integrity," Kirk warned especially against excessive taxation. It not only discourages work but depresses private saving below that needed to replace and increase capital, thus diminishing production.²⁵ Likewise, overregulation discourages enterprise, investment, and production.²⁶

Dr. Kirk was a scathing critic of Social Security. Centralized, compulsory, wielding ever-expanding arbitrary power, it "bears nearly all the marks of a remorseless collectivism."²⁷ While acknowledging that some people wouldn't save on their own, he maintained that it would be better "morally and economically" to let them make their

own mistakes and to provide voluntary charity, than to embrace forced saving. He argued that Social Security's stated motive, provision for the poor elderly, is disingenuous; the real reason for Social Security's expansion is that it gives the government access to "a vast reserve of money and credit," and is "disguised taxation," evading opposition to new taxes.²⁸ Kirk's robust *moral* denunciation of Social Security, as tyrannical and mendacious, towers over today's conservatives' ingratiating endorsement and proposals to "save" it.

One great strength of Kirk's viewpoint is that he spotted pernicious consequences of statism ramifying in directions which economists commonly overlook. Not only is the inheritance tax a confiscatory capital levy,²⁹ it undermines the natural aristocracy of wealth and *noblesse oblige* that provides leadership and cultural patronage. "No social institution does more to develop decent leadership and a sense of responsibility than does the inheritance of large properties, and of the duties that accompany those properties."³⁰ Furthermore, the inheritance tax weakens the social fabric by damaging the family's economic base, as "a capital levy discriminating against family enterprises and partnerships" and threatening "dissolution of family farms of any extent."³¹

Likewise, assessing real property at "speculative current market values—that is, taxing real property at what it *might* be worth if converted to other uses—has encouraged the destruction of farmland and of farm families in the neighborhoods of growing cities and towns." It thus abets urban sprawl and the demise of the farm population and the farm family,³² a bulwark of traditional *mores*.

Inheritance, capital gains, and progressive income taxation make launching new small businesses out of personal savings, and maintaining existing ones, extremely difficult. Family businesses are forced to incorporate, or sell to large corporations.³³ Such taxation encourages retail consolidation, thereby abetting loss of humane scale in retail trade, uglification of towns as old buildings are razed for less attractive mod-

ern ones, and replacement of small businessmen involved in local life with managers of large impersonal corporations.³⁴

For Russell Kirk, then, statism was both morally wrong and, in flouting the realities of economics and human nature, destructive. Moreover, its corrosive effects on culture, social life, and character promote "true decadence"—forsaking the Permanent Things.

Order and Liberty

Kirk believed that government has a valid role. Human nature being what it is, "in any tolerable society, order is the first need. Liberty and justice may be established only after order is reasonably secure."³⁵ Historically, people used government to establish order. Neither property nor markets can function without it. Property can exist "only when some form of political order ensures that a man may keep what is his own."³⁶ Markets require protection against theft and fraud; enforcement of contracts; and reliable weights and measures. "In these and other ways, markets are made possible by political authorities. Otherwise, buyers and sellers could not come together to exchange goods safely. *Without political protection, even the most simple market economy would collapse.*" (Kirk's italics) Violence and crime plagued the California gold rush until orderly government was established in 1849.³⁷

Moreover, Kirk knew the limits and costs of things economic. Modern controversies, he maintained, overemphasize economics. The real conflict "is between *traditional society*, with its religious and moral and political inheritance, and *collectivism*" (Kirk's italics).³⁸ Ultimately, the clash is between "opposing concepts of human nature."

His view that people are spiritual beings led Kirk to maintain that though a prosperous economy is good in itself, "its real importance is the contribution it makes to our justice and order and freedom, our ability to live in dignity as truly human persons. . . . Economic production is merely

the means to certain ends."³⁹ Those ends are "to raise man above the savage level, to make possible the leisure which sustains civilization and to free man from the condition of being a simple drudge." Regarding efficiency as an end in itself merely duplicates the error of Communism.⁴⁰

Kirk realized better than many of capitalism's other defenders that economic activity does not occur in a vacuum; free markets require moral, cultural, and social foundations. Ideas and beliefs govern conduct,⁴¹ and exist in a hierarchy. Religious ideas are the most fundamental: "culture springs from the cult," as does morality. Morality's primary purpose is "to order the soul and to order the human community, not to produce wealth. Nevertheless, moral beliefs or disbeliefs have economic consequences."⁴² "Political problems, at bottom, are religious and moral problems."⁴³ Thus, capitalism "is a development from certain moral assumptions of Western civilization" and "can exist and prosper only within a moral order."⁴⁴ Christianity condemns envy, thus helping protect the market from its enemies. But as religion wanes, envy and blaming free markets and property for one's frustrations—and therefore statism—grows.⁴⁵

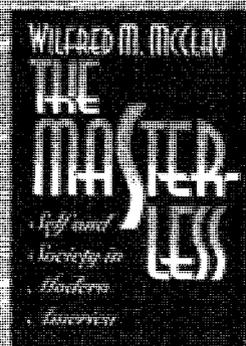
Dr. Kirk's ultimate assessment of free enterprise was positive, and his outlook cheerful: "there is reason to believe that the productive market economy will be functioning well a century from now. The errors of command economies and the blunders of utopian welfare states have become obvious to a great many people, while Adam Smith continues to make economic sense."⁴⁶

The free economy's foes often argue that there is more to life than economics. Indeed there is, Dr. Kirk realized—and a free economy, provided it is operated by humane people, serves humane values and the Permanent Things best. Defenders of economic freedom would do well to steep themselves in the wisdom of Russell Kirk. □

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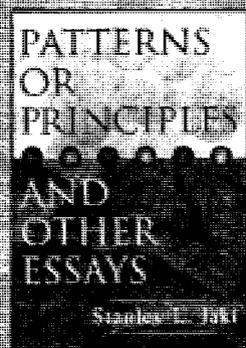
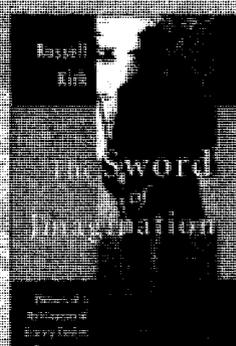


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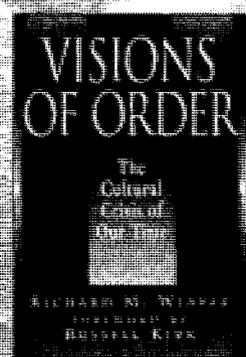
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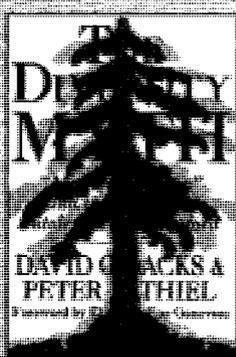
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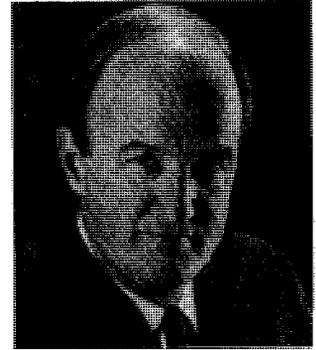
—Alfred Nobel’s last will (1895)

Since 1969, the Nobel Memorial Prize in Economic Science has been awarded to more than two dozen eminent economists, including Paul Samuelson, Friedrich Hayek, Milton Friedman, James Tobin, and Robert Solow. Last year the winner was Robert Lucas, the Chicago economist who developed the rational expectations theory.

Lucas’s winning the Nobel Prize reflects the growing dominance of free-market economics in the profession. In fact, economists from the University of Chicago received the award in five of the past six years. The prize, established by the Bank of Sweden, is awarded by a six-man committee, headed by Assar Lindbeck, who has gradually grown more conservative over time. Economist Robert Kuttner bemoans the fact that several prominent Keynesians were ignored by the Nobel committee during their lifetimes: Joan Robinson, Nicholas Kaldor, and Sir Roy Harrod (*Business Week*, November 12, 1990).

Are there any free-market economists who

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failed to receive the Nobel Prize? I asked several colleagues to name their favorite deceased economist who was still alive in 1969, why that economist deserved the award, and what major works should be cited. Their choices were as follows.

Ludwig von Mises

Ludwig von Mises (1881–1973), the pre-eminent Austrian economist, was everyone’s first choice. Of his many original contributions, three stand out: the theory of the business cycle, the socialist calculation debate, and methodology. Most important works: *Theory of Money and Credit* (1912), *Socialism* (1922), and *Human Action* (1949, 1966).

Murray N. Rothbard

Murray N. Rothbard (1926–1995), the libertarian iconoclast who popularized Misesian economics in America, was nearly everyone’s second choice. He made original contributions in welfare economics and monopoly and tax theory, but was best known for his remarkable ability to write clearly and profoundly about money, business cycles, and government policy. Major works: *Man, Economy and State* (1962), *America’s Great Depression* (1963), and *Power and Market* (1970). His booklet *What Has the Government Done to Our Money?* has probably had the greatest influence of all. Several colleagues also men-

tioned his last great work, a two-volume history, *Economic Thought Before Adam Smith* and *Classical Economics* (Edward Elgar, 1995).

W. H. Hutt

William H. Hutt (1899–1988), a classical economist who for half a century taught at the University of Cape Town, was frequently mentioned as a third candidate. Hutt's major contribution was in labor economics, wherein he argued that persistent unemployment was due to above-market wage rates imposed by government regulations. He was a long-time critic of Keynesian economics and apartheid in South Africa. Major works: *The Theory of Idle Resources* (1939), *Keynesianism: Retrospect and Prospect* (1963), and *Economics of the Colour Bar* (1964).

My fellow economists also recommended several other names: Oskar Morgenstern for his *Theory of Games and Economic Behavior* (1944, co-authored by John von Neumann) and *On the Accuracy of Economic Observations* (1950); Gottfried Haberler for his *Prosperity and Depression* (1937) and his exposition of the Austrian theory of the trade cycle; Frank Knight for his *Risk, Uncertainty and Profit* (1921); Jacob Viner for his history of economic thought and the development of cost theory in *The Long View and the Short* (1958); and Henry Hazlitt for his *Failure of the "New Economics"* (1959).

Surprisingly, several free-market economists felt that Joan Robinson (1903–1983) merited the Nobel Prize, not for her politics, but for her scientific contributions, such as *The Economics of Imperfect Competition* (1933). In 1975, she was widely expected to win the Nobel Prize, but was ultimately denied it because of her extreme political views and her admiration of Mao's China and Kim Il Sung's North Korea.

What Nobel Really Wanted

In reviewing the winners of the Nobel Prize, I wonder how well the Nobel com-

mittee has matched Alfred Nobel's original desires. His last will and testament created five prizes (physics, chemistry, physiology or medicine, literature, and peace), all for actions that were to benefit mankind in a very practical sense, much like his invention of dynamite. Dynamite is not used solely as a tool of war; it plays a valuable role in mining, construction, and transportation. Nobel's last will is filled with words such as "discovery," "invention," "improvement," "ideal," "brotherhood," and "peace." In sum, scientists, authors, and activists who have improved the lot of mankind deserve the Nobel Prize.

In the past, the Swedish academies have given prizes to outstanding citizens who have rendered the "greatest services to mankind": Roentgen for discovering x-rays, Marconi for developing the wireless telegraph, Banting for isolating insulin, and Fleming for discovering penicillin. Yet, at the same time, the Swedish Royal Academy has awarded many obscure and sometimes minimal contributors while ignoring many noteworthy individuals. In literature, for example, Mark Twain and Leo Tolstoy never received Nobel honors.

In science, the following were overlooked: Thomas Edison for the electric light bulb; August and Louis Lumière for motion pictures; Willis Haviland Carrier for air-conditioning; Orville and Wilbur Wright for the airplane; Henry Ford for mass production; George Washington Carver for agricultural techniques; Vladimir Zworykin and Isaac Shoenberg for television; Robert Watson-Watt for radar; Frank Whittle and Hans Pabst von Ohain for the jet engine; Chester Carlson for xerography; Howard Aiken, John P. Eckert, Jr., and John W. Mauchly for the digital computer; Jonas Salk for the polio vaccine; and Ted Hoff for the microprocessor. (I thank Michael H. Hart, author of *The One Hundred: A Ranking of the Most Influential Persons in History* [Citadel, 1992], for providing this wish list of potential Nobel winners.) Surely these men have made a significant difference in our way of life and standard of living.

A Nobel for W.E. Deming?

In keeping with the spirit of Nobel, the Nobel Memorial Prize in Economic Science ought to expand its universe from high theory to applied science. If the Nobel Prize can go to finance theorists such as Harry Markowitz, perhaps it could be extended to management theorists, statisticians, and

entrepreneurs. For example, surely W. Edwards Deming (1900–1993) deserved the Nobel Prize in economics. Although not a trained economist, his dynamic “quality-control/consumer research” approach developed in post-war Japan revolutionized the world of production, consumption, and job creation as much as any Friedman or Samuelson. □

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BOOKS

The Vandals' Crown: How Rebel Currency Traders Overthrew the World's Central Banks

by Gregory J. Millman

The Free Press • 1995 • 305 pages • \$23.00

Reviewed by Raymond J. Keating

The first 225 pages of *The Vandals' Crown* generally make for interesting reading—describing some fascinating developments in financial markets and the economy. The remaining 50 or so pages unfortunately skew off in a different direction—either better left for another book or simply discarded altogether. Much of this book, though, lives up to its tantalizing subtitle—“How Rebel Currency Traders Overthrew the World's Central Banks.”

Author Gregory J. Millman explores various intriguing moments in monetary history. He writes of France's great inflation between 1418 and 1423 and takes note of John Locke's contribution to monetary thought. He also offers a brief discussion of the gold standard, pointing out that one of the great merits of gold is its ability to restrain the activities of monetary authorities. After all, inflation results from government's mismanagement of monetary policy. Indeed, the author clearly shows that even gold-based monetary systems go awry when government officials tinker with and try to circumvent the system's disciplines. Among the examples of government mischief he cites are the trade war and currency devaluations of the Great Depression, and the inflationary U.S. monetary policy that eventually destroyed the flawed Bretton Woods monetary regime.

As the U.S. dollar was de-linked from gold—effectively in the late 1960s and officially in 1971—a new source for monetary discipline had to be found. This is where *The Vandals' Crown* shines. Millman tells the

story of how currency markets developed and grew, and eventually how more powerful, efficient, and integrated financial markets now work to impose some checks and balances on both government fiscal and monetary policies.

Millman sets the tone for this story early on by noting: “Although investors have always had to take into consideration the quality of a government's management of its economy, traders now have an unprecedented degree of power to sweep the financial foundation out from under poorly managed, politically unstable, or uneconomic governments before the bureaucrats even know what has happened.” He continues: “For better or worse, since the collapse of the Bretton Woods international monetary order, traders provide the only financial discipline the world knows.”

The reader might expect the author to wrap up such a book perhaps with an analysis of how the economy performs under today's intertwined monetary, fiscal, and financial systems. However, Millman concludes this book with a look at a host of legal infractions and shady schemes concocted by various financial traders over the past few years. Millman sought to show “the weaknesses of a financial system that is more efficient than any financial system in history, but may also be more vulnerable to moral hazard than ever before.” *The Vandals' Crown* tarnishes in these last pages.

After showing the shortcomings (namely, inflation) of monetary policy under the discretion of government bureaucrats, Millman seemed compelled to attack the individuals operating in the financial markets as well. Human nature is human nature, but the author offers no comprehensive and compelling arguments as to why more efficient financial markets might be *more* “vulnerable to moral hazard.” His substantial emphasis in the closing pages on the wrongdoings of a handful of players in the financial markets also gives the mistaken impression that corruption is widespread and such individuals possess the capabilities to wreak catastrophic economic havoc.

Markets ensure that individuals rarely, if

ever, possess such power. The competitive marketplace possesses real checks and balances, which make widespread corruption impossible. After offering an often eloquent explanation as to how markets can act as a disciplining force on government, Millman should understand that markets, operating within a sound system of property rights, discipline themselves.

In the end, the ability of the government to do substantial economic evil far outstrips that of the individual. Even with the checks provided by financial markets, as explained in *The Vandals' Crown*, government misdeeds continue, with markets, the economy, and individuals paying the price. This should have been Mr. Millman's closing caveat. □

Mr. Keating is chief economist with the Small Business Survival Foundation.

Shake-Down: How the Government Screws You From A to Z

by James Bovard

Viking • 1995 • 141 pages • \$14.95

Reviewed by William H. Peterson

Item: A federal program routinely subsidizes welfare families living in oceanfront apartments in upscale La Jolla, California.

Item: The Food and Drug Administration refuses to approve a machine that gives CPR to heart attack victims because the victims cannot give their informed consent.

Item: The Federal Highway Administration proposed a special waiver for the disabled to allow truck drivers to be qualified to drive even if they were blind in one eye and had weak vision in the other.

The above items are gleaned from this exposé of overweening, inept, ham-fisted government, prodding James Bovard to ask: Has our government run amok?

Good question, and one put forth by the author of *Lost Rights: The Destruction of American Liberty*. James Bovard, a contributor to the *Wall Street Journal* and the *New York Times*, here exposes a host of

outrageous and absurd infringements on life, liberty, and the pursuit of happiness. The infringements are rife and they spring from petty bureaucrats and zealous officials, elected and unelected.

Mr. Bovard reminds us of an April 1995 Gallup Poll revealing that 39 percent of Americans hold that "the federal government has become so large and powerful that it poses an immediate threat to the rights and freedoms of ordinary citizens." He notes that President Clinton meanwhile regularly denounces public cynicism about government goodness and purity.

The Bovard approach alphabetically arranges cases of government running amok from A to Z.

Under A, for example, he treats affirmative action, noting Equal Employment Opportunity Commission chairman Clifford Alexander making the case for quotas and declaring in 1968: "We . . . here at EEOC believe in numbers. . . . Our most valid standard is in numbers. . . . The only accomplishment is when we look at all those numbers and see a vast improvement in the picture."

The U.S. Forest Service got criticized on numbers for not hiring enough female firefighters (many woman applicants are unable to pass the Service's strength tests for lugging heavy firefighting equipment). Upshot: It advertised: "Only unqualified applicants may apply."

Under M, Mr. Bovard observes the lengths to which the Drug Enforcement Administration goes to stamp out the evil of medical marijuana: In La Mesa, California, a citizen was sentenced to prison for 16 months for raising a tiny amount of marijuana to treat his AIDS symptoms.

DEA steadfastly refuses to allow doctors to prescribe marijuana to treat glaucoma that could turn into total blindness, despite findings by Yale medical Professor Steven Duke and others of marijuana's positive therapeutic effects on the disease.

Under Z, Mr. Bovard goes after zoning abuses: Coral Gables, Florida, charges residents \$35 to get a permit to paint the bathroom in their home—or the dining room

or any other room. Local building inspectors patrol the streets looking for painting trucks parked at homes which may have not paid the fee.

In 1993 the New York City building inspector bushwhacked Fordham University. Fordham had gotten a permit to build a 480-foot radio tower on its Bronx campus. But after getting the tower half-finished, NYC reversed its position and revoked the permit, setting Fordham back by \$500,000. (Was Fordham reimbursed? You must be kidding.)

As Bovard quotes Albert Jay Nock: "How little important it is to destroy a government, in comparison with destroying the prestige of government." Agreed. □

Dr. Peterson, an adjunct scholar at the Heritage Foundation, is Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University in North Carolina.

Revolution at the Roots: Making Our Government Smaller, Better, and Closer to Home

by William D. Eggers and John O'Leary

The Free Press • 1995 • 405 pages + index • \$25.00

Reviewed by James L. Payne

For the general reader, *Revolution at the Roots* provides a comprehensive survey of government-shrinking attempts around the nation. Prodigious research, it takes us to every corner of the land: welfare reform in Wisconsin, Michigan, and New Jersey; budget control in New York and Philadelphia; tax and spending limits in Arizona and Colorado; community policing in Houston; vouchers in Milwaukee. Prominently mentioned are the private, voluntary organizations which prove they can do a better job than government: the Marcus Garvey school for inner city youngsters in Los Angeles (where second-graders read college texts), the St. Martin de Porres shelter for women in Chicago, and dozens of others.

For partisans of liberty, however, this book is something of a disappointment. Eggers and O'Leary are staffers at the Reason Foundation, the libertarian think tank that publishes *Reason* magazine. Their problem is a familiar one for those on the Right: how to criticize government without offending the mainstream politicians and journalists who are so deeply committed to it. Not surprisingly, they pull their punches. The result is a book about shrinking government which fails to explain *why* government should be shrunk.

They mean their book to be a right-wing answer to David Osborne and Ted Gaebler's *Reinventing Government*. The premise of that book, eagerly embraced by the Clinton administration, is that government should not be viewed as a necessary evil: it is a worthy problem-solving machine that just needs an injection of efficiency and flexibility. While Eggers and O'Leary make some conservative points, they don't take issue with this basic outlook. Their remedies closely resemble Osborne and Gaebler's: introduce competition, cut down on red tape, and so on. As a result, they say, we will end up with "better" government. Kept under cover is the argument that government has a fatal flaw that cannot be reformed away.

After a few hundred pages, the reader starts to wonder whether Eggers and O'Leary are purposely omitting discussion of this fatal flaw, or just aren't aware of it. Their principal reform idea is actually rather pro-government, the so-called "Tenth Amendment Revolt." The aim is to reduce the federal government by getting state governments to take over many of its activities. For example, they are all for having government fund mental hospitals; they just don't want the federal government to do it.

A libertarian would hardly concede a governmental role so easily. The fatal flaw looms too large in his thinking, namely that government action is based on the initiation of force, which is an inherently corrupt, and corrupting, way to approach public problems. For real libertarians, talking about

better government is like speaking of better war: an oxymoron.

Ignoring libertarian roots also means that Eggers and O'Leary give away the moral high ground. Thinking people on all sides are now coming to realize that government does not have a promising future. Nobody expects—as the socialists of earlier generations expected—that government will bring us to utopia, or even to a harmonious, functional community. Now the debates are about limiting the damage. By accepting government as society's problem-solver, Eggers and O'Leary join the fatigued pessimism of the modern mainstream. They concede that none of their reforms, even if fully implemented, will bring impressive results. The best we can hope for, they say, are "minor improvements."

Is this all we have to offer future generations? Is this what we want on our tombstones, that we made minor improvements in a fundamentally sick system? What happened to the vision of a voluntary society? We have abundant proof that voluntary institutions do work. Think of the glorious future that beckons if we deliberately expanded these approaches. We can see, almost within reach, a society based on cooperating with our neighbors instead of forcing them.

Idealistic? Probably a little. But if libertarians don't do the dreaming, who will? □

Dr. Payne, a contributing editor of The Freeman, is a Bradley Fellow at the Heritage Foundation and the author of Costly Returns: The Burdens of the U.S. Tax System.

Wildlife in the Marketplace

edited by Terry L. Anderson and Peter J. Hill

Rowman and Littlefield Publishers • 1995 • 191 pages • \$22.95 paperback

Reviewed by Jane M. Orient

This compendium of nine articles takes examples from the Hudson's Bay Company, 1700-1763, to emerging Africa, to show how to turn wildlife from a liability

into an asset. It is not a collection of rhetoric but of detailed economic analyses of how to manage wildlife resources, including endangered species, buttressed with a wealth of references, tables, and graphs.

The extinction of species is not a modern phenomenon. In the British Isles, the wolverine, wild boar, and lynx were probably gone before historic times. However, in modern times, property rights to large holdings in Britain (where 92 percent of the land was privately owned in the late 1800s, in contrast to 28 percent in the United States) gave English landowners ownership rights to the ambient wildlife as well. English law is a more promising model for preserving species than is the myth of the "noble savage" (the American Indian).

One particularly interesting analysis of the "economics of fatal mistakes" concerns endangered predators such as eagles. We currently have a fine-and-imprisonment system, but the bounty for killing an eagle is nonetheless about \$25. Ranchers have an incentive to kill eagles because of the damage they cause. In a free-market scheme to protect eagles, someone (groups of conservationists?) would have to compensate owners for livestock lost to predation.

The discussion of elephants shows how conservationists often have things backward. The ivory trade, rather than being a threat, may be a means to preserving an animal that is very destructive to agriculture. "The African farmer's enmity toward elephants is as visceral as western mawkishness is passionate," states the book, quoting David Western. The right to profit from their ivory would give someone an incentive to preserve the elephant.

The book challenges the assumption that public management is always the best way to preserve wildlife. Natural areas now have to pay their way in political currency: "It is entirely possible, depending upon who happens to exercise political control, that they will fare better in the economic market than they do in the political market. Those who seek the free lunch promised by public management always run the risk that others will be served."

Parts of the book are quite technical, and it is not on the whole intended for casual reading. It is a valuable resource for those engaged in serious study of innovative ways to conserve wildlife while meeting the needs of human beings. □

Dr. Orient is an internist in solo private practice. She serves as the Executive Director of the Association of American Physicians and Surgeons. She wrote Your Doctor Is Not In: Healthy Skepticism about National Health Care (Crown, 1994).

Private Cures for Public Ills: The Promise of Privatization

edited by Lawrence W. Reed

The Foundation for Economic Education •
1996 • 208 pages • \$14.95 paperback

Reviewed by E. S. Savas

This volume might well be called *A Privatization Anthology*, for it brings together a fine selection of articles on the subject that have appeared over the last dozen years. Most of the 24 chapters (nineteen of them) were first published in *The Freeman*; another, by the editor, Larry Reed of the Mackinac Institute in Michigan, is an original article written expressly for this book.

The book is well organized, divided into six sections: (1) the conceptual basis for privatization, studded with well-chosen quotations from Adam Smith, Ludwig von Mises, and Friedrich Hayek; (2) opportunities for privatization at the federal level; (3) transportation privatization; (4) privatization applied to the natural environment; (5) opportunities for privatization at the state and local level; and (6) overcoming the opposition to privatization. The chapters in this slim tome are brief and snappy. Averaging about seven pages in length, each is an easily digestible morsel. The reader can dip in anywhere and find rewarding intellectual nourishment. Despite the fact that three-quarters of the chapters first appeared in print in the 1980s, their message is neither dimmed by time nor faded by familiarity:

They are as valid today as they were when first written. Many more recent writings provide much greater detail and depth, of course, and many well-documented experiences since then have confirmed the expectations of those of us who are among the earliest "privatizers." But for the reader who wants just a light exposure that nevertheless covers the waterfront, this book satisfies the need. Considering that there are now about 150 English-language books on the subject, this is no mean accomplishment.

In his chapter, Hans Sennholz deems divestment to be the only acceptable form of privatization, and warns that other forms of privatization—contract, franchise, or voucher—will save no money and will instead perpetuate a large and even growing government role in society as private firms join the chorus for more government spending. That concern was not misplaced in 1987, but the evidence now is overwhelming that large savings and a decline in the number of government employees are realized by introducing competition into the delivery of public services. Indeed, this is the most common form of privatization in the United States, and it has been adopted most effectively at the local level, where financial constraints have been most binding (unlike the federal government, cities can't print money) and services are most visible to the populace. "Contracting out" works, when it's done right, and in my opinion this is a good way to privatize collective (that is, "public") goods. One must remain alert, however, to the danger that programs which government should not be engaged in at all (providing individual or private goods) would be maintained through contracts or vouchers and sold under the banner of privatization.

The section on federal privatization opportunities focuses on welfare, space, and postal service. The one on transportation deals with railroads (in Japan and Michigan) and private roads, and explains how privatization of roads can greatly improve highway safety. The section on privatization in state and local government addresses

planned communities, prisons, and schools, and ends with a chapter that rightly raises the alarm that further federal intrusion into education, under the guise of aiding and improving the schools, will bring down private schools to the low level of many government-run schools.

Dwellers in metropolitan areas are too rarely exposed to the idea that privatization can protect the environment and preserve natural resources. Instead they are subjected to a steady drumbeat from an urban elite—the self-styled, virtuous guardians of the environment—that the private sector, in its lust for profits at any cost, is a ruthless despoiler of the environment. It is particularly satisfying, therefore, to find four fine essays that address this topic, in a section entitled “Private Property and Environmentalism.” Clint Bolick points out that under public (i.e., government) ownership of forests and grazing lands, management and effective property rights are exercised by self-interested bureaucrats and, as a consequence, the public interest is generally overlooked or thwarted. He provides a fine primer on the issues and explains persuasively and without rhetoric how private ownership can better achieve the public purpose. Reed continues the section with his eye-opening chapter that presents case studies of private firms and not-for-profit groups that preserve wilderness sites and provide full access to the public.

The next chapter, by two South Africans, Nancy Seijas and Frank Vorhies, gives a fascinating account of private preservation of wildlife in the South African bush. Twenty private reserves, bound together in a voluntary consortium, enable visitors to see lions, cheetahs, elephants, giraffes, hippos, rhinoceroses, and other exotic (to Americans) species in their natural habitats. It is in the interest of these businesses to maintain conditions and to protect the animals from poachers—an ever-present problem when animals are owned by “the public” in government sanctuaries. The last chapter in this section brings us back to the United States in a discussion of private ownership and other privatized approaches

to the support and operation of big-city zoos. Those whose only prior exposure to privatization has been newspaper stories about garbage collection and private prisons should find this entire section to be an awakening as to the breadth and full import of privatization.

My own definition of privatization is reflected throughout the book: privatization means relying more on the private institutions of society—the market, voluntary groups, and the family—and less on government to satisfy people’s needs. □

Professor Savas is Director, Privatization Research Organization, School of Public Affairs, Baruch College, City University of New York.

The Sacred Fire of Liberty: James Madison and the Founding of the Federal Republic

by Lance Banning

Cornell University Press • 1995 • 543 pages • \$35.00

Reviewed by William J. Watkins, Jr.

Historians have painted James Madison as a young centralizer and nationalist who later defected to the philosophy of states’ rights and strict construction of the Constitution. Madison was also accused of philosophical apostasy by his contemporaries. Alexander Hamilton, his collaborator on *The Federalist*, bitterly complained that after 1789 Madison was “seduced by the expectation of popularity” in Virginia and thus opposed his former allies.

Madison’s political thought, however, is much more complicated than critics and historians would have us believe. In *The Sacred Fire of Liberty*, Lance Banning attempts to demonstrate that Madison did not change horses in midstream, but rather acted consistently throughout his career.

Banning begins by examining Madison’s stances in the Continental Congress in the early 1780s. The young Madison, according to Banning’s research, was strikingly similar to the Madison of the 1798 Virginia Reso-

lutions, which boldly enunciated the compact theory of the Constitution. While in the Continental Congress, Madison opposed an independent federal power to impose taxes, insisting that his native Virginia was absolutely sovereign within her chartered bounds. In an incident foreshadowing a clash with Hamilton, Madison fought a plan for a national bank on the grounds that the power to charter a corporation was not enumerated in the Articles of Confederation. Madison evinced frustration at the Congress's powerlessness to carry out its delegated functions, but did not seek to expand these functions except in the realm of trade.

Madison's experiences in the Continental Congress led him to craft the Virginia Plan at the Constitutional Convention. At the convention, Madison joined with the nationalists in recreating the federal government, but Madison the nationalist was far different from the Hamiltonian nationalists. Madison, in Banning's view, merely sought "a constitutional device that could secure the general government's supremacy *within a system where the overwhelming burden of responsibilities would still be carried by the states.*" (Italics in original) The Northern commercial elites, on the other hand, had plans for a much more energetic government than Madison expected.

Though Madison did collaborate on *The Federalist* to defend the same plan of government, Banning shows that Madison and Hamilton's interpretations of the plan were antipodes from the start. Whereas in Hamilton's contributions there are numerous references to the value of a great commercial republic, no such language can be found in Madison's. Madison's support of the new plan of government was predicated on his belief that agricultural producers would be dominant and keep the regime within its proper bounds.

Perhaps the greatest contribution Banning makes is his reevaluation of *Federalist* No. 10. Banning unabashedly asserts that No. 10 was neither an unequivocal endorsement of a large republic nor an endorsement for multiplying the variety of interests in the

nation. According to Banning, Madison was arguing that a large republic offers more security from majority abuses. In Madison's view, the extension of the republic could only curb democratic ills when local and general interests were properly and strictly divided. Increasing the number of factions, which Madison considered a great evil, was not his intent.

In short, the research presented in this book makes it apparent how the Father of the Constitution could both oppose the Washington Administration and later frame the Virginia Resolutions. *The Sacred Fire of Liberty* is an excellent examination of the thought of James Madison and an important work of historical revisionism. Banning's portrayal of Madison as a son of the Virginia piedmont, consistent advocate of states' rights, and strict constructionist, does much to aid our understanding of the Father of the Constitution. □

Mr. Watkins is assistant editor of The Freeman.

America First! Its History, Culture, and Politics

by Bill Kauffman

Prometheus Books • 1995 • 296 pages • \$25.95

Reviewed by Gregory Pavlik

Bill Kauffman's new book is a mix of biographical essays, historical commentary, and contemporary criticism. *America First!* sets out to describe a way of looking at the culture and politics of the United States that is distinctly American. In one sense, it is a history of nativist populism and isolationist sentiment. On the other hand, Kauffman mixes in to the equation a strain of aristocratic, blue-blood Americanism that makes it harder to pin his America Firsters down on class lines. When applied to contemporary politics, Kauffman lumps together Gore Vidal, Jerry Brown, Pat Buchanan, and Ross Perot under one roof. And, as he explains, they "fit together like pieces of a jigsaw puzzle: the true puzzle [is] how it could ever have been otherwise."

Kauffman's seemingly odd union makes sense because Vidal, Brown, Buchanan, and Perot all react against the United States Empire in one way or another. Kauffman pines for an older America that minded its own business and made virtue of republicanism. As he asks in the conclusion: "do we really want to live in an America in which the flickering image of a starving Rwandan on CNN is more immediate to us than the plaintive cries of the hungry girl down the road; a world in which young Americans don blue helmets and travel halfway around the world to enforce the resolutions of the United Nations, while in small towns across America volunteer fire departments are undermanned?" He'll have none of the globaloney that dominates the contemporary intellectual scene. He holds up American dissident voices for admiration, not because they are dissidents, but because they're still Americans.

What emerges is a brief for Jeffersonian decentralism, strict noninterventionism in foreign squabbles, and authentic localism in politics, business, and life. He lays out his ideal through the lives of Americans who shared this vision in some way: Hamlin Garland, the midwest literary populist; Amos R. E. Pinchot, the wealthy, cantankerous left-wing populist described by historian Arthur Ekirch as "better than anyone, except perhaps A. J. Nock in our time, . . . a precursor of the libertarian movement"; literary master Edmund Wilson, who hated war and refused to pay income taxes on principle; Gerald Nye and John T. Flynn, heroes of the Old Right resistance to the Roosevelt New Deal and War Deal; Alice Roosevelt Longworth, daughter of Theodore and nemesis of Franklin; Sinclair Lewis, literary champion of small town America; Gore Vidal, whose foreward to *America First!* doesn't shrink from reminding the reader how much of our supposed "defense" budget is squandered in the service of the American Empire; "the other Arkansas Bill," isolationist Senator William J. Fulbright; Edward Abbey, Earth First!

Luddite and hill-billy particularist; and a gaggle of other notables who exemplified what it means to be an American.

The last half of the book or so is comprised of essays on rebuilding an America First movement around the republican principles championed in the first half. It brings to mind another recent book on American politics: David Frum's *Dead Right*. Not because there are any meaningful parallels, but because Kauffman's outstanding analysis will go largely unpromoted and ignored by the big journals of liberalism and conservatism, while Frum's neo-conservative work remained the talk of the New York-Washington establishment for months. Frum vigorously promoted the global activist-beltway Right, gently chiding them for their over-reliance on big government. In contrast, he treats America Firsters and Old Right holdovers as neanderthals and mossbacks—more fit for the fever swamps than the intellectual scene. It speaks volumes about the price of dissent in America. Between the two wings of the ruling class of faux liberals and faux conservatives, "there's not," to quote another America Firster, "a dime's worth of difference."

My only complaint about the book is that it is too short. There are so many America First heroes, most of whom fell on the wrong side of history, that it is an absolute necessity to revive their memory. A secondary problem which emerges from its brevity is that the book seems to be plagued by gaps. It jumps from progressive to Old Right to anti-Cold War figures without filling in the details of their struggles. It doesn't convey the feeling that many of these individuals represented—and still do represent—mass public sentiment, rather than cranky-but-correct views. Nevertheless, *America First!* is a highly relevant and readable book from start to finish. It deserves the attention I'm sure it won't get. □

Mr. Pavlik is associate editor of The Freeman and editor of Forgotten Lessons: Selected Essays of John T. Flynn, published by FEE.

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IN APPRECIATION . . .

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An Affirming Flame

For half a century, the Foundation for Economic Education has devoted itself to studying and explaining the principles that underlie a free society, striving to make its message accessible to people from all walks of life.

Those who assume (often automatically) that America is still the model of a free society, might view fifty years of freedom talk as pointless pondering. But others, who comprehend just how far down the socialist path Americans have walked, admire FEE as a champion in the intellectual fight to renew liberty. The seven trustees who founded FEE in 1946 correctly anticipated in their original prospectus that those most interested in FEE's activities would "have no doubts about the decline of economic liberty in America. Coercion is being rapidly substituted for voluntary enterprise. Collectivism is displacing individualism."

By the 1940s, this shift in ideas had marked a critical point in world history. In the United States, the last bulwark of freedom, an understanding of the ideological heritage that yielded the most prosperous country ever was quickly fading as people sanctioned government solutions and political programs to guarantee the good life. In bold contrast, a solitary FEE embarked upon its mission, and emerged as more than an educational organization.

FEE and its founder, Leonard E. Read, would come to occupy a special place in the hearts of many "students of liberty" who, before discovering this wellspring of inspiration and comfort, felt isolated in their thinking. The late Benjamin Rogge referred to Read's FEE as "an island of sanity in an increasingly insane world" and an institution that merited total appreciation for burning "a brilliant and never-failing and affirming flame." In rallying freedom's thought leaders and emulators, FEE fashioned the basic fabric of the modern libertarian movement.

To say that FEE is the "granddaddy" of pro-freedom think-tanks has practically become a cliché—but true nevertheless. Leonard Read was the first to react in an effective, organized way to the rise of collectivism and statism in twentieth-



FEE's Irvington-on-Hudson home—an 1889 Hudson River mansion purchased and converted into offices in 1946.

century America. He imbued his institution with a style that was to become a trademark—focusing on ideas rather than personalities, searching for truth rather than compromise, and educating self rather than reforming others. FEE's example encouraged the establishment of similar organizations not only in this country but the world over. FEE continues to serve a vital role in the revival of classical liberalism.

Attempting to distill the essence of such an organization's half-century of activities into a single publication would be challenging (if not foolhardy). Nonetheless, this issue of *The Freeman*, the banner publication for the last forty of FEE's fifty years, commemorates the golden anniversary of the Foundation for Economic Education. It is dedicated to Leonard Read and the writers, speakers, editors, staff, trustees, and students who have devoted themselves to FEE's operations or graced the pages of its publications.

Our special issue opens by revisiting the idea that has captured the fancy of world populations and prompted the forming of FEE—socialism in all its versions. Subsequent articles survey trends in collectivist variants found in the United States—welfarism (and its massive costs), democratic statism, government schooling, civil

rights legislation, environmental regulation, compulsory unionism, and central banking.

Classic reprints by Leonard Read and Ludwig von Mises illustrate the importance of free markets. We also hear about the resurgence in Austrian Economics, and three authors whose impact on libertarianism was made through the popular press.

In a special series of articles FEE staff members and associates reflect on the Foundation's past and future, its founder, and the development of a literature of freedom—abundant today but scarce at FEE's founding. Current president Hans F. Sennholz advises that FEE's mission is more urgent than ever. Despite the collapse of socialist economies, the United States may be weaker today in the spiritual and moral antecedents of a free society as socialist values live on in the minds of many Americans under various labels.

Finally, the spirit of FEE's golden jubilee could not have been captured without hearing directly from people who have been inspired by FEE. They speak for themselves as their stories and expressions of gratitude are quoted throughout this issue.

—Mark Spangler, *Guest Editor*
Beth A. Hoffman, *Managing Editor*

The World in the Grip of an Idea Revisited

by Clarence B. Carson

The notion of a work under the title *The World in the Grip of an Idea* began to take shape in my mind in 1976, and I began the writing of it in the fall of that year (which was also the thirtieth anniversary of FEE). A somewhat amended and expanded version was published as a book under that title by Arlington House in 1980. Many intellectual and spiritual changes have occurred in the past twenty years, some of them in directions sought by the Foundation for Economic Education. I hope to highlight some of these changes and their relation to the work of FEE by revisiting the theme of this book and placing them in the context of developments in the last several years.

The theme of the book was that the whole world, to varying extents among countries, had come under the sway of an idea, the essence of which was expressed in the convergence of three ideals.

1. To achieve human felicity on this earth by concerting all efforts to achieve common ends.
2. To root out, discredit, and discard all aspects of culture which cannot otherwise be altered to divest them of any role in inducing or supporting the individual's pursuit of self-interest.

3. Government is the instrument to be used to concert all efforts behind the realization of human felicity and the necessary alteration of culture.

This idea, when shaped as a political program, is called by a variety of names, among which are: socialism, collectivism, social democracy, democratic socialism, Fabianism, national socialism, and Communism. Or, it may not be given a generic name at all, but advanced or concealed under such vague terms as democracy or liberalism. Regardless of specific variations, there are essentially two roads to socialism, which is the generic name most commonly applied to the idea that has the world in its grip. Revolutionary and evolutionary socialism are the two approaches, and they form much of the organizational framework of *The World in the Grip of an Idea*.

Revolutionary Socialism

Revolutionary socialism had its foundations in the teachings of Karl Marx and Frederick Engels in the nineteenth century. It came to power in Russia following the Bolshevik Revolution of 1917, led by V. I. Lenin and his cohorts and followers. The touchstone of revolutionary socialism is the violent overthrow of the existing government and system. Marx and Engels put it this way: "The immediate aim of the Communists is that of all the other proletarian

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parties: formation of the proletariat into a class, overthrow of the bourgeois supremacy, conquest of the political power by the proletariat."¹ Beyond this political revolution, Marx declared the purpose to be "the forceful overthrow of all existing social conditions."² The ultimate aim was the transformation of man in a classless society, but "revolution" was a key idea in his ideology, and it distinguishes revolutionary socialism from evolutionary socialism.

The World in the Grip of an Idea gives in-depth treatment to revolutionary socialism in two countries: the Soviet Union and Germany. The Soviet Union was an obvious choice for at least two reasons. One, it was the first country to establish a totalitarian revolutionary socialist government. Communism came to power there first. Two, it became the center for the spread of Communism internationally. Germany was a less obvious choice but was chosen because Nazism was a different variety of revolutionary socialism, though it is not always discussed under that category. Nazism was shortlived, holding power for only 12 years, and its particular ideological mix of racism, nationalism, and socialism never spread elsewhere. But it was a dramatic case of revolutionary socialism whose totalitarian mode has stuck in the public mind.

Moreover, German Nazism made a major impact on the political power configuration in the world during and after World War II. The role of Nazism in World War II is highlighted in my book in a chapter entitled "A Socialist Conflagration." The theme of the chapter is that World War II was at its heart a contest between two revolutionary socialist powers—the Soviet Union and Germany. It was a contest for dominance over the great Eurasian land mass at its center. The United States and Britain threw their weight on the side of the Soviet Union. The defeat of Nazi Germany wiped out what remained of the balance of power on the European continent. This set the stage for the Cold War, a long-term underlying struggle between revolutionary and evolutionary socialism.

The Evolutionary Road to Socialism

Socialists of the earlier nineteenth century either sought to build self-contained socialist communities or were revolutionaries. It was this latter that attracted Karl Marx and that eventuated in Soviet Communism, and its imitators. By the late nineteenth century, some socialists began to become enamored of the idea that socialism could be attained gradually by gaining influence and control over established governments. Theirs would be an evolutionary road to socialism that would not entail revolution, the violent seizure of power, or swift radical changes. It was more than a little influenced by biological evolutionary theories. Peaceful change could be wrought by democracy and labor unions, among other forces, many came to believe.

One of the early proponents of evolutionary socialism was Eduard Bernstein, a Marxist who saw a different road. He thought he saw signs of the peaceful movement toward socialism in developments in the latter part of the nineteenth century. He described them this way:

In all advanced countries we see the privileges of the capitalist bourgeoisie yielding step by step to democratic organizations. . . . Factory legislation, the democratising of local government. . . , the freeing of trade unions . . . from legal restrictions, the consideration of standard conditions of labour in the work undertaken by public authorities . . . are signs of the evolution.³

Evolutionary socialism—whether it is called democratic socialism, social democracy, gradualism, Fabianism, or whatever—is gradualist, statist, interventionist, and collectivist. Its advocates and followers believe that man and society can be improved and transformed by the astute application of government power. The usual result of taking this route to socialism has been the welfare state, but that was more consequence than original intent.

My book deals with evolutionary socialism in depth in three countries: England, Sweden, and the United States. The English

experience best shows what happened to the original intent. The English socialists were bent on nationalizing all major industries, that is, taking them from their owners and bringing them under government control. The Fabian Society was the spearhead of socialism in England. It consisted initially of intellectuals, who issued tracts, penetrated existing organizations, and attempted to permeate them with socialist ideas. The instrument they finally used to achieve power was the Labour Party. This party finally came into power with an effective majority in the elections in 1945. They moved with haste to nationalize banking, power and light, transport, and iron and steel, and to assert a government role in all areas of the economy. Nationalization, which had never been tried on a large scale in an advanced industrial country before, was given a major trial in England.

The measures were such an abject failure and wrought misery, suffering, and oppression so clearly that other countries were disinclined to imitate England, and, despite the tenacious efforts of the Labourites, the nationalization was eventually abandoned there as well. The welfare measures which the English introduced, such as socialized medicine, had a much longer life.

Sweden, however, was the earliest and most thorough example of the welfare state. The Swedes never showed any great enthusiasm for confiscating or appropriating private property. Instead, they taxed away a large portion of the proceeds from land, labor, and capital to maintain an extensive welfare state.

Evolutionary socialism did not for long go by the name of socialism in the United States. Those who ran for office under that name were overwhelmingly rejected by American voters. On the other hand, socialist ideas made increasing gains in the twentieth century as the underlying premises of political programs, initiatives, and legislation. They entered American political life by way of a series of "four-year-plans," variously called the Square Deal, New Freedom, New Deal, Fair Deal, and New Fron-

tier. The programs were at first called progressive and then liberal and were usually advanced as alleged solutions for various pressing problems. The mode of this gradualist road to socialism in the United States was to centralize and concentrate power in the general government and to make all organizations and people within the country dependent upon government.

The Destructive Impact of Socialism

The World in the Grip of an Idea makes clear with much history and numerous examples the destructive impact of socialism on institutions, societies, and the lives of people. Soviet Communism was oppressive and tyrannical from the outset and became much more so under Joseph Stalin in the 1930s, 1940s, and into the 1950s, and improved only marginally for the next three decades. Evolutionary socialism did not have so drastic an impact as Communism and Nazism, but it worked over the years to gain control of the material substance of the people under it, to undermine their beliefs, to take away much of their independence, and to impose systems that are spiritually, intellectually, politically, and economically bankrupt.

Even so, socialist premises were not usually challenged except by such organizations as the Foundation for Economic Education. Socialism spread around the world, especially in the middle fifty years of the twentieth century. World War II and the defeat of the Nazis, as already noted, provided the opportunity for the spread of Soviet Communism into eastern Europe. During the war, the Soviet Union forcibly annexed Latvia, Estonia, Lithuania, and a portion of Finland. By agreement with Hitler at the beginning of the war, they conquered and claimed part of Poland as well. During the closing year of World War II, as the Red Army moved westward into eastern Europe, the groundwork was laid for Communism in the countries there. In the mid and late 1940s Communist regimes were established in Poland, Czechoslova-

kia, Hungary, Yugoslavia, Romania, Bulgaria, Albania, and East Germany.

It was at this juncture, in the course of 1948, the Cold War began—an ideological and geo-political, occasionally military, struggle. The Soviet Union was fostering civil wars in Greece and Turkey, and bidding fair to come to power in Italy. The Soviet Union and the United States were the main belligerents in the Cold War, but the struggle encompassed much of the rest of the world at one time or another and in one way or another. It lasted from 1948 to 1989, or thereabouts. Ideologically, it was often described as a struggle between democracy and Communism. To describe it as a contest between democratic socialism and Communism is much more accurate. The prominent allies of the United States in this struggle were more or less openly socialist, and the United States had established a welfare state undergirded by socialist assumptions. Foreign aid became a major means for promoting and sustaining democratic socialism around the world.

The “Wave of the Future”?

The spread of Communism in power can be chronicled as Communist-controlled governments were established. The spread of Communism in eastern Europe has already been described, so we continue the chronicle elsewhere. In 1948, Communist rule was instituted in North Korea. In 1949, Mao Tse-tung proclaimed the People’s Republic of China, inaugurating Communism in the most populous country in the world. In 1955, Communism was established in North Vietnam. In 1960, a Council of Revolution seized power in Algeria. In 1965, Cuba became officially a one-party (Communist) state, and South Yemen became a “People’s Democratic Republic” (Communist). Guyana became a Communist-dominated country in 1970, and Communist Salvador Allende was elected president of Chile. In 1971, Syria got a pro-Communist dictatorship. In 1972, a revolutionary socialist government was formed in Benin. Communist dictatorship was established in Ethi-

opia in 1974. In 1975, North Vietnamese Communist forces conquered South Vietnam; the Khmer Rouge imposed Communism on Cambodia; the Pathet Lao organized Communist rule in Laos, and a People’s Republic of Mozambique came to power in Africa. Communists came to power in Angola in 1977. Communist-bent Sandinistas took over the government in Nicaragua in 1979, and the Soviet Union sponsored a coup in Afghanistan and installed a Communist regime.

Thus, when *The World in the Grip of an Idea* went to press in 1979, there were many signs that Communism might indeed be “the wave of the future,” at least in industrially undeveloped countries. But the story of Communists progressively coming to power is only a part of the story of the spread of Communist influence and socialist ideas. Communist parties were long in operation either openly or clandestinely in most countries of the world. Many countries in which Communists have never come to power have been deeply infected by Communism. Communists have infiltrated labor unions, churches, colleges, and other organizations, and have spread disinformation in many non-Communist as well as Communist publications. In sum, Communist influence has been worldwide. More openly, democratic (or evolutionary) socialist ideas have gained influence, often dominant, in many countries of the world. If there was a country in the world in 1980 not under the influence or in the grip of socialist ideas, it escaped the attention of this writer. Nor has anyone suggested to me since the release of the book that such a country existed in 1980, or in the decades preceding that date.

A Loosened Grip

Since that time, however, the idea has loosened its grip. The election of Ronald Reagan as President of the United States in 1980 signaled not only the loosening of the hold of the idea on Americans but also the widespread appeal of a countervision to that of socialism. Much the same could be said

for the significance of Margaret Thatcher's becoming Prime Minister of the United Kingdom in 1979. Reagan was re-elected in 1984 and became the first president to serve two full terms since Eisenhower in the 1950s. Mrs. Thatcher held the post of Prime Minister from 1979 to 1990. Their elections and tenure signified the considerable impact of conservative ideas on Anglo-American politics. More certainly than that, however, it was an augury of the declining appeal of the socialist idea or vision.

The most dramatic ideological development since 1980 has been the dissolution and disappearance of the Soviet Union. The Soviet Union was, after all, the centerpiece of Communism from its inception. It was the land, and Moscow was the city, to which admirers and supplicants came from around the world to study and learn about "the wave of the future." The vision of Communism and its propaganda spread from the Soviet center around the world, provoking revolts, succoring imitative political parties, and breeding apologists for the Communist motherland. Many, many socialists in other lands never became Communists, or, if so, only briefly, but they still pinned much of their socialist faith on its purest exemplar, the Soviet Union. The unraveling of the Soviet Empire would surely be the precursor of the decline and demise of Communism, if not the socialist idea itself. Or, so it seemed.

At any rate, the Soviet Empire began to unravel in 1989. The unraveling took place first on the periphery. In March, the Red Army completed its withdrawal from Afghanistan. In August, the Baltic countries (absorbed into the Soviet Union during World War II)—Estonia, Latvia, and Lithuania—demanded independence from the Soviet Union. In October, Hungary assumed independence from the Soviet Union. East Germans poured through Hungary into West Germany without interference. In November, the Berlin Wall crumbled as people tore it apart with no opposition from the authorities. In December, the long-time Communist dictator of Romania, Nicolae Ceausescu, was deposed

and killed. The glue was giving way at the edges of the Empire.

The Gorbachev Years

Although the beginning strokes of the unraveling of the Soviet Union caught almost everyone by surprise, in retrospect we can see that events and developments were preparing the way for a change. Mikhail Gorbachev became the dictatorial head of the Soviet Union in 1985. He was 54 years old, the youngest man to come to this position since Joseph Stalin, and the first born since the Bolshevik Revolution. He tended to adjust to changes rather than dominate them by his will. At first, he continued the war in Afghanistan but eventually withdrew. Confronted by the rearming of the United States led by Ronald Reagan, he must have soon realized that the Soviet Union did not have the means to keep pace. Indeed, Gorbachev did initiate some changes which may have prepared the way for the unraveling. One was called *perestroika*, meaning to restructure or make structural changes in the Soviet Union. The main restructuring occurred in the government itself, which no longer supported without resistance the programs advanced by the party bosses. *Glasnost* was another idea advanced by Gorbachev: it means openness, or, perhaps, frankness. In practice, it involved the removal of censorship, the freeing of religious observance, the opening of the Soviet Union to outside observers and the publishing of information about other lands and peoples in the Soviet Union.

The Soviet Union did not long survive *perestroika* and *glasnost*. It survived even more briefly the unwillingness of Gorbachev to use major force to maintain the Empire. The events of 1989 had not brought major reprisals from Moscow. In eastern Europe, the Soviet satellite countries began to operate independently in 1989–1990, forming their own governments, some non-Communist, and all reformed with greater freedoms. But what was much more striking in 1990, the Soviet Union itself split into its constituent parts. As a historian has said, "By the

end of the year, all 15 of the constituent union republics had declared their sovereignty. . . . As the world watched, Gorbachev seemed destined to lose the contest with the powerful centrifugal forces tearing the mighty Soviet Union apart as the decade of the 1990s opened.”⁴

In early 1991, Gorbachev continued to try to keep the Soviet Union intact by some sort of federal union. Instead of succeeding in this, in August, he was confronted with a coup whose leaders took him prisoner and demanded a return to the old Communist system. Boris Yeltsin, President of the Russian Republic, stood firm against the leaders of the coup; the rebellion dissolved and the leaders were imprisoned. Gorbachev resigned as Communist Party leader and in short order the Communist Party lost its preferred position. The Soviet Union continued to deteriorate, as republic after republic reaffirmed or declared its independence. “Gorbachev’s efforts to reconstitute the state in one form or another . . . all proved futile in face of the republics’ irrepressible nationalism and irresistible determination to seek their own paths to the future. By year’s end Gorbachev had become a superfluous president of a vanishing country. . . .”⁵ The Soviet Union was no more. A vast Russian Federation under Boris Yeltsin remained—still the largest country in the world—but many lands that had been part of the Soviet Union, such as the Ukraine, Georgia, Kazakhstan, Moldavia, Armenia, and others, were now following an independent course.

Many symbolic changes were made in the wake of the official abandonment of Communism. Statues of Lenin that had dotted the land were removed. Lenin’s tomb ceased to be a shrine, and his remains were finally buried. Leningrad became St. Petersburg once again, by the will and vote of the inhabitants. Marx’s claim that “Religion is the opiate of the people” was obliterated or obscured where possible. By appearances, Communism had become the wave of the past in Russia.

While statues may be taken down, names changed, building space reassigned, and the

physical relics from the past put away, ideas are not so readily discarded or displaced. They leave residues in the minds of people and practices in their ways that may continue after doctrines have been more or less publicly repudiated. I asked the question in 1989, when those events were only getting underway, what would happen “if Communism were to yield up the monopoly of power in those countries in which it now rules?” I see no reason now to alter significantly what I wrote then, which I now quote:

Would Communism simply wither away and disappear? That is not a very likely prospect. . . . It is unlikely not only because the immediate prospect is for some Communist rulers to cling to their hold on power for the foreseeable future but also because even if there were no longer rulers who claimed a monopoly of power by way of their position in the dominant Communist party there would still be a large residue of Marxism-Leninism around. Every country in the world is infected with at least the outcroppings of socialism of which Marxism was the most successful of the extremes.

For example, every government in the world today is making a greater or lesser effort to manage or control the economy over which it governs. . . . Most countries try to regulate and alter economic activity by their fiscal and monetary policies. . . . It is so widely accepted as to be virtually universal today that governments are responsible for the material well being of the populace that they govern. To that end, they are expected to manage and control the economy, tax and distribute wealth, and provide an assortment of welfare programs.⁶

As expected, some Communist rulers have clung to power, most notably in China, North Korea, Cuba, but elsewhere as well. Even in lands where Communists no longer formally rule, many bureaucrats and members of the privileged *nomenklatura* still hold office and wield power. Former Communists often hold high or top offices. The parties change names; those who govern do not profess Marxism-Leninism, but they were Communists, quite often, and are still imbued with the ideas which they held then to greater or lesser extent.

This is not said to underrate the great significance of the disintegration of the Soviet Empire and Union and the adoption of many freedoms of the West in these countries. Undoubtedly, too, the tenacious hold of the idea that has had the world in its grip has been loosened somewhat. Ideas are being widely questioned that were once treated as settled once and for all. Few would be so bold today as to declare that socialism is the wave of the future. It is rather to affirm that the world is still to greater or lesser extent in the grip of the idea which has held sway for much of this century.

In the United States, this is still the case. Ronald Reagan could talk the talk of individual liberty, free enterprise, and constitutional government, but without support he could not walk the walk. He championed the reduction of taxes, but he could not advocate the removal of the welfare state at its core. He started out pledging to abolish two departments; instead, he ended up adding a Department of Veterans Affairs. President Bush did not even keep his pledge of no new taxes, much less considering the restoration of constitutional government. The votes may be out there to shake the idea that has the world in its grip, but thus far politicians tend to waffle when confronted with tenacious defenders of the status quo. The Republicans who mustered majorities in both houses in 1994 may, with block grants and audacity, foist upon the states the responsibility for determining the fate of the idea that has the world in

its grip. Then again, they may not.

The idea that has the world in its grip has great attraction for peoples around the world. The notion that government is responsible for the material and intellectual well-being of populaces has great appeal, especially when it is accompanied by actual payments and subsidies from government. Many people become dependent upon government handouts, and even those who are not particularly dependent may lose confidence in their ability to provide for themselves. These feelings, attitudes, and practices are residues from the better part of a century of socialism in its several varieties. They have produced vastly overgrown governments and the politicalization of life. Governments and politicians are the problem, not the solution.

Sturdy individuals, stable families, vital communities, limited government, and faith in a transcendent God who provides for us through the natural order and the bounties of nature—these alone can break the grip of the idea. It is now a cliché that socialism is a failure; it now is the fullness of time to act upon the insight that gave rise to its fall. □

1. Z. A. Jordan, ed., *Karl Marx: Economy, Class and Society* (New York: Scribner's, 1971), pp. 126–27.

2. *Ibid.*, p. 292.

3. Eugen Weber, ed., *The Western Tradition* (Boston: D.C. Heath, 1959), p. 292.

4. Robert Sharlet, "The Union Republics of the U.S.S.R.," *The Americana Annual* (1991), p. 44.

5. Robert Sharlet, "The Second Soviet Revolution," *The Americana Annual* (1992), p. 32.

6. Clarence Carson, *Basic Communism: Its Rise, Spread and Debauch in the 20th Century* (Wadley, Ala.: American Textbook Committee, 1990), p. 481.

"Anyone concerned with the post-war history of the libertarian and conservative movements acknowledges instantly the extraordinary debt to the Foundation for Economic Education. It has been inspiring, insistent, hospitable, influential — what more would one wish. With congratulations on your anniversary."

— William F. Buckley Jr.
National Review

The Welfare State: Promising Protection in an Age of Anxiety

by Robert Higgs

Anxiety, according to *The Random House Dictionary*, denotes “distress or uneasiness of mind caused by apprehension of danger or misfortune.” By this definition, the twentieth century qualifies as an age of anxiety for Americans.

There is irony in this condition, because in many respects we twentieth-century Americans have enjoyed much more security than our forebears. Our life expectancy has been longer, our work easier and more remunerative, our style of life more comfortable, stimulating, and unconstrained. Yet notwithstanding all objective indications that our lives are better than those of our ancestors, we have become incessant worriers.

Our predecessors dealt with their worries by relying on religious faith. For tangible assistance, they turned to kinfolk, neighbors, friends, co-religionists, and comrades in lodges, mutual benefit societies, ethnic associations, labor unions, and a vast assortment of other voluntary groups. Those who fell between the cracks of the voluntary societies received assistance from cities and counties, but governmentally supplied assistance was kept meager and its recipients stigmatized.

In the twentieth century, especially during the past sixty years, Americans have placed their faith in government, increasingly

in the federal government. Since Franklin Delano Roosevelt assumed the presidency in 1933, voluntary relief has taken a back seat to government assistance. Eventually, hardly any source of distress remained unattended by a government program. Old age, unemployment, illness, poverty, physical disability, loss of spousal support, child-rearing need, workplace injury, consumer misfortune, foolish investment, borrowing blunder, traffic accident, environmental hazard, loss from flood, fire, or hurricane—all became subject to government succor.

Our ancestors relied on themselves; we rely on the welfare state. But the “safety net” that governments have stretched beneath us seems more and more to be a spider’s web in which we are entangled and from which we must extricate ourselves if we are to preserve a prosperous and free society.

Bismarck, Soldiers, and Mothers

The modern welfare state is often viewed as originating in Imperial Germany in the 1880s, when the Iron Chancellor, Prince Otto von Bismarck, established compulsory accident, sickness, and old-age insurance for workers. Bismarck was no altruist. He intended his social programs to divert workmen from revolutionary socialism and purchase their loyalty to the Kaiser’s re-

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gime, and to a large extent he seems to have achieved his objectives.

In the late nineteenth century, no aspiring American social scientist regarded his education as complete without a sojourn in a German university, and the impressionable young men brought back to the United States a favorable view of Bismarckian social policies absorbed from the teachings of Deutschland's state-worshipping professoriate.¹ Men such as Richard T. Ely, Edward A. Ross, Henry Carter Adams, and Simon Patten transported ideas and outlooks that persisted through several generations. Consider, as only one example, that Edwin Witte, the chief architect of the Social Security Act of 1935, was a student of John R. Commons, who was a student of Ely (described by Joseph Schumpeter as "that excellent German professor in an American skin"²).

While Ely and the others were preaching their Germanic doctrines, an incipient welfare state was emerging quite independently in the United States through a far-reaching expansion of the pensions provided to Union veterans of the Civil War. Originally the pensions went only to men with proven service-related disabilities and their dependent survivors. But politicians, especially the Republicans, recognized that they could buy votes by dispensing the pensions more liberally. Eligibility rules were stretched farther and farther. Eventually no service-related disability needed to be proved, no combat experience was required, and old age alone was sufficient for a veteran to qualify. Some Congressmen even went so far as to change the official military records of deserters in order to award them pensions through special acts of Congress.³

Between 1880 and 1910 the federal government devoted about a quarter of its spending to veterans' pensions. By the latter date more than half a million men, about 28 percent of all those aged 65 or more, were receiving pensions, as were more than 300,000 dependent survivors of veterans. Moreover, thousands of old soldiers lived in homes maintained by the federal government or the states.⁴

That politicians turned the legitimate pension system for injured veterans and their survivors into a political patronage machine should hardly have come as a surprise. Buying votes and dispensing patronage are what elected politicians normally do unless rigidly constrained. The doleful experience might well have served as a warning, and for a while it did, but eventually the lesson was forgotten.

During the first three decades of the twentieth century, when middle-class political movements generally refused to support proposals for comprehensive social spending programs on the grounds that elected politicians would abuse them, women's organizations, including the General Federation of Women's Clubs and the National Congress of Mothers, lobbied successfully for the establishment of state mothers' pensions.⁵ These small, locally administered stipends went to "respectable impoverished widows" to allow them to care for children at home. Between 1911 and 1928 forty-four states authorized such payments.⁶ In 1935, with passage of the Social Security Act, the federal government joined forces with the states in financing an extension of the mothers' pensions, Aid to Dependent Children (ADC)—later called Aid to Families with Dependent Children (AFDC), which ultimately became nearly synonymous with "welfare."

Also, during the second decade of the twentieth century, all but six states enacted workmen's compensation laws, which removed workplace injury claims from the courts and required that employers carry insurance to pay compensation for various types of injury under a system of strict liability.⁷

The First Cluster, 1933–1938

Between 1929 and 1933 the great economic contraction left millions of Americans destitute. State and local governments, straining to provide unprecedented amounts of relief while their own revenues were shrinking, called on the federal government for help. President Herbert Hoover opposed

federal involvement in relief efforts, but he reluctantly signed the Emergency Relief and Construction Act of 1932, which transferred federal funds to the states for relief of the unemployed (under the fiction that the transfers were loans).

After Roosevelt took office the federal government immediately launched into vast relief activities. The Federal Emergency Relief Administration (FERA), directed by welfare czar Harry Hopkins, channeled funds to the states—half in matching grants (\$1 for \$3) and half in discretionary grants. The money went to work-relief projects for construction of roads, sewers, and public buildings; to white-collar beneficiaries such as teachers, writers, and musicians; and to unemployable persons including the blind, crippled, elderly, and mothers with young children.⁸

Hopkins's discretionary allocations and his oversight of the federal money embroiled the FERA in political controversy. Politicians fought fiercely for control of the patronage inherent in determining who would get the relief money and jobs and fill the 150,000 administrative positions. "Governor Martin Davey of Ohio had an arrest warrant sworn out for Hopkins should he set foot in the state, and a number of politicians, the most notable being Governor William Langer of North Dakota, were convicted of misusing funds and served time in jail."⁹

Also in 1933, Congress created the Civilian Conservation Corps, to put young men to work in outdoor projects under quasi-military discipline; the Public Works Administration, to employ people in building public works such as dams, hospitals, and bridges; and the Civil Works Administration, to operate hastily contrived federal make-work projects for more than 4 million of the unemployed during the winter of 1933–1934.

In 1935, with 7.5 million workers (more than 14 percent of the labor force) still unemployed and another 3 million in emergency relief jobs,¹⁰ Congress passed the Emergency Relief Appropriation Act, under authority of which FDR created the Works Progress Administration (WPA) to hire the

unemployed. The President appointed Hopkins as administrator. By the time it was terminated eight years later, the WPA had paid out more than \$10 billion for 13.7 million person-years of employment, mostly in construction projects but also in a wide range of white-collar jobs including controversial support for actors, artists, musicians, and writers.¹¹

Like the FERA, the WPA engaged the ambitions of state and local politicians in a "cooperatively administered" arrangement that set a pattern for many subsequent welfare programs. Under federally issued guidelines and with mostly federal funding, state and local officials got substantial control of the patronage. Local governments usually designed the projects, selecting workers from their relief rolls and bearing a small portion of the costs. Republicans correctly viewed the WPA as a massive Democratic vote-buying scheme. WPA projects were frequently ridiculed, as in the following stanzas of a contemporary song:

We're not plain every day boys,
Oh, no, not we.
We are the leisurely playboys
Of industry,
Those famous little WPA boys
Of Franklin D.

Here we stand asleep all day
While F. D. shooes the flies away
We just wake up to get our pay
What for? For leaning on a shovel.¹²

The spirit of this song persisted ever afterward, as many tax-paying private employees have resented those employed in government make-work projects (often described in later days as "training" programs).

During the first two years of his presidency, Roosevelt came under growing pressure from more radical politicians. Louisiana Senator Huey Long touted his Share Our Wealth Plan for a sweeping redistribution of income and gained a national following in 1934 and 1935. Simultaneously, California physician Francis Townsend recruited millions of supporters for his

Townsend Plan, under which people over sixty years of age would retire and receive from the government a monthly stipend of \$200 on the condition that all the money be spent within thirty days. To head off the mass appeal of such outlandish proposals, FDR formed in 1934 a Committee on Economic Security, whose Executive Director was Edwin Witte, to formulate a plan for a national social security system.

This planning bore fruit in 1935 when Congress passed the Social Security Act, the foundation of America's welfare state. The act gave federal matching funds to the states for assistance to the aged poor, the blind, and dependent children. It levied a payroll tax, 90 percent of which would be refunded to states that established acceptable unemployment insurance systems. (All of them did.) And it created a national old-age pension program disguised as insurance but actually, especially after amendments in 1939 added surviving dependents as recipients, a scheme for transferring current income from working to nonworking people.

From that time forward, defenders of the pension system denied that it was a "welfare" program for redistributing income. "It was portrayed instead as a huge set of public piggy banks into which individual prospective 'beneficiaries' put away 'contributions' for their own eventual retirements."¹³ In the 1950s, 1960s, and 1970s, congressional incumbents made the pension system a fabulous vote-buying machine, as they repeatedly extended its coverage, added Disability Insurance in 1956, raised the benefits and even, in 1972, indexed the pensions to protect them from inflation. Only in the 1990s did a substantial portion of the public begin to recognize that the piggy-bank depiction was a myth and that the system faced bankruptcy as the ratio of taxpayers to recipients slipped ever lower because of demographic changes.¹⁴

As the New Deal was breathing its last in 1938, it brought forth the Fair Labor Standards Act. This established a national minimum wage (originally 25 cents per hour for covered employees but scheduled to rise to

40 cents over seven years), fixed a maximum work week (originally 44 hours but scheduled to fall to 40 by 1940), set a 50 percent premium for overtime work, prohibited the employment of children under sixteen years of age in most jobs, and authorized the Department of Labor to enforce the law.¹⁵ Afterward, Congress raised the minimum wage repeatedly. It is now \$4.25 per hour. This pseudo-welfare measure has proven to be an effective means of increasing the unemployment rate of low-productivity workers (those who are young, ill-educated, or inexperienced), but continuing support by leftist politicians and labor unions has prevented its repeal.

The GI Bill

In the spring of 1944, with elections looming and 11.5 million men—most of them draftees—in the armed forces, FDR and Congress saw the wisdom of accepting the American Legion's proposals to create unprecedented benefits for veterans: hence the Servicemen's Readjustment Act, popularly known as the GI Bill of Rights. Besides guaranteeing medical care in special veterans' hospitals, the law provided for pensions and vocational rehabilitation for disabled veterans, occupational guidance, unemployment benefits for up to 52 weeks, guaranteed loans for the purchase of homes, farms, or businesses, and stipends and living allowances for up to four years for veterans continuing their education.¹⁶ Most of the 16 million veterans of World War II took advantage of the unemployment and educational benefits. And by 1962 the Veterans' Administration had insured more than \$50 billion in loans.¹⁷

Even though the veterans' program applied to only a minority of the population, it helped to retain the momentum of the burgeoning welfare state. "When the steam appeared to have escaped from the engine of the New Deal by 1945, the World War II nondisabled veterans' benefits—by design and chance—provided new sources of energy."¹⁸ The GI Bill set an irresistible precedent, and later legislation provided similar

benefits for veterans of the Korean War and, in 1966, even for those who served in the armed forces in peacetime.¹⁹

The Second Cluster, 1964–1972

With the succession of the ambitious New Dealer Lyndon B. Johnson to the presidency, the drive to build the welfare state became ascendant again. The election of 1964 brought into office a large, extraordinarily statist Democratic majority in Congress. Keynesian economists were assuring the public that they could fine-tune the economy, taking for granted a high rate of economic growth from which the government could reap a perpetual “fiscal dividend” to fund new programs. John Kenneth Galbraith, Michael Harrington, and other popular social critics condemned the failures of the market system and ridiculed its defenders. The public seemed prepared to support new measures to fight a “War on Poverty,” establish “social justice,” and end racial discrimination. Hence the Great Society.²⁰

Congress loosed a legislative flood by passing the Civil Rights Act of 1964. Among other things, this landmark statute set aside private property rights and private rights of free association in an attempt to quash racial discrimination. But the ideal of a color-blind society died an early death, succeeded within a few years by “affirmative action”—an array of racial preferences enforced by an energetic Equal Employment Opportunity Commission and activist federal judges.²¹

Congress proceeded to pass a variety of laws injecting the federal government more deeply into education, job training, housing, and urban redevelopment. The Food Stamp Act of 1964 gave rise to one of the government’s most rapidly growing benefit programs: in 1969 fewer than 3 million persons received stamps, and federal outlays totaled \$250 million; in 1981, 22 million persons received stamps, and federal outlays totaled \$11 billion.²² The Community Action Program aimed to mobilize the poor and raise their incomes. When Congress appropriated

\$300 million to create community action agencies, a wild scramble to get the money ensued, led by local politicians and, in some cities, criminal gangs—as vividly portrayed in Tom Wolfe’s tragicomic tale *Mau-Mauing the Flak Catchers* (1970).

In 1965 Medicare was added to the Social Security system, insuring medical care for everyone over 65 years of age. Medicaid, a cooperatively administered and financed (state and federal) program, assured medical care for welfare recipients and the medically indigent. As usual, these programs were not exactly what they were represented to be. “Most of the government’s medical payments on behalf of the poor compensated doctors and hospitals for services once rendered free of charge or at reduced prices,” historian Allen Matusow has observed. “Medicare-Medicaid, then, primarily transferred income from middle-class taxpayers to middle-class health-care professionals.”²³

The federal government’s health programs also turned out to be fiscal time bombs. Between 1970 and 1994, in constant (1987) dollars, Medicare outlays increased from \$16.4 billion to \$109.3 billion; the federal portion of Medicaid from \$7.7 billion to \$63.5 billion.²⁴ Like the old-age pensions, these programs achieved rates of growth that could not be sustained indefinitely.

Other Great Society measures to protect people from their own incompetence or folly included the Traffic Safety Act (1966), the Flammable Fabrics Act (1967), and the Consumer Credit Protection Act (1968).

After Richard Nixon became President, highly significant measures continued to pour forth from Congress—the National Environmental Policy Act (1969), the Clean Air Act Amendments (1970), the Occupational Safety and Health Act (1970), the Consumer Product Safety Act (1972), the Water Pollution Control Act (1972), and the Equal Employment Opportunity Act (1972), to name but a few. Nixon also wielded his congressionally authorized power to impose comprehensive wage and price controls between 1971 and 1974, thereby (spuriously) protecting the public from the inflation cre-

ated by the monetary policies of the Federal Reserve System.

The Welfare State Marches On

Although the growth of the welfare state has slowed during the past twenty years, it has scarcely stopped. Such recent measures as the Clean Air Act Amendments (1990), the Nutrition Labeling and Education Act (1990), the Safe Medical Devices Act (1990), the Americans with Disabilities Act (1990), the Civil Rights Act (1991), and the relentless power-grabs of the Food and Drug Administration show that our rulers remain as determined as ever to protect us from ourselves—to treat us as a shepherd treats his flock, and with similar regard for our intelligence and our rights.

If we cared nothing for our own freedom, we might be inclined to accept the ministrations of the welfare state with gratitude. But even then our contentment would be disturbed by the large extent to which the government fails to deliver what it promises. To be blunt, the government's protection is largely fraudulent. Officials pretend to protect citizens and promote social harmony while actually accomplishing the opposite. Thus, the government's affirmative action programs have actually fostered racial acrimony and conflict rather than racial harmony.²⁵ The environmental laws have caused many billions of dollars to be squandered in mandated actions for which costs vastly exceeded benefits.²⁶ And the Food and Drug Administration, far from improving public health, has caused (at least) hundreds of thousands of excess deaths and untold human suffering.²⁷ It is bad enough that citizens are viewed as sheep; it is worse that they are sheared and slaughtered.

Fifty years ago Bertrand de Jouvenel wrote, "The essential psychological characteristic of our age is the predominance of fear over self-confidence. . . . Everyone of every class tries to rest his individual existence on the bosom of the state and tends to regard the state as the universal provider." But this protection costs the public far more than the high taxes that fund its provision:

"if the state is to guarantee to a man what the consequences of his actions shall be, it must take control of his activities . . . to keep him out of the way of risks."²⁸ In the interval since Jouvenel was writing, the demand for government protection has risen to new heights, and the corresponding loss of individual liberties has proceeded apace.

If we are to regain our liberties, we must reassert our responsibilities for ourselves, accepting the consequences of our own actions without appealing to the government for salvation. To continue on the road we Americans have traveled for the past century is ultimately to deliver ourselves completely into the hands of an unlimited government. It will not matter if democratic processes lead us to this destination. As noted above, the making of the welfare state has been from the very beginning a matter of corrupt vote-buying and patronage-dispensing by politicians—democracy in action.

And one sad servitude alike denotes
The slave that labours and the slave that
votes.²⁹

We can have a free society or a welfare state. We cannot have both. □

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"History will record the pioneering role of the Foundation for Economic Education and *The Freeman* in reminding Americans about our country's traditions of individual liberty and limited government. Over a half-century you have celebrated the ideal of freedom and taught the principles of economic justice. Congratulations on a job well done and best wishes for your next half-century."

— Terrence Scanlon

President, Capital Research Center

"FEE was the beacon that has guided so many through the world of ideas, a world dominated for decades by the politics of distortion and statism. Today, this world of ideas is a much more friendly place to the ideas and ideals of individual liberty. And, we are all indebted to Leonard Read for his courageous pioneering work and to all those who have given FEE its strength. The enhanced prospects for our freedom and its legacy could not have been possible otherwise."

— David J. Theroux

President, The Independent Institute

Losing Freedom Costs a Lot

by John Semmens

Over the last fifty years, the federal government in the United States has taken on behemoth proportions. Six new cabinet departments have been created (Education, Energy, Health and Human Services, Housing and Urban Development, Transportation, and Veterans Affairs). Twenty new "independent establishments and government corporations" have been added to the thirty that existed in 1945. Nine new mini-bureaucracies now report directly to the President (there were none in 1945).

The creation of new bureaucratic fiefdoms, robust as it has been, understates the expansion of the federal government. Bureaucracy, new and old, has been extending its reach into more and more facets of daily life. The federal government may require your child to be bussed to a school across town in order to achieve racially "balanced" student bodies. The federal government may dictate what you can and cannot say in a classified newspaper ad seeking to offer or obtain services, rent property, or acquire a roommate. The federal government may prevent you from improving your property (or saving your house from burning down) in order to protect the habitat of the kangaroo rat.

Congress has authorized an army of bureaucrats to invent a plethora of new rules and regulations. Each year, nearly 100,000 pages of new rules and regulations are issued. Almost all of these accrete on top

of, rather than supplant, previous rules and regulations. Consequently, it is not uncommon for the victims of these rules and regulations to be required to engage in contradictory actions. For example, to protect workers from being run over by vehicles used in the workplace, the federal government mandates that vehicles be equipped with "beepers" to warn of their approach. To protect workers from hearing damage, the federal government mandates that they wear earplugs.

This enhanced meddling has not come cheaply. In 1945, the federal government spent \$10 billion on nondefense outlays. By 1994, nondefense spending had risen to over \$1,200 billion. This is nearly a 12,000 percent increase. Of course, inflation has something to do with the apparent size of this expansion in federal spending. (Although, even here, the federal government is neither a passive nor innocent victim of inflation.) There also has been population growth to contend with. If we put aside the government's complicity in creating inflation and adjust spending in 1945 to the 1994 purchasing power equivalent, we find that the federal government was laying out about \$590 per person for nondefense spending in 1945. By 1994, this figure had ballooned to over \$4,600 per person, nearly a 700 percent increase.

Fortunately, a growing private sector was able to offset some of this increasing burden on the nation's economy. Still, the federal government has taken increasingly larger bites out of the nation's wealth. In 1945, the

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Growth in Federal Government Spending Since 1945

Year	Non-Defense Spending (\$ in billions)	Spending As a % of Gross Domestic Product	Spending Per Capita	Transfer Payments (\$ in billions)	Transfer Payments Per Capita
1945	\$ 10	5%	\$ 69	\$ 2	\$ 14
1950	\$ 29	10%	\$ 190	\$ 14	\$ 93
1955	\$ 26	6%	\$ 155	\$ 15	\$ 90
1960	\$ 44	9%	\$ 244	\$ 26	\$ 145
1965	\$ 68	10%	\$ 348	\$ 37	\$ 188
1970	\$ 114	11%	\$ 555	\$ 75	\$ 367
1975	\$ 246	15%	\$1,138	\$173	\$ 802
1980	\$ 457	17%	\$2,007	\$313	\$1,376
1985	\$ 694	17%	\$2,909	\$472	\$1,978
1990	\$ 953	17%	\$3,815	\$619	\$2,478
1994	\$1,204	18%	\$4,618	\$880	\$3,375

federal government's nondefense spending consumed about 5 percent of the Gross Domestic Product (GDP). That is, the federal government confiscated and spent 5 percent of the wealth created by the economy in 1945. By 1994, the federal government was confiscating and spending 18 percent of the GDP.

The Growth of "Income Transfer" Programs

While infesting society with new rules and regulations has imposed substantial costs on the economy, most of these costs are borne by businesses and individuals, and thus, do not show up in the aforementioned figures. What does show up in these figures is the tremendous expansion of "income transfer" spending. Government "income transfer" programs have institutionalized the "robbing Peter to pay Paul" concept. Dissatisfied with the mutually agreeable and voluntary exchanges between "Peter" and "Paul," the federal government has undertaken an array of schemes to impose involuntary, and frequently disagreeable, exchanges. A considerable portion of the population has thereby been persuaded that it is not a disgrace to adopt the mind set of beggars, whiners, and thieves when it comes to debating public policies.

In 1945, "income transfer" programs accounted for only \$2 billion of federal spend-

ing. By 1994, this type of spending had increased to nearly \$900 billion. In 1945, 20 percent of the federal government's nondefense spending was of the "robbing Peter to pay Paul" variety. By 1994, nearly 75 percent of federal government's nondefense spending was of this type. If this \$900 billion in "income transfer" spending were distributed evenly over the entire population, it would amount to over \$3,000 per person. Of course, this spending is not distributed equally. Some receive much larger shares of the "loot." Others receive less. Still others must have their pockets picked, their bank accounts embezzled, and their earnings diverted to provide the "loot."

What Might Have Been

All of this government intervention was supposed to have improved the "security" of the average guy. Nonetheless, the current American economy seems lethargic by past standards. Real wages appear to have stagnated for the last two decades. Between the inefficiencies inflicted by excessive regulation and the oppressive burdens of taxes extracted to support the massive spending increases of the federal government over these last five decades, the economy has fallen far short of its potential. To get an inkling of how far short of its potential the economy has fallen, let's consider the question of opportunity cost. That is, what the situation might be today if a different path

**Alternate Inflation-Adjusted
Federal Government
Spending Scenarios**
(in 1994 dollars)

Year	Actual Non-Defense Spending (\$ in billions)	Spending at 1945 Levels (\$ in billions)
1945	\$ 83	\$ 83
1950	\$ 180	\$ 90
1955	\$ 144	\$ 98
1960	\$ 223	\$107
1965	\$ 321	\$115
1970	\$ 439	\$121
1975	\$ 684	\$127
1980	\$ 830	\$134
1985	\$ 965	\$141
1990	\$1,092	\$147
1994	\$1,204	\$154

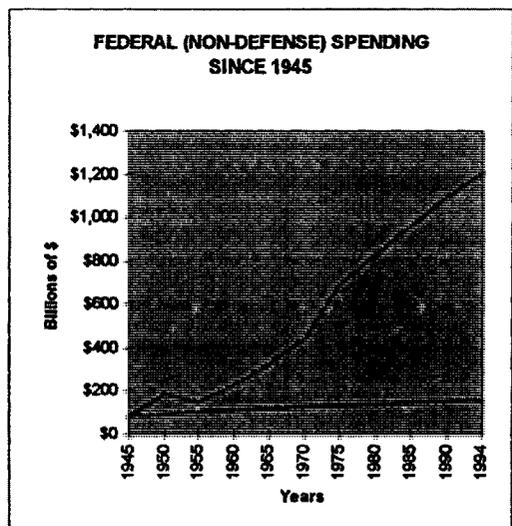
had been chosen in 1945. While measuring the opportunity cost of excessive regulation would be difficult, if not impossible, we can get a glimpse of what the magnitude of such an opportunity cost might be in the case of excessive spending.

For our thought experiment, we will consider what might have happened if the federal government's per capita nondefense spending had remained at the level in effect in 1945. Remember, 1945 was after President Franklin Roosevelt's "New Deal" had already substantially increased the government's role in our society. For this experiment we will also convert all money figures into their 1994 purchasing power equivalent.

In dollars of 1945 purchasing power, federal nondefense spending was \$10 billion in 1945. In dollars of 1994 purchasing power, federal nondefense spending was \$83 billion in 1945. In the history that did take place, federal nondefense spending rose to \$1,204 billion by 1994. If per capita nondefense spending had been held to 1945's inflation adjusted levels, population growth would have boosted this spending to only \$154 billion by 1994. That is, the federal government could now be spending over a trillion dollars less per year than it now spends.

If the government were spending a trillion dollars per year less, the private sector would have a trillion dollars more to spend. This is more than \$4,000 per person per year. Consumers could satisfy more of their needs and wants. Businesses would have more resources for expanding operations, acquiring more equipment, and inventing new technology. If only 5 percent (the average post 1945 savings rate) of this difference between actual federal spending and the lower levels projected in our thought experiment had been invested at a 3 percent per year rate of return (the long-term average rate of real growth of the American economy), there would be more than a trillion dollars of additional capital available to support employment opportunities and wages. Since it currently requires about \$50,000 in capital to support each job, this translates into a hypothetical additional 20 million jobs. Inasmuch as the number of unemployed workers is only one-third of this amount, this additional capital would likely have also resulted in higher wages. To the extent that a less burdensome government might have permitted even higher rates of saving and returns on investment, the material abundance available to the average American would be several times what it is at present.

So, not only have our freedoms been eroded, we have also paid a heavy price



in terms of sacrificed material well-being. Since a major announced motivation for the expansion of government has been to ensure our "social security," we have not gotten what we have "paid" for. Instead, we have confirmed Ben Franklin's fear that a nation willing to trade freedom for security will end up losing both.

As bleak as the preceding analysis appears, we are not without hope. While the momentum of government has carried it far down the road to turning us all into serfs, the intellectual support for this direction has been severely compromised. The socialist premise upon which the massive expansion of government has been based has been undermined by the relentless efforts of those

dedicated to promoting a freedom philosophy.

The Foundation for Economic Education has been a continuing force in promoting this freedom philosophy in the post-1945 period. Founded when the idea of freedom was at its lowest ebb in American history, FEE has contributed to the revival of the appreciation for the value of a free society. Cutting government "services" is now a respectable, perhaps even dominant, policy option in public debate. Governments around the globe are actively seeking ways to "privatize" government operations, cut taxes, and return liberties to the people. FEE has served and will continue to serve as an illuminator of the path to a better, freer world. □

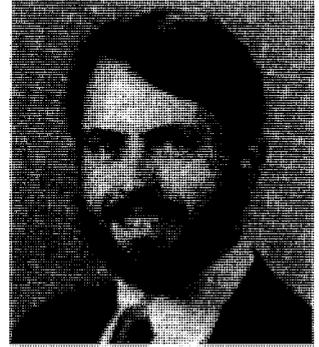
"Fellow FEE trustee Bill Dykes and I, along with others we had recruited, put together a discussion group that continued for many years. Eventually formal meetings stopped. Then when I returned to Canton ten years ago, we started a similar group that meets every Tuesday. Consequently, we have introduced many people to the FEE philosophy. Both Bill and I also wrote numerous articles for The Freeman and other publications. Many people have taken the time to write us — especially after attending a seminar — saying that FEE has changed their lives."

— John C. Sparks
Canton, Ohio

"In 1975, Lucy Eisenhower (a good friend of FEE) told me, 'You should go to the Mont Pelerin Society which meets at Hillsdale College this year.' I went, and got acquainted with Leonard Read and several others. Result? The founding and organization of the Free Enterprise Education Center. I spent 16 of my retirement years as founder and president."

The organization, now known as The Free Enterprise Institute, is still going strong. It's a good example of the influence FEE has been to many people many miles from its home base."

— Rolland Storey
Houston, Texas



Fifty Years of Statism

Historian Paul Johnson has called the twentieth century the “age of politics,” the era in which people increasingly turned to the state to solve any and all problems. That is no less the case in America than elsewhere around the globe. In the early 1900s Progressivism and Woodrow Wilson’s messianic international crusade helped set the U.S. government on its ever-expanding course.

The growth of the state has been particularly spectacular this past half century. Since FEE’s birth in 1946, the federal Dr. Jekyll has turned into the most odious version of Mr. Hyde. Over that time Washington has become the redistributive state, the Santa Claus for any interest group with a letterhead and mailing list. It has become the nanny state, the paternalist determined to run every American’s life. It has become the militarist state, the guarantor of a veritable global empire at the expense of freedom at home. There is, in fact, little that political acolytes have not sought to entrust to the state—medicine, child care, and even spiritual fulfillment through something called “the politics of meaning.”

The necessity for FEE was obvious enough in 1946. The national government had been swollen by America’s participation in World War II and inauguration of

various New Deal schemes intended to bring the nation out of the Great Depression. But for those less prescient than Leonard Read, 1946 might also have looked like the peacetime apogee of government. After all, America’s great economic and security crises, which had caused government’s dramatic and rapid growth, were receding into history. And for a time government actually did shrink. Federal outlays ran \$55.2 billion in 1946, five times the last year of peace, 1940, but down from \$92.7 billion in 1945. Expenditures fell to \$29.8 billion in 1948. Then the trend reversed, however, and within two years the federal government was spending more than it had in 1946 (though outlays still lagged once adjusted for inflation).

The march of statism seemed to slow during the Eisenhower years: federal expenditures actually fell for a time and grew only slowly thereafter. But by 1966 real outlays had rolled past those of 1946. Uncle Sam was bigger and more intrusive than in the aftermath of economic depression and global war.

Government continued to grow steadily if slowly—1969 was the last year that the federal government balanced its budget—before the go-go years of the late 1970s and early 1980s. By 1985 the national government was spending twice as much in real terms as it had in 1946. Today, at a time when America is secure economically and militarily, the real federal budget is running nearly thrice that of 1946.

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Uncle Sam's growing budget has been matched by his expanding reach. Over the last fifty years the federal government has constantly looked for new fields to enter, creating the Departments of Education; Energy; Health, Education and Welfare; Health and Human Services; Housing; Transportation; and Veterans. Also added was a host of agencies, from the Environmental Protection Agency to the Consumer Product Safety Commission to the Legal Services Corporation to the National Endowment for the Arts to the Corporation for National Service. The last half century has seen initiation of the so-called war on poverty, hiring of politically minded legal-aid lawyers, government patronage of pornographic art, Medicare and Medicaid, federal subsidies for education, Uncle Sam as energy investor, a torrent of grants and loans for business, students, and other governments, and much, much more.

Indeed, since 1946 the government has increasingly epitomized Frederic Bastiat's notion of legalized plunder. Three of the top five federal spending categories involve transfer programs, or "entitlements": Social Security, Medicare, and Medicaid. Another top spending program, interest, largely reflects the expansion of the other three. Only one, defense, involves a traditional government role.

Moreover, much of the increase in so-called discretionary spending has gone to grant and loan programs that enrich the politically nimble. Cheap credit to customers of U.S. exporters, government-paid advertising abroad for American corporations, subsidized loans to well-connected small businesses, low-cost mortgages to developers, grants for college researchers, aid to students, *ad infinitum*. In fact, the *Government Assistance Almanac*, published annually by Omnigraphics, presents hundreds of pages of federal pork and loot available for the asking. The book, states its publicity materials, catalogues all "grants, loans, insurance, personal payments and benefits, subsidies, fellowships, scholarships, traineeships, technical information, advisory services, investigation of complaints, sales

and donations of federal property." Almost all of these were created during the last half century and act as vehicles to redistribute wealth.

Although Uncle Sam is the most visible villain of statism run rampant, he is not the only culprit. State and local expenditures and responsibility, too, have grown dramatically. Between 1946 and 1995 state spending jumped from \$49 billion to about \$606 billion. Over the same period local outlays rose from \$9.1 billion to roughly \$847 billion. These 100-fold increases dwarf that of Washington. Combined federal, state, and local outlays went from \$61.5 billion in 1946 to almost \$3 trillion last year. Adjusted for inflation, the jump was still 523 percent.

These pervasive increases demonstrate the necessity of emphasizing philosophical arguments for limited government. The hallmark of the last half century has been a belief in the rightness of government to intervene anywhere at any time in any way. Opponents have all too often criticized not so much the proposed outlay, regulation, or tax, but its amount or extent. In short, intervention was fine, though the specific proposal needed to be fine-tuned and moderated. Not surprisingly, when faced with such a choice, Americans tended to choose the real thing. And advocates of intervention always returned to push for more if they were only partially successful the first time around.

This problem remains today, even in supposedly revolutionary times. Over the years FEE has spawned a host of free-market think-tanks around the nation that present practical policy alternatives to the usual statist panaceas. These groups have helped expand the debate over a range of issues. Nevertheless, their arguments often remain constrained by the realities of the political process.

Yet believers in freedom must also challenge the philosophical basis of statism. This was, for instance, the great vacuum in last year's budget battle. For all the hue and cry, no politician suggested that government should not guarantee medical care for every senior. No one argued that housing was not

a matter for the government, let alone the federal government. No major political leader advocated getting Washington out of education. Where were the legislators saying no—that's NO—to subsidies for state and local governments, businesses, and students? And on it went. Who asked why the national government was subsidizing energy research? Who proposed stopping Washington from pouring billions down money-losing, mass transit ratholes? Where was the politician to challenge the very notion of Uncle Sam funding welfare in every state and city in America? And on and on.

Fundamentally, the problem of the federal budget is one of philosophy. Statism

has become the nation's governing ideology: over the last fifty years the mass of people has come to believe that government can legitimately do anything. As a result, even those legislators who most rail against the deficit in the abstract are unwilling to empty Uncle Sam's financial cornucopia.

This century, and most particularly the last fifty years, is truly the age of politics. The failures of this approach are manifold, and are obvious even to those in power. But many Americans—policymakers and citizens alike—have yet to give up their statist illusions. Many simply aren't aware of an alternative. But there is one. One which FEE has been teaching for the last half century: freedom. □

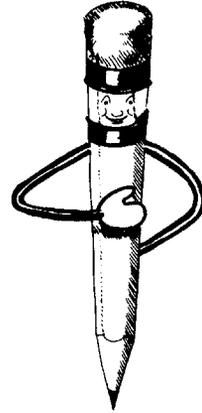
"On behalf of all of us at the Cato Institute, I would like to send our congratulations and thanks to the Foundation for Economic Education on the occasion of its fiftieth anniversary. While there has been an explosion of pro-freedom organizations and think-tanks over the last two decades, it was FEE that led the way. When all of America's intellectual institutions, including the academy, had concluded that government was the solution to all of society's ills, FEE alone stood up and said no. Under the inspired leadership of Leonard Read, FEE rekindled the dying embers of the American Revolution and reasserted the primacy of individual liberty as the basis for the American experiment.

FEE's critically important role in the resurgence of pro-liberty sentiments in America should not obscure its current and ongoing relevance to that movement. The Freeman, to mention one project, remains a vital and energetic source of libertarian intellectual ammunition."

*—Edward H. Crane
President, Cato Institute*

“I, Pencil”

by Leonard E. Read



I am a lead pencil—the ordinary wooden pencil familiar to all boys and girls and adults who can read and write.*

Writing is both my vocation and my avocation; that’s all I do.

You may wonder why I should write a genealogy. Well, to begin with, my story is interesting. And, next, I am a mystery—more so than a tree or a sunset or even a flash of lightning. But, sadly, I am taken for granted by those who use me, as if I were a mere incident and without background. This supercilious attitude relegates me to the level of the commonplace. This is a species of the grievous error in which mankind cannot too long persist without peril. For, the wise G. K. Chesterton observed, “We are perishing for want of wonder, not for want of wonders.”

I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove. In fact, if you can understand me—no, that’s too much to ask of anyone—if you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing. I have a profound lesson to teach. And I can teach this lesson better than can an automobile or an airplane or a mechanical dishwasher because—well, because I am seemingly so simple.

Simple? Yet, *not a single person on the*

Leonard E. Read (1898–1983) founded FEE in 1946 and served as its president until his death.

“I, Pencil,” his most famous essay, was first published in the December 1958 issue of The Freeman.

face of this earth knows how to make me. This sounds fantastic, doesn’t it? Especially when it is realized that there are about one and one-half billion of my kind produced in the U.S.A. each year.

Pick me up and look me over. What do you see? Not much meets the eye—there’s some wood, lacquer, the printed labeling, graphite lead, a bit of metal, and an eraser.

Innumerable Antecedents

Just as you cannot trace your family tree back very far, so is it impossible for me to name and explain all my antecedents. But I would like to suggest enough of them to impress upon you the richness and complexity of my background.

My family tree begins with what in fact is a tree, a cedar of straight grain that grows in Northern California and Oregon. Now contemplate all the saws and trucks and rope and the countless other gear used in harvesting and carting the cedar logs to the railroad siding. Think of all the persons and the numberless skills that went into their fabrication: the mining of ore, the making of steel and its refinement into saws, axes, motors; the growing of hemp and bringing it through all the stages to heavy and strong rope; the logging camps with their beds and mess halls, the cookery and the raising of all the foods. Why, untold thousands of

*My official name is “Mongol 482.” My many ingredients are assembled, fabricated, and finished by Eberhard Faber Pencil Company.

Leonard Read's delightful story, "I, Pencil," has become a classic, and deservedly so. I know of no other piece of literature that so succinctly, persuasively, and effectively illustrates the meaning of both Adam Smith's invisible hand—the possibility of cooperation without coercion—and Friedrich Hayek's emphasis on the importance of dispersed knowledge and the role of the price system in communicating information that "will make the individuals do the desirable things without anyone having to tell them what to do."

We used Leonard's story in our television show, "Free to Choose," and in the accompanying book of the same title to illustrate "the power of the market" (the title of both the first segment of the TV show and of chapter one of the book). We summarized the story and then went on to say:

"None of the thousands of persons involved in producing the pencil performed his task because he wanted a pencil. Some among them never saw a pencil and would not know what it is for. Each saw his work as a way to get the goods and services he wanted—goods and services we produced in order to get the pencil we wanted. Every time we go to the store and buy a pencil, we are exchanging a little bit of our services for the infinitesimal amount of services that each of the thousands contributed toward producing the pencil.

"It is even more astounding that the pencil was ever produced. No one sitting in a central office gave orders to these thousands of people. No military police enforced the orders that were not given. These people live in many lands, speak different languages, practice different religions, may even hate one another—yet none of these differences prevented them from cooperating to produce a pencil. How did it happen? Adam Smith gave us the answer two hundred years ago."

"I, Pencil" is a typical Leonard Read product: imaginative, simple yet subtle, breathing the love of freedom that imbued everything Leonard wrote or did. As in the rest of his work, he was not trying to tell people what to do or how to conduct themselves. He was simply trying to enhance individuals' understanding of themselves and of the system they live in.

That was his basic credo and one that he stuck to consistently during his long period of service to the public—not public service in the sense of government service. Whatever the pressure, he stuck to his guns, refusing to compromise his principles. That was why he was so effective in keeping alive, in the early days, and then spreading the basic idea that human freedom required private property, free competition, and severely limited government.

It is a tribute to his foresight, persistence, and sound understanding of the basis for a free society, that FEE, the institution he established and on which he lavished such loving care, is able to celebrate its fiftieth anniversary.

—Milton Friedman

Senior Research Fellow, Hoover Institution

persons had a hand in every cup of coffee the loggers drink!

The logs are shipped to a mill in San Leandro, California. Can you imagine the individuals who make flat cars and rails and railroad engines and who construct and install the communication systems incident-

tal thereto? These legions are among my antecedents.

Consider the millwork in San Leandro. The cedar logs are cut into small, pencil-length slats less than one-fourth of an inch in thickness. These are kiln dried and then tinted for the same reason women put rouge

on their faces. People prefer that I look pretty, not a pallid white. The slats are waxed and kiln dried again. How many skills went into the making of the tint and the kilns, into supplying the heat, the light and power, the belts, motors, and all the other things a mill requires? Sweepers in the mill among my ancestors? Yes, and included are the men who poured the concrete for the dam of a Pacific Gas & Electric Company hydroplant which supplies the mill's power!

Don't overlook the ancestors present and distant who have a hand in transporting sixty carloads of slats across the nation.

Once in the pencil factory—\$4,000,000 in machinery and building, all capital accumulated by thrifty and saving parents of mine—each slat is given eight grooves by a complex machine, after which another machine lays leads in every other slat, applies glue, and places another slat atop—a lead sandwich, so to speak. Seven brothers and I are mechanically carved from this “wood-clinched” sandwich.

My “lead” itself—it contains no lead at all—is complex. The graphite is mined in Ceylon. Consider these miners and those who make their many tools and the makers of the paper sacks in which the graphite is shipped and those who make the string that ties the sacks and those who put them aboard ships and those who make the ships. Even the lighthouse keepers along the way assisted in my birth—and the harbor pilots.

The graphite is mixed with clay from Mississippi in which ammonium hydroxide is used in the refining process. Then wetting agents are added such as sulfonated tallow—animal fats chemically reacted with sulfuric acid. After passing through numerous machines, the mixture finally appears as endless extrusions—as from a sausage grinder—cut to size, dried, and baked for several hours at 1,850 degrees Fahrenheit. To increase their strength and smoothness the leads are then treated with a hot mixture which includes candelilla wax from Mexico, paraffin wax, and hydrogenated natural fats.

My cedar receives six coats of lacquer. Do you know all the ingredients of lacquer? Who would think that the growers of castor beans and the refiners of castor oil are a part of it? They are. Why, even the processes by which the lacquer is made a beautiful yellow involves the skills of more persons than one can enumerate!

Observe the labeling. That's a film formed by applying heat to carbon black mixed with resins. How do you make resins and what, pray, is carbon black?

My bit of metal—the ferrule—is brass. Think of all the persons who mine zinc and copper and those who have the skills to make shiny sheet brass from these products of nature. Those black rings on my ferrule are black nickel. What is black nickel and how is it applied? The complete story of why the center of my ferrule has no black nickel on it would take pages to explain.

Then there's my crowning glory, inelegantly referred to in the trade as “the plug,” the part man uses to erase the errors he makes with me. An ingredient called “factice” is what does the erasing. It is a rubber-like product made by reacting rapeseed oil from the Dutch East Indies with sulfur chloride. Rubber, contrary to the common notion, is only for binding purposes. Then, too, there are numerous vulcanizing and accelerating agents. The pumice comes from Italy; and the pigment which gives “the plug” its color is cadmium sulfide.

No One Knows

Does anyone wish to challenge my earlier assertion that no single person on the face of this earth knows how to make me?

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others. Now, you may say that I go too far in relating the picker of a coffee berry in far off Brazil and food growers elsewhere to my creation; that this is an extreme position. I shall stand by my claim. There isn't a single person in all these millions,

including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how. From the standpoint of know-how the only difference between the miner of graphite in Ceylon and the logger in Oregon is in the *type* of know-how. Neither the miner nor the logger can be dispensed with, any more than can the chemist at the factory or the worker in the oil field—paraffin being a by-product of petroleum.

Here is an astounding fact: *Neither* the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who mans or makes the ships or trains or trucks nor the one who runs the machine that does the knurling on my bit of metal nor the president of the company performs his singular task because he wants me. Each one wants me less, perhaps, than does a child in the first grade. Indeed, there are some among this vast multitude who never saw a pencil nor would they know how to use one. Their motivation is other than me. Perhaps it is something like this: Each of these millions sees that he can thus exchange his tiny know-how for the goods and services he needs or wants. I may or may not be among these items.

No Master Mind

There is a fact still more astounding: The absence of a master mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work. This is the mystery to which I earlier referred.

It has been said that "only God can make a tree." Why do we agree with this? Isn't it because we realize that we ourselves could not make one? Indeed, can we even describe a tree? We cannot, except in superficial terms. We can say, for instance, that a certain molecular configuration manifests itself as a tree. But what mind is there among men that could even record, let alone direct, the constant changes in molecules that transpire in the life span of a tree? Such a feat is utterly unthinkable!

I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles which manifest themselves in Nature an even more extraordinary miracle has been added: the configuration of creative human energies—millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and *in the absence of any human master-minding!* Since only God can make a tree, I insist that only God could make me. Man can no more direct these millions of know-hows to bring me into being than he can put molecules together to create a tree.

The above is what I meant when writing, "If you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing." For, if one is aware that these know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand—that is, in the absence of governmental or any other coercive master-minding—then one will possess an absolutely essential ingredient for freedom: *a faith in free people*. Freedom is impossible without this faith.

Once government has had a monopoly of a creative activity such, for instance, as the delivery of the mails, most individuals will believe that the mails could not be efficiently delivered by men acting freely. And here is the reason: Each one acknowledges that he himself doesn't know how to do all the things incident to mail delivery. He also recognizes that no other individual could do it. These assumptions are correct. No individual possesses enough know-how to perform a nation's mail delivery any more than any individual possesses enough know-how to make a pencil. Now, in the absence of faith in free people—in the unawareness that millions of tiny know-hows would naturally and miraculously form and cooperate to satisfy this necessity—the individual cannot help but reach the erroneous conclusion that mail can be delivered only by governmental "master-minding."

Testimony Galore

If I, Pencil, were the only item that could offer testimony on what men and women can accomplish when free to try, then those with little faith would have a fair case. However, there is testimony galore; it's all about us and on every hand. Mail delivery is exceedingly simple when compared, for instance, to the making of an automobile or a calculating machine or a grain combine or a milling machine or to tens of thousands of other things. Delivery? Why, in this area where men have been left free to try, they deliver the human voice around the world in less than one second; they deliver an event visually and in motion to any person's home when it is happening; they deliver 150 passengers from Seattle to Baltimore in less than four hours; they deliver gas from Texas

to one's range or furnace in New York at unbelievably low rates and without subsidy; they deliver each four pounds of oil from the Persian Gulf to our Eastern Seaboard—halfway around the world—for less money than the government charges for delivering a one-ounce letter across the street!

The lesson I have to teach is this: *Leave all creative energies uninhibited.* Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men and women will respond to the Invisible Hand. This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth. □

"A political mentor suggested I write to get on FEE's mailing list in 1960, while I was a student. The high quality and reliable regularity of information from FEE shaped my thinking in those formative years.

FEE's materials have been essential in building the base of economically literate citizens necessary to fight successfully against socialism in all its manifestations. I strongly endorse FEE and work closely with FEE staff to provide its materials to all students at my Leadership Institute programs."

— Morton C. Blackwell

President, The Leadership Institute

"FEE has been a vital source of inspiration and encouragement to me for at least forty years.

I believe the very first issue of The Freeman which I found was in 1956. I still remember it clearly. The article was entitled 'The Graduated Gadinkus Tax.' That powerful little lesson in economics and tax policy is typical of the simplicity and clarity with which FEE has continued to expound basic economic truths. You tell it like it is, and you tell it in terms that can be grasped by everyone."

— Reed Larson

President, National Right to Work Committee

Education and the Free Society

by George Roche

On the verge of a new century, one of the most important questions we must ask ourselves is: "On what does the free society depend?" There are, of course, many answers, but I would offer this one: The free society depends on successive generations of citizens who understand what freedom is all about and who are willing and able to defend it. But today our young people are growing up in an environment that is, at best, lukewarm and, at worst, hostile toward the basic precepts that have served as the foundation of our nation and the bedrock of our civil liberties.

The American public school system is in large part to blame. Even in its basic structure and operations, this system is antithetical to freedom; it is a command industry, meaning that all the decisions are made from the top down, and market forces of supply and demand are completely ignored. As a result, the educational establishment is currently spending enormous amounts of taxpayer money—so much money that you can hardly conceive of it—on an educational system that has, on balance, done more harm than good for our children, our economy, and the future of our nation.

The statistics reveal plummeting SAT

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From 1966 to 1971, he was director of seminars at the Foundation for Economic Education. From 1971 to 1990, he also served as a trustee of the Foundation.

scores for college-bound students, rising crime, and declining standards in schools. Businesses are forced to devote huge sums of money and time to giving their employees remedial education courses. This in itself has become a multimillion-dollar industry. The tragic fact is that in public education "nothing succeeds like failure." Well before the widely remarked *Nation at Risk* study was published in 1983, we knew we had a serious problem. By "we," I mean you and I—the man on the street. We were alone in our concern, for, according to the experts (in government, the NEA, and the public school bureaucracy) there was no problem—at least not until Ronald Reagan was elected and public spending on education was supposedly slashed.

The Growth of Public Education

Let us look at the real record. In the late 1980s, *Detroit News* syndicated columnist Warren Brookes called public education a "\$180 billion monopoly." He reported back then that, in spite of one of the world's highest levels of per-capita spending, our students were ranking dead last in science and near-last in language skills and social studies among leading industrialized nations. But in the 1980s, education spending per pupil rose by 400 percent. That kind of phenomenal increase is continuing in the 1990s. Public education is, quite simply, America's top growth industry.

It is fair to ask, then: Are our schools

better off? Are our children getting a better education? Are our workers better equipped for their careers? Are they taught a fundamental appreciation for the principles of limited government and free enterprise that lie at the core of the American experience and that must be preserved and defended if we are to prosper as a free society?

The answer to all these questions is a resounding no. Between 1963 and 1989, average national SAT scores fell an incredible 77 points, from 980 to 903. Iowa achievement tests for junior and senior high school students fell at a similar rate. (Don't be fooled by any new reports, by the way, that scores are improving—that is an illusion. Students now earn an extra 100 points simply by taking the test.) The national drop-out rate has continued to climb; a quarter of the students now in high school will not finish, and in some cities the figure is as high as 50 to 75 percent. It is just as bad at the college level. One half of all students who enter college never graduate. Those who do—as I have already suggested—are often ill-prepared and lack the critical basic skills needed to pursue their careers.

Economic Illiterates

And what about economic literacy? In test after test, more than 60 percent of the nation's high school seniors cannot define the word "profit." Only half of all college seniors can define "inflation," "productivity," and "fiscal policy." George Douglas observes in his recent book, *Education Without Impact*: "For citizens in a democracy to be able to make intelligent decisions about public policy, it is necessary for them to have a rudimentary knowledge about the national debt, the consequences of taxes, how the Federal Reserve system works, how to make sense of the financial pages of the daily newspaper." Yet, he adds, millions don't know "what money is or where it comes from." When the savings and loan industry failed a few years ago at a cost of billions, "not one person in a hundred could give an articulate explanation of what had happened."

Most students take courses called "Introduction to Economics" but remain economic illiterates. Known as the "dismal science," economics in the classroom is boring, complex, and biased. Teachers spend more time on Karl Marx than they do on Adam Smith, and the attitude is that anyone truly interested in preserving liberty, improving the lot of the disadvantaged, or promoting the wise use of natural resources must look to government rather than the private sector for solutions.

We are clearly failing to teach the next generation about basic terms, about how the market actually works, about its underlying values, and about its relationship to our political system.

These are some of the problems in American education. But what worries me even more than these problems is the fact that all the would-be reformers seem to be advocating the same solutions. What are those solutions? More money and more government control.

Look, for example, at the Department of Education, which was created by Jimmy Carter. When Carter left office, the DOE budget was \$10 billion. Ronald Reagan vowed to abolish the entire agency, but was unsuccessful in his effort to persuade Congress, and by the time he left office, the DOE budget was \$22 billion—more than double what it had been before. Under George Bush and now under Bill Clinton, spending has gotten so out-of-control that the Department has to borrow money from the next year's fiscal budget to pay for the current year's shortfall—the same kind of shenanigans that brought on the congressional check-kiting scandal, but you don't hear anyone in Washington, D.C., admitting it.

There is a great philosophical dividing line between those who advocate individual responsibility and old-fashioned virtues, and those who merely pay lip service. In Washington, D.C., it is perfectly acceptable to bend the rules in the name of "the public good." And in public education, it happens with alarming frequency. We must not forget the dictum of St. Thomas Aquinas—that the end pre-exists in the means. No matter

how good proposed reforms sound or how much money is used to implement them, they won't work if they are solely dependent on politics.

Reform has gone in the wrong direction, away from the heartland ideas and values which once informed the lives of virtually all Americans. I grew up in the Rocky Mountains of Colorado between two peaks that formed a part of the continental divide. I went to an eight-grades-in-one-room country school house called Gas Creek School. My teacher was a woman named Georgie House. Like most of the ranchers and miners in the upper Arkansas Valley, Mrs. House knew that there was a state government in Denver and a federal government in Washington. She didn't mind. So long as the government bureaucrats didn't bother her, she didn't bother them.

Gas Creek School didn't have any fancy textbooks, or any computers, or even central heating, but it offered an outstanding education. Without hesitation, I would match it against anything offered at public schools today. Mrs. House educated the children at Gas Creek School as conscientiously as if they were her own. They not only learned their 3 R's, but they learned what it is to be self-responsible, freely choosing individuals.

Thank goodness for Gas Creek School and Mrs. House. But where are they today? Certainly, there are many good schools and teachers out there, but they have to fight *against* the system, and they have very little freedom to teach in the way Mrs. House did. How different education used to be! In the supposedly "backward years" of the early to mid-twentieth century, we had perhaps the best educated citizens in the history of the world. But today, in nationwide tests, tens of thousands of *college seniors* do not know when Columbus sailed for America, who wrote the Declaration of Independence, or why the Civil War was fought. And these students are not only academically ill-prepared; they are culturally, economically, and morally illiterate.

It is no wonder. They are free to take classes on death, on sexuality, on environ-

mentalism, and on the theory of "ultimate frisbee," but they get very little in the way of rigorous academic training in history, English, economics, and math. They are also frequently taught that old-fashioned concepts like "family, God, and country" are really narrow-minded, sexist, and racist forms of oppression.

The Challenge

So, what are we to do? Should we simply give up on our educational system and continue to try to mend matters once students are out of school and in the workplace? Certainly not. We can still salvage education. And the main way to do it is to take students *out* of the system. We ordinary citizens—not the NEA, not any government task force—are the ones who can reintroduce competition. We are the ones who realize that public education will not improve as long as it continues to be a protected monopoly.

There are also other ways to help reintroduce competition. The Foundation for Economic Education is one sterling example. For 50 years, it has advanced the cause of the free society by educating literally thousands of individuals, many of whom have been high school and college students who have had no previous introduction to free market ideas. Though FEE is a comparatively small institution, its impact has been like the ever-widening ripples caused by a pebble thrown into a pond. Moreover, FEE's success has helped inspire the establishment of dozens of other market-oriented organizations.

J. Patrick Rooney, chairman of the Golden Rule Insurance Company—the largest provider of individual medical insurance in the world—provides us with another powerful example of how to reintroduce competition in education. Several years ago, he established a \$1 million-plus scholarship fund for disadvantaged children in Indianapolis. After more than 20 years of endless talk and debate about vouchers, tuition tax credits, school choice, and this plan or that, this man simply put his money

"FEE's vision and courage over the past five decades have been an inspiration. Due in no small part to the persistent voice of The Freeman, statism in America is today in a shambles; the apologists for big-government liberalism are in full retreat. Nowadays free-market principles are widely touted and enjoy a prestige not seen in our nation in over a half century.

As Governor, I know how easy it is to get bogged down in all the details of policy-making. What I most appreciate about The Freeman is that each issue serves to take readers back to school in the basic principles of freedom. The Freeman has been, and I am sure will remain, a steady anchor amid the winds that blow public opinion in conflicting directions.

Once again, thank you for defending the principles of freedom in the marketplace of ideas. Because of FEE's efforts, Michigan is a better state and the United States is a better nation.

Here's to the next fifty years of the Foundation for Economic Education — and to a freer America because of FEE!"

*— John Engler
Governor, State of Michigan*

where his mouth was. He said, "Are there kids who want to go to private school who can't? Well, then, I'll do something about it right now." What Rooney has done, in essence, is to privatize vouchers.

Private vouchers start working immediately with no red tape and they don't create a mountain of paperwork or need hordes of administrators to manage them. Unlike "government vouchers," which so many people are calling for today, private vouchers do not make the schools who accept them liable to future government control as supposed "recipients of federal funds." Private vouchers also create badly needed revenues for good schools, allowing them to expand and help more and more students.

And, most important of all, private vouchers place power in the hands of parents, students, and teachers rather than the education bureaucracy. We do not all have to have a million dollars to make private vouchers work in our communities. We can sponsor individual students, one at a time.

These examples remind us that it is as easy as that to recover the self-reliant, "can-do" spirit that once pervaded this country and that is the lifeblood of the free society. And they apply to every facet of our society, not just education. Once we stop looking to Washington, D.C., for solutions, we will find them in our own backyard, and they will turn out to be real solutions, not panaceas. □

Fifty Years of FEE— Fifty Years of Progress in Austrian Economics

by Israel M. Kirzner

At this time of FEE's golden jubilee, an Austrian economist's thoughts dwell naturally upon the pivotal role which the Foundation has played in the survival and resurgence of Austrian Economics during the twentieth century. The state of and prospects for Austrian Economics in 1996 are far healthier and more promising than they were fifty years ago. This essay briefly sketches some highlights in the developments that have occurred during these five decades, and draws attention to FEE's important contribution in this regard.

Austrian Economics in 1946

An observer of the intellectual scene in 1946 might have been excused for concluding that the distinguished tradition of Austrian Economics, the tradition that had begun with Carl Menger, Eugen von Böhm-Bawerk, and Friedrich von Wieser, was no longer alive. The Austrian School, which a scarce fifteen years earlier had been perhaps at its peak in professional prestige and had been enjoying widespread attention in the United States and in England, was, by the end of World War II, virtually nonexistent

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and was thoroughly ignored in the mainstream of the economics profession. History of economic thought textbooks published soon after the war tended to refer to the Austrian School in the past tense. The reason for this is, at a superficial level, not difficult to understand (although the full explanation for the sudden demise of the School would require a detailed study that still awaits its doctoral dissertation). Consider some of the basic facts of the situation:

1. A variety of circumstances (including especially the political unrest in Europe) had, already in the mid-thirties, physically dispersed most of the brightest minds in the interwar Viennese scene. F.A. Hayek had been brought by Lionel Robbins (later Lord Robbins) to London at the beginning of the thirties. Ludwig von Mises had fled to Geneva in 1934; Fritz Machlup, Gottfried Haberler, Oscar Morgenstern, and Paul Rosenstein-Rodan (and, of course, later Mises himself) eventually found their separate ways to the United States. Richard von Strigl had died in Vienna during the war.

2. Mises, who had arrived in New York in 1940, had been cold-shouldered by the U.S. economics profession. Not until 1945 was he able to secure a visiting teaching position at New York University—one hardly commensurate with his international stature.

His major work, *Nationalökonomie*, published during the war in Geneva had made virtually no impression—certainly in large part as a result of the place and date of its publication. (The intensely critical tone of Knight's review article in the November 1941 issue of *Economica* cannot have helped, either.) A visiting professorship afforded Mises neither the stimulus nor the opportunity for intellectual influence which had been made possible by his famous *Privatseminar* in Vienna, nor did he have the relaxed, carefree opportunity for teaching and for scholarly work which he had enjoyed in Geneva.

3. Hayek, who had entered the British economics scene with great success in 1931, had, by the outbreak of World War II, seen his professional eminence sharply reduced. In the public perception, at least, he had been decisively defeated by John Maynard Keynes (in regard to business cycle and monetary theory) and by Oskar Lange (in regard to the possibility of efficient socialism). His major recent contribution, *The Pure Theory of Capital* (1941) was, like Mises' 1940 book, virtually ignored by the postwar profession. (A 1948 reference to the work saw it as not much more than a restatement of earlier positions expressed during the 1930s.¹ In any event, the profession was clearly not now interested in those earlier discussions.) Although his 1944 *The Road to Serfdom* was certainly a resounding success, it was (correctly) seen as a primarily political work rather than one in which Hayek was contributing to Austrian Economics. In regard to both Mises and Hayek, the public perceived Austrian Economics in the 1940s as not much more than an unfashionable ideological residue left over from a once vibrant but now defunct intellectual tradition.

4. The scientific methods which Austrian Economics had consistently applied since Menger, were becoming increasingly unfashionable in the profession. Keynesian economics was making its inroads, pushing methodological individualism off center-stage; logical positivism in philosophy was (with the usual cultural lag) taking a firm

hold in economics; advances in the sophistication of mathematical tools used in economics were beginning to threaten the literary tradition. Hayek's brilliant wartime *Economica* articles on method later to be published as *The Counter-Revolution of Science* were early reactions to the shifting tides already being felt in economic methods. But his passionate appeals on behalf of subjectivism and methodological individualism in the social sciences were falling on deaf ears.

5. Paradoxically, a significant element supporting the common impression that the Austrian tradition was no longer alive, was the earlier *success* of that tradition in influencing the British mainstream in economics. A number of Austrians, including Hayek and Machlup (and, to a degree, Mises as well²), had come to believe that what was valid and important in Austrian Economics had been successfully absorbed into the mainstream. Robbins' influential 1932 book, *The Nature and Significance of Economic Science*, which is thoroughly steeped in the Austrian perspectives of the late 1920s, was not seen as an attempt to change the substance of British economics. Rather the work was seen (by its author as well as by others) as an attempt to teach British economists that, with relatively minor adjustments in their methodological orientation, they would see that their own economics had for a long time been entirely congruent with the Austrian variety.

This view, that Austrian economics was by now thoroughly integrated into mainstream thinking, undoubtedly helped the sense among younger Austrians that there was no intellectual tragedy to be seen in the physical dispersal of the Vienna group among far-flung British and American universities. Brilliant young Austrian economists, such as Machlup, Morgenstern, and Haberler, felt able to pursue economic research alongside their newfound academic colleagues, without the need to emphasize any uniqueness derived from their Viennese training.

Yet despite all this, Austrian Economics, as we shall see, was certainly *not* dead in

1946. In fact, at that very moment both Mises (in New York) and Hayek (in London) were deepening their own understandings of the economic system in ways, rooted in Austrian insights, that would profoundly influence the subsequent course of the Austrian tradition. Their work would, in the fullness of time, inspire a remarkable resurgence of interest in that very tradition.

The Extension of Austrian Subjectivism

What was occurring during the 1940s in the works of Mises and Hayek was, it is now apparent in the hindsight of half a century, a most significant extension of Austrian subjectivism. There is a certain drama in the circumstance that, precisely at the time when the Austrian tradition seemed most thoroughly extinct, there were emerging from the pens of Mises and Hayek papers and books that radically deepened the Austrian insights which they had inherited from their intellectual forebears.

To be sure, these advances did not occur in a vacuum. Mises had for many years devoted much thought to the methodological foundations of economics. In 1933 he had published a volume of collected papers as *Grundprobleme der Nationalökonomie* (later to be translated as *Epistemological Problems of Economics*); many of the insights developed in those papers had been welded together to form the basis for the “praxeological” approach Mises explicitly adopted in his 1940 *Nationalökonomie*. Yet his work in developing the latter volume into his magnum opus, *Human Action*, was more than mere translation. Certainly as far as the English-speaking world was concerned, the 1949 book was a major extension of Mises’ earlier work.

Hayek’s work during the 1940s was also, certainly, rooted in his pioneering contributions of the 1930s involving the role of knowledge and learning in the economic process.³ Yet it can be argued that his 1948 collection of papers, *Individualism and Economic Order*, offered a fundamentally fresh, integrated approach that had not been

placed before the profession until that time. These extensions to Austrian subjectivism by both Mises and Hayek, we now recognize, can plausibly be linked to their experiences during the interwar debate on the possibility of socialist economic calculation.⁴ These experiences gradually taught Mises and Hayek that what separated their economics from that of the British/Walrasian neoclassical mainstream was more than language and style. The lessons which these two Austrians respectively learned constituted separate but complementary extensions of the subjectivism which had, already for six decades, characterized Austrian economics.⁵

Action and Knowledge

Much of Mises’ deepened self-awareness is captured in the title of his magisterial work, *Human Action*. Economics was seen and presented as the science of human action—with “action” articulated in a way which sets it decisively apart from the utility- or profit-maximizing decision which forms the analytical building block of mainstream microeconomics. Mises’ analysis of action, it can be argued,⁶ is unique in its incorporating the *entrepreneurial* element in human choice. This element reflects the open-ended context in which choices are made; that is, it reflects the circumstance that the future consequences of one’s actions are never “given” to the prospective agent, but must always be conjectured against a background of absolute uncertainty as described by F. H. Knight. This open-endedness of Misesian economics has subtle but profoundly important implications for one’s understanding of the market process. This process now becomes visible, not as a clockwork mechanism grinding out instantaneous solutions to systems of simultaneous equations (made up of the complicated supply and demand functions relevant in a multi-commodity universe), but, Mises emphasized, as a process of continually changing entrepreneurial conjectures concerning the open-ended future. In this process, competition plays a role, and is ex-

pressed through innovative entrepreneurial entry (and threat of entry).

Mises' science of human action constitutes an extension of Austrian subjectivism in that it sees human action as "choosing," as it were, the very framework within which to engage (simultaneously!) in conventional maximizing decision-making. Choices do not merely reflect and express the subjective preferences of the agent among given alternatives; choices reflect also (and, for Mises, more importantly) the agent's subjective judgment concerning the *range* of alternative courses of action in fact available, and concerning the likelihood of their alternative outcomes. It is this additional dimension for subjectivism which definitively shapes the character of the entrepreneurial market process in Mises' perception.

Hayek's contribution to the extension of Austrian subjectivism consisted in his focus upon *knowledge* and its role in the market process. In the course of a remarkable series of papers, culminating in his 1945 *American Economic Review* paper, "The Use of Knowledge in Society," and in his 1946 paper, "The Meaning of Competition," Hayek saw the market process as one of mutual *learning* on the part of market participants. Such learning is required if a disequilibrium set of decisions—i.e., a set of decisions which must to some extent eventually be frustrated because they are based on inadequate mutual awareness—is to be replaced by a better coordinated set of decisions. In focusing on knowledge and learning, Hayek was offering a radically altered view of the market process—a subjectivist view which draws our attention not so much to changing prices or production processes, but rather to the subjective perceptions of market participants concerning the opportunities available to be grasped in the market.

No doubt there are significant differences between the Misesian "entrepreneurial" view of the market process, and the Hayekian focus upon processes of systematic mutual learning. But it seems reasonable to recognize both views as complementary extensions of Austrian subjectivism

as applied to the understanding of market outcomes. These views emerged, as already mentioned, as a result of painful exposure to mainstream misunderstandings concerning the differences between the socialist economy and the market economy. In the mainstream view there was, at that time at least, virtually no room for entrepreneurial creativity and very little indeed for knowledge and learning. Hence, socialist economists such as Oskar Lange or Abba Lerner might be excused for wildly underestimating the subtlety and complexity with which a market economy spontaneously stimulates entrepreneurial awareness and thus sets in motion the process of systematic, mutual knowledge-enhancement. It was in the course of their being forced to grapple with these mainstream misunderstandings, that Mises and Hayek were led to articulate their respective restatements of the theory of the market process. They not only learned that Austrian Economics had *not* been successfully absorbed into the mainstream, they also learned to appreciate more than they themselves had been hitherto able to do, the full implications of Austrian subjectivism in market theory. This enhanced appreciation deserves to be recognized as a significant advance in Austrian Economics.

Post-1950 Developments

Despite these important contributions by Mises and Hayek, the extent of research and teaching activity in Austrian Economics in the years immediately after the first half of the century was meager indeed. Mises conducted a seminar (as well as a classroom course) at New York University at which he kept the tradition alive. Although the seminar included a number of future leaders in Austrian Economics, including especially Murray Rothbard and Hans Sennholz, it was nonetheless but a pale shadow of Mises' Vienna *Privatseminar*. Both within the university and in the profession generally, Mises was seen as a relic of a bygone era. At best, he and his seemingly archaic views were tolerated; more often he was roughly dismissed as an obscurantist ideologue, out

of touch with modern social science techniques and encrusted in unfashionable, rock-ribbed conservatism seen as serving the interests of big business. Although he continued to write a remarkable stream of new books (including particularly *The Ultimate Foundation of Economic Science*, 1962, and *Theory and History*, 1957), Mises' impact upon the profession seemed to be almost invisible.

Hayek had joined the University of Chicago in 1950, not primarily as an economist, but as a member of the interdisciplinary Committee on Social Thought. Indeed his own writing thereafter was to concentrate upon political philosophy rather than upon pure economics. In the world of academic economics, Keynesian doctrines had become the dominant new orthodoxy, with even mainstream neoclassical microeconomics (let alone Austrian Economics) very much on the defensive. Hayek's trade cycle theory of the 1930s seemed to be completely forgotten; his recent new work on knowledge and the economic process was entirely ignored. This writer can (as can many others) attest that Austrian Economics was not rejected or disparaged by the economics profession of the 1950s and '60s; for the profession at that time, Austrian Economics simply did not exist (except, of course, as a chapter in the history of economic thought, to be studied alongside Mercantilism, Classical Economics, or the German Historical School).

At the same time, developments in the mainstream of the profession were pushing and pulling economic thinking in a variety of directions. Important work by the monetarist school was beginning to undermine Keynesian dominance, even as it strengthened the positivist trends toward an economics consisting largely of econometric model building and empirical testing procedures. Advances in mathematical economics were vastly increasing the sophistication of pure theory. These developments were, by the early 1970s, restoring the centrality of neoclassical microeconomic theory, but in a way which seemed, if anything, to widen the gap between that theory and the tradi-

tional Austrian approach. These events seemed, moreover, to push economics into two paths: either along a highly abstract theoretical road which appeared to be supremely unconcerned with the real world, concentrating overwhelmingly upon elegance of mathematical technique; or along an empirical road employing powerful econometric techniques to establish functional relationships relating to extremely narrow slices of real world economic history. Both these paths were not just unattractive (to put it mildly) to appreciators of the Austrian tradition; it seems fair now to say with the benefit of hindsight that they drained economics of excitement for subsequent generations of graduate students. Plausibly, all this played a role in laying the groundwork for the resurgence of interest in Austrian Economics that began to manifest itself in the mid-1970s.

The Resurgence of Austrian Economics

The works of Mises and Hayek, although they were indeed ignored during the 1950s and '60s, had not been written in vain. And the teaching to which Mises dedicated himself for years at New York University, while largely absorbed by graduate business students for whom the study of economic theory was of distinctly secondary importance, was yet destined to bear fruit. If Mises' contributions were, in those lonely decades, appreciated primarily by a handful of stalwart individuals, almost all of whom were not academicians, this was to change, if only gradually. One by one the small number of Mises' U.S. students who obtained their doctorates under his guidance went out into the world to teach and to write. (Some of those inspired in his seminar went on to obtain their degrees at other universities.) And his books, as well as those of Hayek, began to be discovered by a small but growing number of students at universities around the country. Farsighted networking, supported by private foundations, was able to identify a number of such individuals thirsting for a more satisfying

economics than they were being taught in the classrooms of their own colleges or graduate schools. A good deal of this interest was sparked by growing interest in libertarian thought, to which it was believed Austrian Economics was somehow related. But many of those who discovered Austrian Economics in this way were to pursue it subsequently strictly for its own intellectual and scientific worthwhileness, quite apart from any ideological implications that may have been perceived.

The death of Mises in 1973 brought with it a certain amount of attention to his life's work. And, in 1974, all this ferment of activity and interest culminated in a pivotal event, the now-famous South Royalton meeting, at which several lecturers, including especially Ludwig Lachmann and Murray Rothbard, set forth (in a weeklong series of lectures and discussions) the foundations and main features of a subjectivist way of understanding economics, a way rooted in the work of Carl Menger and articulated in the mid-century contributions of Mises and Hayek.

Following the South Royalton conference (and certainly assisted by the encouragement seen in Hayek's receipt in 1974 of the Nobel award in economics), there ensued years of vigorous growth in the number of graduate students pursuing their doctorates while they were absorbing and exploring further the subtleties of what sets Austrian Economics apart from mainstream economic thinking. By the early 1980s a number of full-fledged faculty members at universities around the country were self-acknowledged "Austrians." Centers of Austrian academic teaching and research crystallized at New York University, George Mason University, Auburn University, and the University of Nevada, Las Vegas. In addition many individual faculty members across the country, in Europe, and around the world met at regularly held summer seminars at which they were introduced to Austrian Economics.

By the mid-1990s the upsurge in interest in Austrian Economics has matured to the point where: (i) very few in the economics

profession have not heard, at least, of Austrian Economics; (ii) some of the best publishers of economics books are vigorously competing to publish the steady stream of new Austrian books being written (and indeed the sum total of Austrian work published during the past five years is most impressive in its volume, scope, and quality); (iii) major economics journals, long coldly uninterested in what appeared to them to be an old-fashioned approach, have begun to show a lively interest in publishing Austrian contributions; (iv) a number of professors who were graduate students in the 1980s have since won tenure at universities, based solidly and forthrightly on their scholarly contributions to Austrian Economics. We have every reason to hope that the intellectual momentum of this growth in Austrian Economics will carry it to increased levels of scholarly activity and professional recognition.

FEE's Role in the Survival and Resurgence of Austrian Economics

FEE's identification with Austrian Economics has been unmistakable from its very beginning. The appreciation of how free markets contribute to societal prosperity has been taught by FEE primarily as seen through Austrian lenses. Not only Leonard Read, but in particular farsighted and deeply knowledgeable longtime FEE trustees such as Larry Fertig and Henry Hazlitt, set the intellectual tone for FEE and charted the course of its educational mission. It was their vision which brought Ludwig von Mises to FEE at a time when he was, to put it mildly, all but ignored on the academic scene. It was through the resources of FEE, its skilled use of the tools of communication and public education, which ensured that Mises' message would survive.

There must be few among today's Austrian academicians who do not look back with profound gratitude for the moral and material support which FEE provided to them, directly or indirectly, in the lonely

years prior to the contemporary revival of Austrian Economics. This writer can attest that the very first financial foundation for the New York University doctoral program in Austrian Economics, was laid through the good offices of Leonard Read in the early 1970s. Together with other foundations who have had the vision to support the resurgence in Austrian Economics during recent years, FEE has continued to play a central role. For the past eight years FEE co-sponsored and hosted New York University's annual weeklong summer seminar in Austrian Economics for faculty and graduate students from around the world.

FEE's identification with Austrian Economics has become even more deeply engraved in its philosophy and activities ever since its presidency has been entrusted to the steady hands of Dr. Hans Sennholz, veteran teacher of Austrian Economics to thousands upon thousands of students at Grove City College, ever since his completion of his doctorate under Mises in the 1950s.

If today Austrian Economics has returned

to a substantial measure of professional recognition and respect, the Foundation for Economic Education is entitled to a major share of the credit. As we celebrate FEE's anniversary, this element in its half century of achievement, too, deserves our recognition and our appreciation. □

1. Howard S. Ellis (editor), *A Survey of Contemporary Economics* (Homewood, Illinois: Richard D. Irwin [1948] 1963), volume 1, p. 39.

2. See Ludwig von Mises, *Epistemological Problems of Economics* (Princeton: Van Nostrand, 1960 [translated from the German original, 1933]), p. 214.

3. See especially, "Price Expectations, Monetary Disturbances and Malinvestment" (1935), in F. A. Hayek, *Profits, Interest and Investment* (London: George Routledge, 1939); "Economics and Knowledge," *Economica* IV (new series, 1937), pp. 33-54 (republished in F. A. Hayek, *Individualism and Economic Order* (London: Routledge and Kegan Paul, 1949). For the thesis of continuity in Hayek's work on Knowledge, see Gerald P. O'Driscoll, Jr., *Economics as a Coordination Problem: The Contributions of Friedrich A. Hayek* (Kansas City: Sheed Andrews & McMeel, 1977).

4. See the writer's "The Economic Calculation Debate: Lessons for Austrians," *Review of Austrian Economics* (1988, vol. 2), republished in Israel M. Kirzner, *The Meaning of Market Process, Essays in the Development of Modern Austrian Economics* (London and New York: Routledge, 1992).

5. For development of this thesis concerning the complementarity between the work of Mises and Hayek, see the writer's *Meaning of Market Process*, *op. cit.*, chapter 7.

6. For this thesis, see the writer's *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973), pp. 32-37.

"I wish to take this opportunity to congratulate FEE on its fiftieth anniversary. At FEE's inception, the siren song of socialism was played, heard, accepted, and respected throughout our country. But FEE began resuscitating and nurturing back to life the ideas of liberty that were such an important part of our nation's founding. The success of FEE's struggle can be seen in today's long overdue debate about just what government should be doing.

The most important contribution FEE has made is that of making the ideas of liberty readily accessible to a broad range of people who may have limited training in philosophy, political science, and economics. That is the true test of wisdom, making potentially complex ideas understandable to the ordinary person."

— Walter E. Williams
John M. Olin Distinguished Professor
of Economics
George Mason University

Civil Rights Socialism

by Llewellyn H. Rockwell, Jr.

The Fabian Society of Britain believed in three central doctrines of political economy. First, every country must create its own form of socialism. Second, socialism imposed slowly is more permanent than the revolutionary form. And third, socialism is not likely to succeed in Western countries if it appears undemocratic or authoritarian. On all these points, the Fabian Marxists disagreed with Marxist-Leninists.

And just as the Fabians recommended, today's America is under the spell of a peculiar form of socialism, designed for our political and demographic conditions.

Under Fabian influence, Britain's piecemeal socialism was marked by nationalized industries, soft planning, extreme labor union privileges, middle-class income redistribution, and a government-run medical industry.

Here in the United States, on the other hand, we have little reason to fear nationalized industries or comprehensive planning. Labor union power seems to be on the decline. Americans bristle at any hint of direct controls over production decisions. Our semi-socialized medicine resists change toward greater government control, or less, with the conservative Republican leadership dedicated to "saving" Medicare. But our labor markets, though increasingly devoid of direct union control, are more frozen and regulated than Britain's were at the height of union power.

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Socialism, U.S. Style

What accounts for this? American socialism is a carefully tailored product. First, it is designed to fit with America's excessive devotion to abstractions like democracy and equality. Second, it is designed to exploit the radical heterogeneity of our population. Third, its implementation relies on America's traditionally sanguine view of centralized executive power.

We could argue about when American socialism first took root. Many say it began with the Great Society. Others trace it to the New Deal. There's a good case to be made that it began in the Lincoln presidency and the Reconstruction era, which used the language of democracy and egalitarianism, exploited our radical heterogeneity, and dramatically centralized power in an imperial executive. That period also provided a test run for inflationary monetary policy and income taxation, two institutions that the Progressive Era entrenched and which provide the fuel for American socialism today.

The symptoms of American socialism are easy to identify. They appear in legislation like the Americans with Disabilities Act, the limitless amendments to the Civil Rights Acts, the Community Reinvestment Act, in the egregious behavior of the Equal Employment Opportunity Commission, and in all manner of interference with the freedom of association. In addition, executive-branch agencies issue tens of thousands of regulations each year to manage the private

lives of citizens and the conduct of private business, including the Department of Housing and Urban Development, the banking regulators at the Federal Reserve, and the bureaucrats at the EEOC.

The result has been tyranny. Civil rights lawsuits have shut down thousands of businesses. Many potential capitalists decide not to open businesses at all for fear of the race, sex, and disability police. Small companies routinely do anything within the law to avoid advertising for new positions. Why? Because government now sends out “testers” to entrap business in the crime of hiring the most qualified person for a job. Pity the poor real estate agent and the owner of rental units, who walk the civil rights minefield every day. If any of these people demonstrate more loyalty to the customers than to the government, they risk bringing their businesses to financial ruin.

The restaurants Denny’s and Shoney’s, two wonderful examples of capitalism in action, know all about this. In the last few years, they were both hit with class action suits alleging discrimination. It didn’t matter that the plaintiffs were all trumped up and the specific cases cited were patently fraudulent. For example, one plaintiff found a foreign object in her hashbrowns and claimed it was put there on grounds of her race. Both companies decided to settle out of court, establish extensive quota programs, pay off all plaintiffs, and set up new highly subsidized, minority-owned franchises. They did so not because they were guilty, but because the so-called justice system is stacked against them.

Denying the Obvious

The courts enforce an egalitarianism that tolerates no acknowledgment of the differences among people, especially not when they express themselves along group lines. But this denies the obvious. People do differ radically in their talents and weaknesses, their determinations to succeed, their mental facilities, their attitudes and character, their physical abilities, and their physical makeup. Moreover, these differences ap-

pear not only in individuals but also systematically in groups.

Men as a group, for example, are different from women as a group. Northerners are different from Southerners. Californians are different from Texans. Catholics are different from Baptists. Blacks are different from whites. Immigrants are different from natives. The rich are different from the poor. The evidence for these propositions is all around us and should be celebrated. As Ludwig von Mises pointed out, radical inequality is the key fact about the human race, and thank goodness. If we were all the same, there could be no division of labor.

Yet our central government attempts to abolish these differences by forcing individuals and businesses to act as if they did not exist. The primary means has been the criminalization of our most serious secular sin: discrimination. There can be no action in American life—save the decision of whom to marry—that discriminates on the grounds of any number of criteria as defined by the government. If anyone commits this sin, the penalty is cash to the government and the special interests, with a bundle going to the left-wing lawyers who arrange the transfer.

To see just how serious the government takes this sin, and how absurd the result, consider disabilities law. The EEOC has effectively defined disability as any physical or mental limitation. Along with other civil rights laws, this robs business of any operational discretion in the treatment of employees, how much they are paid, if they are promoted, or whether they are hired at all.

If you have hired a salesman who can’t remember names, he’s got a mental disability. You cannot demote him, much less fire him, because that would be discrimination.

Since the ADA went into effect, tens of thousands of complaints, which are threatened lawsuits, have been filed with the Equal Employment Opportunity Commission. Drunkards are suing for their right not to show up to work and still get paid. Students are suing for their right not to study and take tests. The government is siding with every conceivable complaint, from

men who want to work as waitresses in restaurants with all-women workforces to people in wheelchairs who want to dance on stage.

The number of private complaints against employers in which no suits are filed but result in settlements would be impossible to count. The amount of lost wealth is vast and growing. With the ADA, there is eventually no way to comply, because there is no way to prepare for every possible contingency, every possible lawsuit or government ploy.

The ADA illustrates an important point about anti-discrimination law, the central pillar of American socialism. Contrary to myth, rules against discrimination never create a level playing field. Forbidding one form of discrimination must necessarily compel another. If a person is forbidden to discriminate in hiring on grounds of sex or race, the government can only discover a violation of the law by looking at who is hired. This compels active discrimination *against* people on grounds of their sex or race. It is a zero-sum game where one person's winnings come from another's losses. The only way to end this is through the repeal of all anti-discrimination laws, and all other laws that violate the freedom of association.

Until that happens, whole institutions are being destroyed in the name of stamping out discrimination. The banking sector has been racked by complaints that it discriminates against minorities in its granting of loans. You might think the regulators would consider that minorities have relatively weaker credit ratings and fewer assets. In fact, that doesn't matter, since the executive agencies enforcing equality care only for the numbers.

In the banking sector, tens of billions have been doled out to satisfy interest groups who cry discrimination. Fleet Financial Group surrendered to an extortionist who used complaints of group victimology. Decatur Savings & Loan in Atlanta was put out of business by a federal lawsuit. Sovran Bank had to buy its right to become Nationsbank by handing out welfare checks to the politically correct.

This campaign has only just begun. Some

people on the political left propose an explicit quota program for lending, which would effectively require banks to give loans to minorities regardless of credit history, job history, or assets. The pool of loanable funds has become a convenient substitute for direct welfare benefits, and it's just as redistributionary.

The same is true in other sectors of the economy. Consider two recent government housing programs: Moving to Opportunity, which is administered by HUD, and residential integration, which is administered by the Justice Department. In both cases, the government has declared that all voluntary group associations resulting in racial disproportionalities are segregationist by definition. That term no longer refers to *de jure* action but to the *de facto* results of voluntary behavior. To remedy the non-problem that people tend to group themselves by their similarities, HUD has a program to give minorities in city slums the financial means to move to middle-class suburbs.

An incident in Vidor, Texas, illustrates something about the use of force. The Justice Department and HUD orchestrated a propaganda blitz against this insular and peaceful community, painting it as thoroughly racist. This paved the way for federal marshals to install some new minority residents into a housing complex whose residents wanted to be left alone. And this is representative of what is happening to every business in the country.

In many respects, a firm is much like a community. It has its own internal culture that best develops and thrives in the context of liberty. Whether the federal bureaucrats are invading Denny's, Decatur Savings & Loan, or Vidor, the effect is the same: to snuff the very life out of the business world and the communities around the country.

The media and the government imply that because one firm hasn't hired and promoted a member of every politically represented group then no firm is going to. This reveals a misunderstanding of the nature of competition. In a free market, competition is not only between laborers but also between whole firms and communities of firms. We

must allow diversity between firms, even if it is does not exist within them.

Free markets and private property are all of a piece. We cannot have free labor markets so long as we don't have the freedom to hire and fire. It is as essential that women's health clubs be allowed to exclude men as it is for Korean restaurants to be able to hire and promote only Koreans. These are the rights and privileges that come with private property. If we limit them, we endanger the foundation of capitalism and civilization itself.

Forced Equality

America's peculiar version of socialism is just as coercive as any other form. Yet because it is more expansively egalitarian than others have been, the ill-effects are made worse by the demographic differences in the American population. Forced equality has no chance of success in any country, but especially not here. The attempt has wrought destruction, and if extended much further, will create a reign of terror.

America's fascination with equality stretches back to the Declaration of Independence, when Mr. Jefferson penned the obvious untruth that all men are created equal. He couldn't have meant it literally or in the way it is used today. In the very same document, Jefferson accuses the King of exciting insurrections among the "merciless Indian savages, whose known rule of warfare is an undistinguished destruction of all ages, sexes, and conditions."

In those two statements, we find the essential contradiction of the American democratic faith. We are supposed to want people to be equal. We are supposed to want the president to insure it to be so.

If we are ever to reverse our current course, we must pay closer attention to the wisdom of Alexis de Tocqueville, John C. Calhoun, John Randolph of Roanoke, Lord Acton, Helmut Schoeck, Bertrand de Jouvenal, Ludwig von Mises, Murray N. Rothbard, and all the others who have taught us that liberty and equality are incompatible goals. One always comes at the expense of

the other. Equal protection of life and private property from violent transgressions is the only ideal of equality that is consistent with individual liberty.

The free market economy has a record like no other of offering economic advancement for everyone no matter what his station in life. But it does not offer equality of result or equality of opportunity. How can opportunity be equated between the quick-witted and simple-minded, between the energetic and the lazy? The free market offers not an unstratified society, but something of real value: liberty itself. And civil rights laws violate that liberty.

Libertarian philosophers have long pointed out that the conventional separation between human rights and property rights is a false one. If property rights are violated, so are human rights. If property rights are protected, so are human rights.

The same logic applies to civil rights. If they are invoked at the expense of private property—which they are by definition in the U.S. legal context—they violate rights. What Herbert Spencer called the "law of equal freedom"—in which a person has property rights and no special privileges—means a society in which people can discriminate or not discriminate, i.e., make choices, on any grounds of their choosing.

Sometimes those who think that civil rights have gone too far see the problem in terms of quotas. This is a misdirection of intellectual energy. Under a pure property regime, people are free to impose quotas if they desire. Even the alleged dream of a perfectly integrated society could be achieved if that is what market actors chose. It is also the case that a "separated" society could result.

Based on experience, what we are likely to see in a regime of pure property rights is authentic diversity, rather than the trumped-up form imagined by government bureaucrats. Some firms, companies, and communities would be homogeneous, while others would be heterogeneous. But the more important goals of social peace and prosperity would be met in a demographic free market.

But would vulnerable populations be helped? Yes, but not as a result of special rights and coercion. The division of labor finds a place for all sorts of people, and encourages a culture of productivity, which would eventually replace the no-win culture of envy and victimology.

As the Fabians recognized, there are as many varieties of socialism as there are nations. We are cursed with a particularly vicious sort that denies the right of association, rejects essential aspects of the freedom of enterprise, and combats natural inequalities as if they represented a disease on the body politic.

As executive agencies acquire ever more power and money, and run roughshod over all aspects of private life, we are encouraged to look the other way. At this rate, we may eventually disprove the old Fabian teaching that socialism in Western countries cannot succeed if it appears undemocratic or authoritarian.

Anyone familiar with Joseph Schumpeter's paradoxical prediction that socialism would win out over capitalism might also think that the retreat of socialist governments in 1989 disproved him. In light of our present situation, let's revisit Schumpeter. In *Capitalism, Socialism and Democracy* he defines his terms very carefully.

The capitalist or commercial society, he says, is defined by two elements: first, private property in the means of production; second, regulation of the productive process by private contract, management, and initiative. By Schumpeter's definition, we only have capitalism in the first sense. We have private property, but no longer can we govern the productive process by private contract, management, and initiative. The government exercises veto power over all matters of economic management.

By socialist society, he further writes, he means an institutional pattern in which the control over the means of production itself is vested with a central authority, or as a matter of principle, the economic affairs of society belong to the public and not to the private sphere.

Which does our society most closely resemble: Schumpeter's commercial society or Schumpeter's socialist society? Certainly we know where the trend line is pointing. And we know what to do about it: eliminate all violent intervention in the market, and allow for the flourishing of freedom of contract and association, and the protection of private property.

That is the only way to dig ourselves out of the pit of this peculiarly American form of socialism called civil rights. □

"FEE's publications were very instrumental in my receiving the proper education allowing me to become a participant in the battle that rages on for individual liberty and sensible government in America today. Meeting Leonard Read in 1974 during my first campaign for Congress was inspiring as were all my subsequent associations with FEE. My early introduction to the economics of Mises and Sennholz have been a tremendous help to me in confronting the opposition with sound economic thinking."

— Ron Paul, M.D.

Member of Congress, 1976-1984

Environmental Protection: The New Socialism?

by Jane S. Shaw

In 1990, the economist Robert Heilbroner expressed genuine surprise at the collapse of socialism. Writing in *The New Yorker*, he recalled that in the debates over central planning in the 1930s and 1940s, socialism seemed to have won. A half century later he realized that he had been wrong and that “Mises was right.”¹

Since Heilbroner has leaned toward socialism for most of his career, he deserves credit for admitting that he was so mistaken. Yet by the end of his revealing essay, Heilbroner was suggesting that perhaps socialism wasn’t dead, after all. He proposed “another way of looking at, or for, socialism.” He suggested that we think of socialism “not in terms of the specific improvements we would like it to embody but as the society that must emerge if humanity is to cope with the one transcendent challenge that faces it within a thinkable timespan.” That challenge, says Heilbroner, is “the ecological burden that economic growth is placing on the environment.”

Heilbroner’s characterization of environmental problems is as misinformed as his half century of wishful thinking about socialism. But this should not be surprising. Environmental issues frequently overwhelm intelligent thought and factual analysis.

For the past thirty years, the United States

(and much of the developed world) has experienced the results of this basic misunderstanding, the view that economic growth poses an “ecological burden.” The nation has acted upon the premise that more production leads to more smokestacks puffing out more pollutants and more sewage pipes sending more heavy metals and other wastes into our streams, and that only government regulation can stop the process. This assumption has led to extensive federal intervention in normal activities, from manufacturing to logging and, ultimately, to absurd results.

- The federal government defines a “wetland” in such a way that it doesn’t have to be wet, as long as it has vegetation typical of wetlands. It regulates wetlands on the basis of the Clean Water Act, which does not mention the word wetland (the relevant provision was originally designed to prevent pollution into “navigable waters”). People have gone to jail for dumping a few loads of dirt on such “wetlands.”

- The Endangered Species Act has been interpreted so severely that people are now deliberately modifying the habitat of their land so that endangered species will not settle on it. Without the act they would have been pleased to have a bald eagle or red-cockaded woodpecker take roost.

- The government of Anchorage, Alaska, is adding 5,000 pounds of fish waste per day into its sewage water. Environmental Pro-

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tection Agency regulations require that 30 percent of the organic material in sewage be removed before the sewage reaches the ocean; but in Anchorage, the sewage doesn't have enough organic material. It must be added and *then* 30 percent must be removed.²

- Strict controls on grazing practices have prevented the adoption of innovative range management. On private land, the Deseret Ranch in Utah, for example, stocks hundreds of cattle, while the Bureau of Land Management, which manages public land on the other side of the fence, can barely allow thirty animals on similar acreage.

- The EPA contends that a mobile home park in Aspen, Colorado, is built on an extremely dangerous mine waste site, and that residents face harm from lead poisoning, even though those who have lived there for years have blood lead levels below the national average. The EPA has made the park a Superfund site, and insists on a costly and disruptive cleanup. Other small mining towns similarly face a belligerent EPA.

How This Situation Arose

After World War II, as incomes rose, people's attitudes toward the environment around them changed. "Postwar affluence had produced a generation reared in relative comfort, one now in search of 'postmaterial' values long deferred by their elders," writes Christopher Bosso, attempting to explain the rise of environmentalism in the 1960s.³

Against the backdrop of growing wealth and leisure, the 1962 publication of *Silent Spring*,⁴ an eloquent book by Rachel Carson, dropped like a bombshell. It aroused fears that the natural world was being damaged, perhaps destroyed, by human technology. In 1972 another book, *The Limits to Growth*,⁵ raised fears of famine, overpopulation, and resource depletion. The authors predicted that "the limits to growth on this planet will be reached sometime within the next one hundred years."⁶ When energy prices skyrocketed after the OPEC oil em-

bargo of 1973, the book's predictions looked credible.

And, indeed, there were environmental problems. In many cities the air was dirty, and rivers were polluted and full of debris. The Cuyahoga River is said to have actually caught fire in 1969. The event became a symbol of the severity of pollution and galvanized many people to do something about it.

This determination to "do something" came at a time when Americans were looking to the federal government to solve just about any problem. The nation had just embarked on the War on Poverty, and the Apollo program to land a man on the moon was nearing its objective.

State and local governments, which had taken on some responsibility for environmental regulation, were not always aggressive in tightening environmental regulations, since they knew that residents did not necessarily want the goal of cleaner air and streams to override all other goals. But environmental activists considered these attitudes parochial, unenlightened, and political. They sought more control at the federal level, and they got it. Pollution control went off in a "bold new direction," says textbook author Thomas Tietenberg, with a "massive attempt to control the injection of substances into our air."⁷ That federal attempt is still going on.

The nationalization of pollution control did not eliminate environmental politics, of course, but changed its location. Today, local and state governments find themselves in battles with the Environmental Protection Agency as it threatens to cut off funds if they don't meet the EPA's standards. And congressmen from one state pit themselves against those of other states, with the industrialized "Rustbelt" states in the Northeast and Midwest voting to impose heavier controls on new plants built in "pristine" areas such as the growing "Sunbelt."⁸

A Basic Misunderstanding

All this has happened because most people don't know that economic growth and

environmental protection are closely and positively linked. Economists are well aware of this. A study by Gene Grossman and Alan Krueger of Princeton University⁹ suggests that at low levels of income, economic growth puts initial stress on the environment, but after a certain level of wealth is reached the environment begins to improve. They indicated, for example, air pollution begins to decline when per capita income reaches between \$4,000 and \$5,000 (in 1985 dollars).

Another indication of this link is the affluence of environmentalists. For example, members of environmental organizations tend to be among the more affluent Americans. A typical reader of *Sierra*, the magazine of the Sierra Club, earns twice the average American income.¹⁰

In other words, as people become more affluent, they become more interested in protecting environmental amenities. That doesn't in itself eliminate pollution, which will continue as long as the air and water are, to some extent, "free goods." But in a system based on private property rights, several factors encourage people to limit pollution.

One factor is the common law, specifically the legal doctrines of public and private nuisance, trespass, wrongful bodily invasion, and riparian law. Although court suits are used less now, in the past when pollution was severe and when it affected a few people disproportionately (not the community as a whole), courts would provide protection, either through damages or injunctions against further pollution. People have a right against invasion of themselves or their property by harmful pollutants. This protection has never been perfect, but it has prevented or ended severe pollution.

Second, over the long run, the profit motive encourages owners to reduce pollution. Over the short term, they may be able to lower costs by letting waste out the smokestack, but that waste costs them money. Particulates in the air often are unburned fuel; by using that fuel rather than letting it go up the smokestack, companies can save money. Similarly, companies can

save money by saving expensive chemicals or metals rather than losing them in the waste stream. So there is an inexorable tendency to reduce pollution.

These two reasons explain why the air in the United States was getting cleaner *faster* during the 1960s than in the 1970s, when the Clean Air Act was passed.¹¹ And private property rights also encourage efficient use of raw materials.

In 1965, the production of 1,000 metal beverage cans required 164 pounds of metal (mostly steel). By 1990, this required only 35 pounds (mostly aluminum).¹² And the trend is toward ever lighter cans for the simple reason that it is possible to save millions of dollars. Reducing the aluminum can's metal by 1 percent will save about \$20 million a year.¹³ The profit motive spurs both innovation and cost savings.

Another illustration of this trend toward efficiency is Mikhail Bernstam's comparison of resource use in socialist and market economies. He found that the market-based economies used about one-third the amount of energy and steel, per unit of output, that the socialist countries used.¹⁴

Partly due to the growth of incomes and the growing awareness of the environment, private conservation has been a hallmark of American society for more than 100 years. Late in the nineteenth century, for example, the National Audubon Society created a system of bird refuges around the country; early in the twentieth, the Sempervirens Club began saving California redwoods, in large part through private donations. In the 1930s, activist Rosalie Edge and a small group of friends bought a few hundred acres to create the Hawk Mountain Sanctuary in eastern Pennsylvania, to stop the slaughter of birds of prey. But this rich vein of history, of which these examples are mere nuggets, is little known.

The Situation Today: Hopeful or Disturbing?

In the late 1980s, Ocie Mills began to build a home for his son near Santa Rosa County, Florida. He poured clean fill dirt on the

property. Although he had the approval of state officials, he had failed to obtain a permit from the federal government for filling a wetland. Mills and his son each served a 21-month prison sentence for failing to obtain a permit.¹⁵

Criminals to some, they were to others victims of regulatory excess. And gradually, individuals such as the Mills were joined by hundreds, and then thousands, of people who had felt the encroachment of the federal government. These people formed grass-roots groups around the country and became the nucleus of the modern property rights movement, a movement that has been called a revolution.¹⁶ The anger of these people who felt their rights had been trampled helped bring sweeping changes to Congress in the 1994 election.

The 1994 election was greeted by jubilant expressions of hope for a rollback of major regulations, repeal of some laws, and a general recognition that less government is better. And the new House of Representatives started out with substantial plans for regulatory reform. But these quickly fizzled. The reason is the same one that bothered Robert Heilbroner—the feeling that economic growth and environmental protection are incompatible without the strong arm of federal regulation. Environmental activists found that they could build on this idea and frighten people into thinking that the 1994 election had unleashed a destructive monster.

Unfortunately, the strong positive role of the private sector in protecting the environment is mostly unknown to Congress. Even Newt Gingrich, House Speaker and proponent of less government, appears to be completely unfamiliar with free-market en-

vironmentalism. The “moderate” Republicans, terrified at losing the moral high ground by being viewed as anti-environmental, have stopped the reform movement.

What is needed is a better understanding of environmental protection, and particularly its connection with economic growth and the institutions that promote economic growth. This educational process will take time, but the evidence is there to achieve that understanding. To borrow Heilbroner’s words, that is our “transcendent challenge.” □

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2. Ann Reilly Dowd, “Environmentalists Are on the Run,” *Fortune*, September 19, 1994, p. 98.

3. Christopher J. Bosso, *Pesticides and Politics: The Life Cycle of a Public Issue* (Pittsburgh: University of Pittsburgh, 1987), p. 111.

4. Rachel Carson, *Silent Spring* (Boston: Houghton Mifflin Company, 1962).

5. Donella H. Meadows et al., *The Limits to Growth: A Report for the Club of Rome’s Project on the Predicament of Mankind* (New York: Universe Books, 1972).

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10. 1992 “MRI Reader Survey” (San Francisco: Sierra Club, 1992), p. 1.

11. Crandall, p. 19.

12. Lynn Scarlett, “Make Your Environment Dirtier—Recycle,” *The Wall Street Journal*, January 14, 1991.

13. William F. Hosford and John L. Duncan, “The Aluminum Beverage Can,” *Scientific American*, September 1994, pp. 48–53.

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

15. Richard Minter, “Wetlands Send Man up the River,” *Insight*, December 14, 1992, p. 31.

16. Bruce Yandle, *Land Rights: The 1990s’ Property Rights Rebellion* (Lanham, Md.: Rowman & Littlefield Publishers, Inc., 1995), p. ix.

Freedom and American Labor Relations Law: 1946–1996

by Charles W. Baird

At the close of World War II, large segments of the American economy were in the iron grip of forced unionism. The Norris-LaGuardia Act (1932) together with the National Labor Relations Act (NLRA, 1935) had effectively exempted labor unions from the ordinary rule of law to which all individuals and other institutions were subject. John L. Lewis, the notorious leader of the United Mine Workers, actually was allowed to endanger the war effort in 1943 by a massive strike in the coal mines. Only the passage of the War Labor Disputes Act of that year, over President Roosevelt's veto, stopped the strike.¹ That Act expired after the war, and there followed an "unprecedented wave of strikes that were to almost overwhelm the nation during the winter of 1945 and the first half of 1946."² According to Congressman Fred Hartley, the co-sponsor of the 1947 Taft-Hartley Act, labor racketeering was so pervasive that the press almost ignored it as commonplace.³

Largely because of union-based chaos, terror, and corruption, and the widespread perception that the Democratic party was in thrall to union bosses, Republicans gained control of both houses of Congress in the off-year elections of 1946 (as they did again in 1994). The 80th Congress, which was

seated in January 1947, immediately entered into a battle with President Truman on the issue of taming the unions. The result was the Taft-Hartley Act which became law on June 23, 1947, by a congressional override of Truman's veto.

This essay first outlines some basic principles of the common law of contract, property, and tort and explains what Norris-LaGuardia and the NLRA substituted for it. It then explains the ineffectiveness of the Taft-Hartley to ameliorate the worst excesses of Norris-LaGuardia and the NLRA despite its authors' hopes. The third section discusses the phenomenon of government-sector unionism and why it is the only form of unionism that is prospering in 1996. In conclusion, on the horizon may be changes in American labor relations law that are consistent with the principles of a free society articulated by FEE in the past fifty years.

Common Law, Norris-LaGuardia, and the NLRA

Common Law and Voluntary Exchange

The definitive common law critique of American labor relations law is Richard Epstein's "A Common Law for Labor Relations: A Critique of the New Deal Labor Legislation."⁴ Prior to the 1930s, the employment relationship was simply one of voluntary exchange contract between a will-

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ing employer and a willing employee. The proper role of government was “to prevent the private use of force and violence and to enforce promises, except when those promises are induced by duress or misrepresentation, or made by persons of manifest incompetence such as infants and insane persons.”⁵

The common law develops over time as successive judges discover the moral and logical implications of the principles of voluntary exchange in many different kinds of disputes in many different kinds of circumstances. Voluntary exchange contracts meet four criteria:

1. *Entitlement.* All parties to the contract must either own that which they offer to exchange, or they must be acting as the authorized agent of the owner(s). In employment contracts, workers own their labor and employers own the job (in the sense that they own or lease the plant and equipment and site at which the job is done). Workers and employers are free to hire or not hire agents to represent them in the labor market.

2. *Consent.* All parties to the contract must agree to enter into the contracting relationship—i.e., to bargain with each other—and to the terms at which any actual exchange takes place—i.e., the final outcome of the bargaining. No forced bargaining can result in a voluntary exchange contract.

3. *Escape.* All negotiating parties must be able to turn down any offers they do not like and walk away from the bargaining process without losing anything to which they are entitled. There is no requirement that bargaining continue until a satisfactory deal is made or that either side must make concessions.

4. *No misrepresentation.* No party to the contracting may defraud any other parties. That is, no one can tell a lie. This leaves room for honest error. Someone can make a claim that he believes to be true when made, even if it turns out later to be incorrect. Moreover, this criterion does not require the parties to tell all they know. It merely proscribes any person saying something he knows to be false.

Employers' Common Law Rights

Prior to Norris-LaGuardia and the NLRA, an employer had a common law right to resist the unionization of his firm. For example, as part of a job description, he was free to include a requirement that a prospective employee refrain from union-related activity. An employee who accepted a job offer that included that union-free (or so-called “yellow dog”) requirement was bound by his promise. A union that subsequently tried to get the employee to join a union and also to continue the employment relationship would be guilty of the tort of inducement of breach of contract.⁶ Note, the union-free agreement did not prevent workers from joining unions. They simply required that if a worker chose to join a union he had to sever the employment relationship. Prior to 1932 government enforced these union-free contracts like any other contracts.⁷ In 1932, Norris-LaGuardia made them unenforceable, and three years later the NLRA made them illegal.

Another way that an employer could legally resist unionization under the common law was to hold meetings with employees, on his time and premises, to try to convince them, without misrepresentation, that unions were a bad choice for employees. The NLRA imposed a gag order on employers. The NLRA forced employers to remain silent on the question of unionization. It was none of their business. It was up to the employees and the unions, without intervention from the employers, to decide the issue of unionization. Section 8(1) made it an “unfair labor practice” for an employer “to interfere with” the employee’s decision to unionize. While interference by means of force or fraud are properly enjoined, “interference” in the form of honest expressions of opinion to the effect that unions are bad for workers are not.

Another way an employer could legally resist unionization under the common law was to refuse to hire a worker who was known to want to unionize his firm. Workers in unionized firms are faced with conflicting demands for loyalty. If I run a union-free shop my employees will be more loyal to

the firm than if they are unionized. As an ordinary measure of self defense, the common law would allow me to refuse to hire anyone who would reduce the loyalty of my employees to my firm. Section 8(1) of the NLRA made it an unfair labor practice for an employer to discriminate for or against a worker based on his membership or non-membership in a union.

Employers also had a common law right to choose to promote unionism. For example, an employer was free to agree with a union to hire only workers who had chosen to be its members. So long as the employer and the union were not forced to bargain over the issue, and so long as both consented to the arrangement without coercion or misrepresentation, it was a voluntary exchange contract which the government was supposed to enforce. The NLRA forced employers to bargain with unions to set up such “closed shops.” Moreover, the unions with which the employers were forced to bargain were not made up of voluntary members. The NLRA forced all individual workers to be represented by the union that was “selected” by a majority of workers.

Employers had a common law right to set up their own unions. These were called company unions, and they were very common during the 1920s. They were programs by which employers sought to bring employees into some decision-making. They were early examples of what today are called worker-management cooperation schemes. They were also used by some employers to deflect the organizing efforts of independent unions. The NLRA made company unions illegal.

Other Special Privileges for Unions

The common law of property entitles an owner to “possess, use, and dispose” of that which he owns as he sees fit so long as in so doing he does not engage any other person in any involuntary exchange. Jones who seeks to enter, remain on, or use the property of Smith may do so only with Smith’s permission. Absent that permission, Jones is guilty of trespass. Moreover, if Jones blocks access of others to Smith’s

property, through force or threat of force, Jones is guilty of trespass. What then of union organizers, strikes, and picketing?

As we saw above, Section 8(1) of the NLRA made it an unfair labor practice for an employer “to interfere with” an employee’s decision to unionize. In addition to restrictions on employer speech, this was interpreted to prevent an employer from denying union organizers access to his plant. Suppose my employees are interested in signing up for computer instruction. A representative of a computer training firm shows up at my door asking to speak to my employees. I have a common law right to prevent that representative from entering my plant at any time and talking with my employees during working hours. But, under the NLRA, if a union organizer showed up at my door asking to speak with my employees, I could not keep him out of the plant. I could prevent him from talking with my employees while they were working, but I could not prevent him from talking with them, on my premises, during breaks.

A strike is more than just a collective withholding of labor by workers who each regard the employer’s offer of compensation (or some other proposal) to be inadequate. A strike is that, but it is also, through picket lines, an attempt to prevent replacement workers, suppliers, and customers from doing business with the struck firm. Mass picketing, even if it is peaceful, is intimidating. It is an implicit (and most often an explicit) threat of harm to anyone who crosses the line. As such, picketing is trespass against the common law property right of the strike target to do business with willing replacement workers, suppliers, and customers. The U.S. Supreme Court upheld that common law right in *American Steel Foundries v. Tri-City Central Trades Council* (257 U.S. 184 [1921]). The Court limited pickets to one per entrance, and stated that all pickets had to be actual employees of the firm being picketed. Strangers, nonstrikers bussed in by the union to create formidable picket lines, were forbidden to picket in strikes. The Court allowed one picket per entrance on free speech grounds, but disal-

lowed mass picketing and any picketing by strangers on grounds of the common law of property and trespass. Norris-LaGuardia repealed the Court's *Tri-City* decision. It permitted mass picketing, including picketing by strangers.

Worse than that, it allowed violent picketing to prevent replacement workers, suppliers, and customers from crossing the line. Norris-LaGuardia prohibited federal judges from issuing injunctions against picketing, or other strike activity, even if violence was involved. (It was left to the usually outnumbered local police officials to keep the peace.) Specifically, Section 7(c) of Norris-LaGuardia said no strike activity could be enjoined by a federal court unless testimony, subject to cross examination and accompanied by rebuttal testimony, had been taken which leads the judge to think "that as to each item of relief granted greater injury will be inflicted upon complainant [the employer seeking the injunction] by the denial of relief than will be inflicted upon defendants [the violent union picketers] by the granting of relief." Suppose a gang is raiding an office building. If Section 7(c) of Norris-LaGuardia applied, a judge could not enjoin the raid unless competing testimony led him to think that the damage to the building owner if the raid continues would be greater than the damage to the gang if the raid were stopped.

There is a common-law proscription of "combinations in restraint of trade." The 1890 Sherman Antitrust Act and the 1914 Clayton Act were codifications of that common law proscription. Prior to Norris-LaGuardia, labor unions were subject to the antitrust laws. Some secondary strikes (e.g., a strike of the employees of firm A against firm B that is a customer or a supplier of firm A) were enjoined as impermissible restraints of trade. Violent primary strikes were also sometimes enjoined on antitrust grounds. But Norris-LaGuardia gave unions immunity to the antitrust laws.⁸ Strikes, even violent strikes, and even secondary strikes, could not be enjoined on any grounds, whether trespass or antitrust, in federal courts.

The common law includes the doctrine of *respondeat superior*, or vicarious responsibility. If I am driving a delivery truck for my employer and I hit a pedestrian, I am liable for damages, and so, too, is my employer. As a driver for him, I am his agent. He is responsible for any damages I create. Under the common law, the same rule would apply to labor unions. Under the NLRA, if I am walking a picket line at the behest of a union, and I hit a replacement worker over the head with a hammer, I am liable for damages (and even criminal prosecution by local authorities), but the union that placed me on that picket line is not. Norris-LaGuardia gave unions complete freedom from vicarious responsibility. No union can be prosecuted for any of the acts of its strikers, no matter how violent or even if union bosses order the violence.

The heinous results of the special privileges granted to unions by Norris-LaGuardia are well illustrated in the case of *Apex Hosiery Co. v. Leader* (310 U.S. 409 [1940]). The employer was operating on an open-shop basis. The union wanted to force all 2,500 employees to unionize. Eight employees who were union members, joined by members of the same union who were employed by *other* firms (i.e., strangers to Apex), undertook a sitdown strike. In other words, they occupied the premises of the employer, prevented willing employees from working, and proceeded to destroy machinery on the shop floor. The company applied for an injunction against the union on Sherman Act grounds of a violent combination in restraint of trade including trespass on private property. In the end the U.S. Supreme Court denied the company any relief by claiming that Norris-LaGuardia protected unions from any antitrust prosecution. In the words of the Court, "Restraints not in the [Sherman] Act when achieved by peaceful means, are not brought within its sweep merely because, without other differences, they are attended by violence." So much for the basic responsibility of government "to prevent the private use of force and violence" and maintain the peace.

Workers' Common Law Rights

Workers also had a common law right to resist unionization. This was part of their freedom of association as guaranteed by the Bill of Rights in the U.S. Constitution. Each individual worker could decide for himself, notwithstanding what a majority of his colleagues might choose, whether to be represented by a union in the sale of his labor. A worker who wanted such representation joined the union and paid its dues. A worker who wanted to speak for himself in the sale of his labor neither joined a union nor paid its dues.

The NLRA destroyed the freedom of association of individual workers who wanted to remain union-free although a majority of their colleagues wanted to unionize. Specifically, Section 9(a) states that, "Representatives designated or selected for the purposes of collective bargaining by the majority of the employees in a unit appropriate for such purposes, shall be the exclusive representatives of all the employees in such unit for the purposes of collective bargaining in respect to rates of pay, wages, hours of employment, or other conditions of employment." Individuals are forbidden to represent themselves. They are forbidden to enter individual contracts with their employers.

Unionists excuse this tyranny of the majority on the grounds that it is democratic. But "democracy" is a form of *government* designed to give the governed some say over what the government does. Democracy is an institution originally conceived as a way of preventing government from trespassing on the protected private domain of human action. The Founders of the American republic never intended that the will of a majority should control anything except their short list of constitutionally authorized governmental activities. The sale of a private citizen's labor is not a governmental matter. It is a private matter. Under common law, government's only legitimate role in the employment relationship is to enforce voluntary exchange contracts.

Moreover, the "selection" made by a majority in Section 9(a) was not really dem-

ocratic. The National Labor Relations Board (NLRB) was given the authority to determine what a majority wants. There was no mandatory secret ballot election. Union "organizers," could solicit signatures of workers on an eyeball-to-eyeball basis. Workers who refused to sign often did so at their own risk. The NLRB could order an election, but it didn't have to. Inasmuch as members of the NLRB were selected from the ranks of union sympathizers, they usually certified exclusive bargaining agents without benefit of a vote.

The scheme was undemocratic in yet another respect. The NLRA did not require any regularly scheduled re-elections. Once certified as an exclusive bargaining agent, a union was presumed to continue to have majority support forever, even if all the workers that originally "selected" it left the firm and were replaced with new workers. The new workers never had any kind of say in the question.

To make matters worse, the NLRA forced employers to bargain with unions over whether to force all the employees represented by an exclusive bargaining agent to be, or become, dues-paying union members. Section 8(3) of the NLRA makes it an unfair labor practice for an employer "to encourage or discourage membership in any labor organization: *Provided*, that nothing in this Act . . . shall preclude an employer from making an agreement with a labor organization . . . to require as a condition of employment membership therein" [emphasis in original]. Note the duplicity: An employer cannot encourage or discourage membership in a union, he can only require it.

Forced union membership is called "union security." Unions were granted security against workers who want to be union-free. Thus workers who didn't want to associate with unions were coerced in two ways. They were forced to have a union "selected" by a majority of their colleagues represent them, and they were forced to pay tribute (dues) to those unions as a condition of continuing their employment relationship with their employers.

Unions defended their union security (forced membership) schemes on the grounds that since Section 9(a) forced unions "selected" by a majority to represent all workers, it was only fair for all workers to be members. Otherwise a minority would be "free-riders." They would get the benefits of union representation for free. Of course, if unions represented only their voluntary members, only those who individually wanted union representation, there could be no free-riders. Unions, and the politicians in their thrall, were not embarrassed by the fact that they fought long and hard to get the privilege of exclusive representation and then claimed that exclusive representation "forced" them to represent all workers who therefore must be forced to join and pay dues.

The common law, as we have seen, is based on voluntary exchange contracting between individuals. The preambles of both Norris-LaGuardia and the NLRA asserted that workers do not have "actual liberty of contract," thus the common law was inadequate to protect the rights of workers. Employees were, the preamble to the NLRA asserted, on the short end of an "inequality of bargaining power," with employers. This idea that workers on their own are helpless in the labor market so they need unions for self-defense is a hoary myth. As W. H. Hutt⁹ and, later, Morgan Reynolds¹⁰ have demonstrated, data falsify the myth. In the nineteenth century, long before the existence of significant unionization in the United States, real wages were on a strong upward trend, and worker-initiated job switching was frequent and became increasingly common. Contrary to the view that says large-scale employers exploited unorganized workers, large firms paid workers more than small firms. Contrary to the claim that employers had unfair bargaining power because unorganized workers could not afford to turn down even poor job offers, workers with savings weren't able to bargain for better wages than workers without. Finally, contrary to the conventional wisdom that unions were necessary to offset employer combinations designed to keep

wages low, most employer associations were formed in self-defense against unions that had already been formed to attempt to take wages out of competition.

The question of bargaining power in voluntary exchange contracting is one of alternatives. The labor market is like any other market. Buyers (employers) compete with other buyers, and sellers (employees) compete with other sellers. When a buyer and seller come together to bargain on a mutually beneficial exchange, their bargaining power depends on those two types of competition. Other things being equal, the employee has more bargaining power when there is strong competition among employers to hire his type of labor and when there is weak competition among other workers trying to sell his type of labor. Other things equal, the employer has more bargaining power when there is weak competition among employers seeking to hire similar labor and strong competition among workers seeking to sell similar labor. Obviously, insofar as a worker is not responsible for denying an employer access to other workers selling similar labor, there are no moral grounds for government to favor the employer over the worker. Why then, insofar as an employer is not responsible for denying a worker access to alternative employment opportunities, should government favor the worker over the employer? The Fourteenth Amendment to the U.S. Constitution is supposed to guarantee the employer and the employee "equal protection of the laws."

The Taft-Hartley Act

The Taft-Hartley Act is named after its principal sponsors: Senator Robert A. Taft and Representative Fred A. Hartley, Jr. The purpose of the legislation was to "restore some balance" between unions and employers, by curbing the power of unions. Whereas the preamble of the NLRA blamed employers for the ills the legislation was supposed to cure, the preamble of Taft-Hartley assigned equal blame to unions and employers. Whereas the announced intent

of the NLRA was to promote and assist unions, the announced intent of Taft-Hartley was to protect the rights of workers, unions, and employers. Whereas under the NLRA the official job of the NLRB was to get workers into unions, under Taft-Hartley its official job was to be a neutral umpire in labor disputes.¹¹ Whereas the NLRA assured the right of workers to unionize, Taft-Hartley added a right of workers to refrain from organizing. Whereas the NLRA listed only employer unfair labor practices, Taft-Hartley added a list of union unfair labor practices. There is no doubt that Taft-Hartley did tip the scales toward more balance. However, it fell far short of achieving that balance.

The union movement labeled Taft-Hartley the "Slave Labor Bill" when it tried, unsuccessfully, to defeat it in Congress in 1947. The union movement referred to Taft-Hartley as the "Slave Labor Act" in its successful attempt to re-elect President Truman and restore both houses of Congress to the Democrats in the elections of November 1948.¹² Notwithstanding that victory, the union movement failed subsequently to repeal Taft-Hartley. It is still the law of the land. Far from a slave labor act, I think it is better labeled the "Continued Forced Unionism Act of 1947."

First, Taft-Hartley didn't reach many of the points raised in the previous section at all. Union-free (or "yellow dog") contracts are still illegal. Employers are still not free to refuse to hire union sympathizers. Employers are still not free to form company unions and offer them to their employees as alternatives to independent unions. In fact, in 1992 the NLRB ruled that a worker-management cooperation program in a non-union firm was an illegal company union and was used by the employer in an illegal way to discourage unionization.¹³ Now, it seems, labor-management cooperation that is not union-management cooperation is illegal. Mass picketing by strangers is still legal. Unions are still immune to the anti-trust laws. They are still exempt from the common-law principle of vicarious responsibility; and, in primary strikes, they are still

immune to injunctions against any, including violent, strike activity. In *United States v. Enmons* (410 U.S. 396 [1973]) the Supreme Court explicitly granted unions immunity to the Hobbs Anti-Extortion Act.¹⁴ As long as their activities are related to their legitimate purposes in a primary strike, they can be as violent as they like. Individual perpetrators of violence are liable to prosecution by local authorities, but the unions themselves are not. Taft-Hartley did affect some points raised in the first section, but inadequately. It restricted union secondary strikes, but the NLRB found ways around the restrictions, so in 1959 the Congress had to strengthen those restrictions in Title VII of the Landrum-Griffin Act. The restrictions are still inadequate.

Taft-Hartley did not directly affect the access of union organizers to employers' property, but it did so indirectly. In 1956 the Supreme Court, in *NLRB v. Babcock & Wilcox* (351 U.S. 105), apparently inspired by the intent of Taft-Hartley to restore balance, made a distinction between union organizers who are already employees and those who are not. The former were granted unrestricted access, the latter were granted access if they had no other means of communicating with the workers they sought to organize. This was called the principle of accommodation. In 1992, the Court, in *Lechmere v. NLRB* (502 U.S. 527), the first majority opinion written by Justice Clarence Thomas, greatly restricted this principle of accommodation to those (very few) cases of worker isolation such as in residential logging camps.

The authors of Taft-Hartley tried to address the issue of employer free speech. Section 8(c) of the Act states that "The expressing of any views, argument, or opinion, or the dissemination thereof, whether in written, printed, graphic, or visual form, shall not constitute or be evidence of an unfair labor practice under and of the provisions of this Act, if such expression contains no threat of reprisal or force or promise of benefit." It is supposed to apply equally to unions and to employers, but, in practice, it does not. For example, employers are

forbidden to promise a pay raise in exchange for a worker's vote against a union in a certification (or representation) election. But unions can promise a pay raise to a worker in exchange for a vote in favor of a union in the same election. The fig leaf that covers that unequal protection of the law is that unlike the employer, the union doesn't promise the pay raise out of its own pocket. Worse, in *NLRB v. Gissel Packing Co.* (395 U.S. 575 [1969]) the Supreme Court said that the employer was guilty of an unfair labor practice because, during a certification election, the employer claimed that it was not financially strong so that if the union were certified and then called a strike the plant may have to be closed. The Court said that an employer may express general views about unions, but any predictions of consequences of any specific unionization must be limited to consequence beyond the employer's control. So much for meaningful free speech.

While the NLRA imposed a duty on employers to bargain with certified unions, the unions had no such duty; they could refuse to bargain with impunity. Taft-Hartley imposed a duty to bargain on unions as well as employers. Moreover the bargaining had to be in "good faith." In practice this means that employers (and, to a smaller extent, unions) have to grant concessions during the bargaining. For example, in *NLRB v. General Electric Co.* (418 F. (2d) 736 [1969]), the employer was found guilty of an unfair labor practice because its representative placed a proposal before the union negotiators and, in effect, said take it or leave it. The employer refused to grant concessions. Note that this, too, is a restriction on employer free speech. In this case the employer arrived at his offer by polling the workers to see what they would consider reasonable. The employer was chastised for dealing with the union through the employees rather than, as Taft-Hartley requires, dealing with the employees through the union.

Taft-Hartley did make some significant changes with regard to the "selection" of unions to be exclusive bargaining agents.

First, it mandates secret ballot elections unless the employer agrees to waive an election. The employer cannot recognize a union as the exclusive bargaining agent unless the union has majority support. Most of the time employers insist on an election as the only way a union can demonstrate that majority support. Sometimes, however, an employer will recognize a union on the basis of signed authorization cards. If a union gets at least 30 percent of the workers it seeks to unionize to sign authorization cards, it can petition the NLRB to hold a secret ballot certification election.

Taft-Hartley also added a decertification election process to the law. Once certified, a union is still presumed to have majority support indefinitely, even if all the workers that voted for the union are no longer employed by the firm; but disgruntled employees may attempt to decertify the union. Employers must keep hands off the process, but if individual employees are able to collect the signatures of at least 30 percent of the relevant workers on a petition requesting a decertification election, the NLRB will order such an election. It is as if a member of Congress could hold his office indefinitely unless some voters in his district got at least 30 percent of the eligible voters in his district to sign a petition requesting a recall election.

More importantly, Taft-Hartley did nothing to exclusive representation itself. It is still true that if a majority of workers who vote in a certification election vote in favor of a union, that union is the exclusive bargaining agent for all workers in the unit. It represents the workers who voted for it, the workers who voted for another union, the workers who voted to be union-free, and the workers who didn't vote. It still is a winner-take-all system subject to the same objections raised in the first section of this essay.

Taft-Hartley also made some significant changes with regard to union security. It outlawed the closed shop, but put the union shop and the agency shop in its place. In the former, a worker doesn't have to be a union member to be hired, but after a probationary

period he must join the union as a condition of continued employment. The British call the union shop a post-entry closed shop. In the agency shop version of union security, workers don't have to join unions to keep their jobs; they just have to pay union dues. It is still the case that employers are forbidden to encourage or discourage workers from affiliating with unions, they can only compel workers to do so. However, Section 14(b) of Taft-Hartley does affect union security in a significant way. It allows the individual state governments to pass right to work laws within their own jurisdictions. Twenty-one states have done so. In those states, unions and employers are forbidden to include any union security clauses in their collective bargaining agreements. In the 29 states that have failed to pass right-to-work laws, the objections raised to union security in the first part of this essay still apply.

Congress is currently debating a National Right to Work Bill, which would make all union security schemes in the private sector illegal, but President Clinton is sure to veto it. It is likely that there are insufficient votes to override the veto.

Government-Sector Unionism

Government employees were exempted from coverage under both the NLRA and Taft-Hartley. Until 1962 government employee unionism was widely regarded as unthinkable, even by union-friendly politicians such as Franklin Roosevelt and Harry Truman. However, in that year President Kennedy issued Executive Order 10988 which authorized limited, but mandatory, collective bargaining by unions representing federal employees. In Title VII of the Civil Service Reform Act of 1978, the principle of exclusive representation was imposed on federal employees, but they were spared the principle of union security. There is still a limited scope of collective bargaining. For example, federal employee unions cannot bargain over wages. Nevertheless, in 1993 President Clinton appointed the National Partnership Council whose charge it is to promote the imposition of the full burdens

of private sector unionism on federal employees. With the present (104th) Congress, there is little likelihood that will happen.

After President Kennedy's executive order, state after state imposed the full burdens of private-sector unionism on state and local government employees. At present 24 states have done so. In 1994 President Clinton appointed the Task Force on Excellence in State and Local Government through Labor-Management Cooperation to study the possibility of enacting a national government employees labor relations law to force all states to adopt Taft-Hartley-style unionism for their state and local government employees. Again, the 104th Congress is unlikely to cooperate.

However, the government sector is the only place where unionism flourishes today. In the private sector only 10 percent of the labor force are unionized. In the government sector, 39 percent are.¹⁵ The peak year of private-sector density was 1953, when it was 36 percent. In that year figures on government-sector density weren't even collected. Government-sector unionism was almost nonexistent, and where it did exist it was not officially recognized.

According to Leo Troy, private-sector density will be below seven percent in the year 2000, about where it was in 1900, before Norris-LaGuardia and the NLRA. Troy calls this the symmetry of history.¹⁶ The primary reasons for the decline of private-sector unionism are the globalization of economic competition and technological changes. Competitive pressures have made it virtually impossible for employers to pass union-based cost increases forward to consumers so the employers are more resistant to unionism than they were in the past. Advances in technology have greatly decreased the market shares of blue-collar industries in which private-sector unionism had its strength. Private-sector unionism is declining in all major industrial countries.

The real threat of unionism to freedom is now in the government sector. The new president of the AFL-CIO is John Sweeney, the erstwhile president of the Service Employees International Union, which consists

"The Humphreys family found FEE through The Freeman when a businessman calling on Jay Humphreys, president of TAMKO, gave him an issue of the magazine with the admonition, 'You had better know what you believe, and be able to articulate it when you negotiate with a union. Reading this will help you.' That was in 1958. And Jay was the first to agree. It did help, not only in negotiations, but in translating an understanding of liberty and human action to all phases of managing a business.

When I remember Leonard Read, I think first of the vital man he was — his confident manner, his quick stride, his zest for his work, his charismatic personality. His flair for the dramatic permeated his writing and his talks. Whoever has seen his demonstration with the candlelight of freedom glowing in a dark room surely cannot forget the emotions Leonard's performance evoked."

— Ethelmae Humphreys
Chairman, TAMKO Roofing Products

primarily of government employees. There are three reasons that government-sector unionism is flourishing. First, government agencies are usually monopoly providers of their products and services so it is easy for government employers to pass union-based cost increases on to customers (taxpayers). Second, government unions and government agencies that employ government workers are actually on the same side of the bargaining table. It is in the interest of both groups to pick the pockets of taxpayers and to have their budgets and responsibilities grow. Troy calls government-sector unionism the "new socialism." It is primarily an attempt to redistribute more and more of the national income to government. Third, to a large extent the government-sector unions have organized the already organized. Union organizers, aided by favorable legislation, merely converted already established public-employee associations into unions.

Government-sector unionism is inherently anti-democracy.¹⁷ Unionists have long argued that employment in the government sector is the same as employment in the private sector. If we allow unionism in the latter, we must do so in the former. But this argument doesn't work. Think how collective bargaining is done in the private sector. First, the employer is forced to bargain in good faith with a certified union. The employer must make concessions to the union. Second, the employer is forbidden to deal with workers directly. The union's approval is necessary before the employer decides anything that comes under the scope of collective bargaining. Third, the bargaining is done behind closed doors with both sides legally bound to keep the negotiation confidential until either an impasse or an agreement is reached. In sum, the employer is forced to share decision-making power with the union, and the general public is excluded from the process.

Now, wages and salaries and other terms and conditions of employment in the government sector are matters of public policy. Collective bargaining in government, on the private-sector model, means that government is forced to share its making of public policy with a private organization, on an *exclusive* basis. The general public is forbidden to participate in the process. The Constitution established three branches of government: the executive, the legislature, and the judiciary. There is no fourth branch of government called unions of government employees. Government employee unions don't just lobby government on matters of public policy like other special interest groups, the Sierra Club, for example. They actually *co-determine* public policy with the government. This is the model from Mussolini's Italy.

Government workers are citizens like any other citizens. Therefore, they should have the same influence on public policy as any other group of citizens. But they shouldn't be given the disproportionate influence that mandatory, closed-door bargaining with exclusive bargaining agents in the government sector gives them. It is undemocratic for government employees to conspire with government agencies, in rooms from which taxpayers are excluded, on the size of the government budget.

In the private sector the optimal amount of unionism is whatever would emerge under neutral legislation. Government should neither support nor inhibit private-sector unionism. However, the optimal amount of unionism in the government sector is zero. It amounts to taxation of the people, by the unions, for the unions.

In Conclusion

The fiftieth anniversary year of the Foundation for Economic Education could be a watershed year in labor relations law. If the 105th Congress, which will be elected this November, is a bit more sympathetic to individual liberty than the incumbent 104th Congress (especially the Senate), and if the office of the President is filled by a similarly

inclined person, all existing labor relations law could be scrapped.

Abolishing exclusive representation would protect the right of each individual to select representatives "of his own choosing." If unions bargained for their voluntary members and no one else, union security would be moot. Moreover, returning to the common law of contract would mean making collective bargaining voluntary instead of compulsory, and restoring the right of workers and employers to resist unionization. We could return to the common law of property, by allowing owners themselves, rather than the NLRB, to decide who has access to their property. In sum, the only "unfair labor practices" would be those that are inconsistent with the principles of voluntary exchange. □

1. Fred A. Hartley, Jr., *Our New National Labor Policy* (New York: Funk & Wagnalls Co., 1948), p. 16.

2. *Ibid.*, p. 18.

3. *Ibid.*, p. 41.

4. Richard A. Epstein, "A Common Law for Labor Relations: A Critique of the New Deal Labor Legislation," *The Yale Law Journal*, Volume 92, Number 8, July 1983, pp. 1357-1408.

5. *Ibid.*, p. 1359.

6. *Ibid.*, p. 1374.

7. See, for example, *Hitchman Coal & Coke Co. v. Mitchell*, 245 U.S. 229 (1917). Interestingly, Morgan Reynolds, *Power and Privilege*, (New York: Universe Books, 1984), pp. 98-100, showed that at least in this case the union-free agreements were initiated by *employees* to inhibit the United Mine Workers Union organizers.

8. Many free-market economists say that there should be no antitrust laws at all. D. T. Armentano says they have been misused to protect specific competitors rather than the process of competition. My view is that if we have antitrust laws they ought to be applied equally to employers and to unions.

9. W. H. Hutt, *The Strike Threat System* (New Rochelle, N.Y.: Arlington House, 1973), Chapter 16.

10. Morgan O. Reynolds, *Power and Privilege: Labor Unions in America*, *op. cit.*, Chapter 3.

11. R. Alton Lee, *Truman and Taft-Hartley* (Lexington, Ky.: University of Kentucky Press, 1966), p. 184.

12. *Ibid.*, Chapters 4-7.

13. Charles W. Baird, "Are Quality Circles Illegal? Global Competition Meets the New Deal," *Cato Briefing Papers* No. 18, The Cato Institute, Washington, D.C., February 10, 1993. The case was *Electromation* 309 NLRB No. 163.

14. For an exhaustive record of union violence from 1947 through 1983, see Armand J. Thieblot, Jr., and Thomas R. Haggard, *Union Violence: The Record and the Response by Courts, Legislatures, and the NLRB*, The Wharton School, Industrial Research Unit, University of Pennsylvania, 1983.

15. Leo Troy, "Private-Sector Unionism Weakens," *The Wall Street Journal*, September 1, 1995, op-ed page.

16. For an excellent discussion of the history and prospects of government-sector unionism and the decline of private-sector unionism, see Leo Troy, *The New Unionism in the New Society* (Fairfax, Va.: George Mason University Press, 1994).

17. Robert S. Summers, *Collective Bargaining and Public Benefit Conferral: A Jurisprudential Critique* (Ithaca, N.Y.: Institute of Public Employment, Cornell University, 1976).

Banking and Freedom in the Fifty Years of FEE

by Steven Horwitz

The regulatory changes undergone by the U.S. banking system in the fifty years since the founding of FEE are a very close reflection of the broader intellectual changes that have taken place during the same period, many of which are due to the effort of people associated with the Foundation. One can plausibly argue that, in several respects, the U.S. banking system is less burdened by regulations than at any time in the past. At the same time, however, the regulations that do remain hamper the operation of profitable banks, harm consumer welfare, and continue to undermine the safety and stability of the U.S. banking system. The grudging removal of some regulations by the federal and state governments has enabled banks to provide a range of products and services (both economically and geographically) that was unheard of just a couple of decades ago. If deregulation of the banking industry continues into the next century, American consumers will more fully reap the benefits of freedom in this most central of industries.

The American banking industry of 1946 would seem odd to someone who has come of age in the 1980s and '90s. Banking insti-

tutions were rigidly divided into commercial banks or savings and loans associations; neither was able to operate across state lines, and many states prevented both from operating branches even *within* the state. Options for consumers were extremely limited—for most, simply a choice between a passbook savings account that could earn no more than 5 percent interest, and a checking account that, by law, could earn no interest. Financial institutions were frequently “mom-and-pop” operations, with many observing so-called “bankers’ hours” of 10 to 3, and almost all facing relatively little competition from nonbank providers of financial services.¹ There were no ATMs, no mutual funds, very few credit cards, just one kind of mortgage, and virtually no price competition because of price controls on interest payments.²

In the intervening decades, the banking industry has undergone numerous changes, many due to investments in advancing technology that has made new kinds of financial services available to consumers. A list of examples would be quite lengthy, but one group should make the point. The development of high-speed computers and the associated communications technology have made possible ATM machines, wire transfers, and a variety of sophisticated financial instruments that depend on computer calculations to figure the riskiness of alternative financial assets in a portfolio. The

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explosion of choices available to consumers of even modest means is tribute to both the market's ability to generate technological innovation through competition (where that freedom is allowed) and the prosperous standard of living in the United States that has enabled consumers to demand more sophisticated financial instruments.

The Push for Change

In addition, many of the industry's changes have been due to genuine deregulation, the push for which has come from three sources. First, the inflation of the 1970s radically changed the banking industry by creating problems it had never faced before. Second, the advances in technology and communications that simplified the moving of money made the existing geographic restrictions on banking seem even more archaic than they already were. Third, the general skepticism toward centralized government solutions that emerged in the 1980s (a result of historical events both here and abroad and changes in the intellectual landscape) generated political support for deregulation.³

The inflation of the 1970s was responsible for a number of changes in the banking industry, dealing primarily with the price controls on interest rates. As inflation caused interest rates to rise as high as 20 percent by 1980, consumers and banks faced serious problems. For consumers, the problem was finding a place to put money that could earn rates of interest that would compensate them for the ongoing inflation. If the inflation rate was 10 percent, then money deposited in a standard checking account that paid no interest eroded by 10 percent per year. Passbook savings accounts offered only about 5 percent interest and did not allow checks to be written against them. Neither option was desirable. As a result, consumers wanted to find ways around the price controls to earn competitive interest rates on their bank balances.

One option, buying large denomination financial instruments that were allowed to pay higher rates of return, was frequently

out of the reach of small savers. The brilliant entrepreneurial solution to this problem during the mid-1970s was the money market mutual fund. These funds (often operated by nonbank financial institutions) would pool the savings of their customers and, in turn, buy large denomination certificates of deposit (over \$10,000), which were not subject to the interest rate controls. After subtracting administrative costs and profits for itself, a money market fund would pay its customers slightly less than what it earned from the CDs, but far more than depositors were receiving from standard checking or savings accounts. The result was a major drain of funds away from conventional banks, toward financial institutions that were offering the new money market instruments.

Of course the banks did not stand idly by while this was happening. They appealed to regulators to allow them to offer special kinds of interest-bearing checking accounts akin to the money market mutual funds. They also lobbied for the removal of the interest rate controls that dated back to the mid-1930s. Both of these efforts were successful and now banks can offer a wide range of mutual fund instruments and are free to pay competitive interest rates on standard checking accounts. In these ways, banks are notably freer than they were fifty, or even twenty-five, years ago.

Often overlooked in the popular press was that the savings and loan failures of the 1980s were rooted in the inflation of the 1970s. As interest rates rose due to inflation, savings and loans who had granted thirty-year mortgage loans at low, fixed rates of interest found themselves in trouble. They were only earning five or six percent on their loans, but had to pay up to 20 percent to bring in new funds. This combination was a recipe for disaster, and sent many savings and loans into a tailspin as early as the middle and late 1970s. In addition, double-digit inflation also spurred the development of adjustable-rate mortgages, as well as the whole secondary market in mortgage-backed securities, as ways for banks to shield themselves against interest rate risks. In so doing, the banks also offered new

options to consumers who might prefer adjustable rates if they believed interest rates would fall in the future.

As the troubles of the savings and loans continued on into the early 1980s, the acquisition of failing institutions by stronger banks or savings and loans was seen as a way to avoid some of the most harmful effects of bank failures. However, federal regulations limited such opportunities by restricting interstate mergers and acquisitions, particularly for savings and loans. In 1983, Congress passed the Garn-St Germain Act, which allowed interstate mergers and acquisitions if the acquired institution was in serious trouble. Although brought on by previous government activity (i.e., the inflation), this regulatory change was a step in the right direction, and opened the door to further activity in interstate banking.

Along with the need to address the devastating effects of inflation on the banking system, two other factors were crucial to ending the geographic limitations on banks and savings and loans. As communications technology continued to change, as domestic and international markets expanded, and as the population became more mobile, the limits on interstate banking—cemented in place in the 1920s—became increasingly burdensome. In addition, the high concentration of bank and savings and loan failures in Texas and Oklahoma after the fall in oil prices in the 1980s also suggested that interstate banking was desirable. The oil-state banks had significant limits on their ability to make loans across state lines. As a result, they were heavily tied to oil-related firms. When oil prices fell, the firms collapsed, taking the banks along with them.⁴ Both banks and policy makers recognized that increased opportunities for geographic diversification were needed.

From about the mid-1970s forward, some states began to address the interstate banking issue through a loophole in the law. The Douglas Amendment to the Bank Holding Company Act of 1956 allowed individual states to admit banks from other states by a specific legislative act. For example, New

York could negotiate an arrangement with New Jersey to allow each other's banks to cross the state line. From the mid-1970s onward, states began to make just these sorts of arrangements, in most cases by forming regional reciprocal agreements.⁵ In the last five years or so, most states have opened their borders to any other state that is willing to reciprocate. Moreover, as of September 1995, national legislation went into effect that allows banks from all states to merge with or acquire banks in any other state. These changes in the interstate banking laws are among the most significant deregulatory moves in the recent history of banking. They promise to provide heightened competition and greater safety in the years to come by allowing banks to better diversify their loan portfolios.

Despite these gains, significant problems still exist with the regulatory structure of the banking system, three of which I will briefly discuss. Perhaps the most important is the federal deposit insurance program. Banks are forced to pay premiums into a fund designed to pay the depositors of failed banks. Because premiums are based solely on amounts deposited without regard to portfolio risk, banks are inclined to worry less about risky lending practices.

One factor contributing to the crisis of savings and loans was Congress' allowing them to enter the commercial real estate market in the early 1980s—by itself not a mistake as it allowed diversification—at the same time it raised the maximum amount covered by deposit insurance from \$40,000 to \$100,000, thereby giving the savings and loans both more ability and more incentive to undertake risky loans. When the real estate market took a tumble later in the 1980s, many banks and savings and loans were taken down with it. Industry analysts have pointed out that 43 percent of the total losses of savings and loans were due to bad real estate investments. Had the deposit insurance ceiling not been raised (or not existed at all) and had savings and loans been able to lend across state lines more easily, the overall riskiness of their loan portfolios would have been lower and the

"Attending FEE seminars, reading the literature, and making great friendships there has meant a remarkable professional life for me. It was a Henry Hazlitt book from FEE, The Failure of the 'New Economics', that brought me in touch with the Committee for Monetary Research & Education, an organization that has become respected throughout the nation and abroad.

As FEE moves into the next fifty years, its work is more important than ever and will continue to serve as a vital foundation for a better society and nation."

*— Elizabeth B. Currier
President, Committee for Monetary
Research & Education, Inc.*

number of failures would have been far less. Reforming, abolishing, or privatizing federal deposit insurance remains one of the most important policy issues facing the banking industry as a new century is about to begin.

A second set of regulation still plaguing banks, and, according to a survey of bankers, the single most costly set of regulations they face, are those associated with the Community Reinvestment Act of 1977. This law forces banks to make a certain percentage of their loans to individuals and businesses in their local area, and requires an immense amount of paperwork to document their compliance. Beyond the waste of the paperwork, the CRA increases the riskiness of banks by forcing them to make loans to borrowers to whom they would not otherwise lend. The CRA amounts to a wealth redistribution program with banks as the means. In the end, consumers and taxpayers carry the burden either because banks are forced to forgo making other loans (what economists call an opportunity cost) or government bails out depositors of banks who fail due to too many bad loans. The CRA seems likely to linger on as onerous as ever despite efforts by the Congressional

majority to weaken or eliminate it.⁶ Ending the CRA would both release needed bank resources and enhance the stability of the U.S. banking system.

The third set of restrictions on banking freedom is a much more fundamental one. The span of FEE's existence is virtually identical with the period during which the Federal Reserve has become the dominant policy-making force in the U.S. economy. It has done so by being insulated from any political or economic constraints on its decision-making power. The wide range of discretion given to the Fed to promote "full employment" reflects the intellectual atmosphere of 1946, also the year in which the full employment mandate was thrust upon the Fed. In the fifty years since, the increased skepticism concerning government in general, and of discretionary monetary policy in particular, has led many economists to challenge the validity of the task assigned to the Fed. In 1996, Congress may consider removing the "full employment" mandate on the Fed, and its concomitant discretionary power, replacing it with a mandate for price stability.⁷

The downside of such a policy change is that the most important and fundamental

power of the Fed, its monopoly over the production of currency, would remain undented. This monopoly is what ultimately enables the Fed to change the money supply as it deems appropriate and gives it the power to inflate away the value of the dollar. Binding the Fed to price stability (while arguably better than full employment) is still theoretically controversial among free-market economists and leaves intact the Federal Reserve's *power* to inflate. Challenging the Fed's monopoly over the production of currency and removing the dollar's fiat status will remain important tasks facing free-market thinkers in the next fifty years.

As we have seen from the changes in the former Soviet Union and Eastern Europe, the ruling ideas of the mid-1940s are fading from the scene, being replaced by ideas from scholars who were fortunate enough to have access to the ideas and resources of organizations like FEE who kept alive the classical liberal tradition through its darkest days. The changes that have occurred, and the minor victories that have been won, are surely not enough, and the power of the old ideas lingers on in the existing regulations and government power which shackle the creative energy of the U.S. banking system.

The next fifty years hold great promise for building on the changes we have already seen and increasing the level of freedom in the U.S. banking industry. □

1. Bankers' hours were not as much of a problem at a time when most families had only one adult working full-time during the day. Housewives could do the banking during the daytime hours when banks were open. It is also true that the limited hours tended to create lines at banks, especially when drive-up windows and ATMs were not as common as today, creating additional inefficiencies.

2. Of course banks skirted these controls by offering non-monetary forms of interest such as free toasters or clock-radios when you opened a new account. The primary effect of the interest rate ceilings was to divert resources into less efficient forms of interest—an important lesson for the ongoing discussion of price controls in the health-care industry.

3. It is worth mentioning that this was not a Republican Party phenomenon. One of the co-sponsors of the airline deregulation bill was Ted Kennedy, and one of the co-sponsors of the recently enacted interstate banking bill was Don Riegle, both Democrats.

4. This is also one response to those who blame the savings and loan crisis on "deregulation." If that was the case, why were so many failures concentrated in two states, and states that severely limited the ability of their banks to diversify? If it was just "deregulation" we would expect the failures to be more widely distributed.

5. Some states immediately invited banks from any and all other states into theirs.

6. The banking bill passed in the House on September 28, 1995, included several deregulatory moves, but did not touch the CRA. Any moves toward its reform or abolition will probably have to wait until after the 1996 elections.

7. As of October 1995, a bill was pending in Congress to make such a switch. Whether it will come to the floor and get the needed votes remains unclear. Another measure of the change in the intellectual landscape is that a presidential candidate (Steve Forbes) could publically call for a return to the gold standard without threat of ridicule.

"I was introduced to FEE by my father, Carl Taylor, when I was an undergraduate student at the University of Wisconsin in Madison during the early '50s. I was a member of the varsity debate team all four years. I found the FEE materials to be the very best information available to develop my debate case each year and to supply timely and accurate rebuttal material.

This introduction was so effective that I remained a contributor and an avid learner since. In turn, I introduced my son Ty to FEE and we attended a week-long seminar together in 1988.

I was surprised and delighted when Hans Sennholz invited me to become a member of the Board of Trustees."

*— Don L. Taylor
Retired President, Waukesha State Bank*

The Economic Foundations of Freedom

by Ludwig von Mises

Animals are driven by instinctive urges. They yield to the impulse which prevails at the moment and peremptorily asks for satisfaction. They are the puppets of their appetites. Man's eminence is to be seen in the fact that he chooses between alternatives. He regulates his behavior deliberately. He can master his impulses and desires; he has the power to suppress wishes the satisfaction of which would force him to renounce the attainment of more important goals. In short: man acts; he purposively aims at ends chosen. This is what we have in mind in stating that man is a moral person, responsible for his conduct.

Freedom as a Postulate of Morality

All the teachings and precepts of ethics, whether based upon a religious creed or whether based upon a secular doctrine like that of the Stoic philosophers, presuppose this moral autonomy of the individual and therefore appeal to the individual's conscience. They presuppose that the individual is free to choose among various modes of conduct and require him to behave in

Professor Mises (1881–1973), one of the century's pre-eminent economic thinkers, was academic adviser to the Foundation for Economic Education from 1946 until his death.

This article first appeared in the April 1960 issue of The Freeman.

compliance with definite rules, the rules of morality. Do the right things, shun the bad things.

It is obvious that the exhortations and admonishments of morality make sense only when addressing individuals who are free agents. They are vain when directed to slaves. It is useless to tell a bondsman what is morally good and what is morally bad. He is not free to determine his comportment; he is forced to obey the orders of his master. It is difficult to blame him if he prefers yielding to the commands of his master to the most cruel punishment threatening not only him but also the members of his family.

This is why freedom is not only a political postulate, but no less a postulate of every religious or secular morality.

The Struggle for Freedom

Yet for thousands of years a considerable part of mankind was either entirely or at least in many regards deprived of the faculty to choose between what is right and what is wrong. In the status society of days gone by, the freedom to act according to their own choice was, for the lower strata of society, the great majority of the population, seriously restricted by a rigid system of controls. An outspoken formulation of this principle was the statute of the Holy Roman Empire that conferred upon the princes and counts of the Reich (Empire) the power

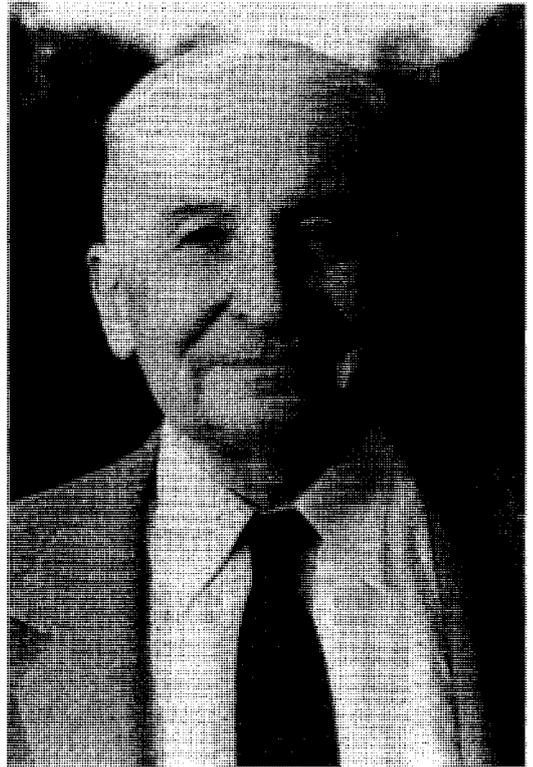
and the right to determine the religious allegiance of their subjects.

The Orientals meekly acquiesced in this state of affairs. But the Christian peoples of Europe and their scions that settled in overseas territories never tired in their struggle for liberty. Step by step they abolished all status and caste privileges and disabilities until they finally succeeded in establishing the system that the harbingers of totalitarianism try to smear by calling it the bourgeois system.

The Supremacy of the Consumers

The economic foundation of this bourgeois system is the market economy in which the consumer is sovereign. The consumer, i.e., everybody, determines by his buying or abstention from buying what should be produced, in what quantity, and of what quality. The businessmen are forced by the instrumentality of profit and loss to obey the orders of the consumers. Only those enterprises can flourish that supply in the best possible and cheapest way those commodities and services which the buyers are most anxious to acquire. Those who fail to satisfy the public suffer losses and are finally forced to go out of business.

In the precapitalistic ages the rich were the owners of large landed estates. They or their ancestors had acquired their property as gifts—feuds or fiefs—from the sovereign who, with their aid, had conquered the country and subjugated its inhabitants. These aristocratic landowners were real lords as they did not depend on the patronage of buyers. But the rich of a capitalistic industrial society are subject to the supremacy of the market. They acquire their wealth by serving the consumers better than other people do and they forfeit their wealth when other people satisfy the wishes of the consumers better or cheaper than they do. In the free market economy the owners of capital are forced to invest it in those lines in which it best serves the public. Thus ownership of capital goods is continually shifted into the hands of those who have best



Ludwig von Mises

succeeded in serving the consumers. In the market economy private property is in this sense a public service imposing upon the owners the responsibility of employing it in the best interests of the sovereign consumers. This is what economists mean when they call the market economy a democracy in which every penny gives a right to vote.

The Political Aspects of Freedom

Representative government is the political corollary of the market economy. The same spiritual movement that created modern capitalism substituted elected officeholders for the authoritarian rule of absolute kings and hereditary aristocracies. It was this much-decried bourgeois liberalism that brought freedom of conscience, of thought, of speech, and of the press and put an end to the intolerant persecution of dissenters.

A free country is one in which every citizen is free to fashion his life according to his own plans. He is free to compete on the

market for the most desirable jobs and on the political scene for the highest offices. He does not depend more on other people's favor than these others depend on his favor. If he wants to succeed on the market, he has to satisfy the consumers; if he wants to succeed in public affairs he has to satisfy the voters. This system has brought to the capitalistic countries of Western Europe, America, and Australia an unprecedented increase in population figures and the highest standard of living ever known in history. The much talked-about common man has at his disposal amenities of which the richest men in precapitalistic ages did not even dream. He is in a position to enjoy the spiritual and intellectual achievements of science, poetry, and art that in earlier days were accessible only to a small elite of well-to-do people. And he is free to worship as his conscience tells him.

The Socialist Misrepresentation of the Market Economy

All the facts about the operation of the capitalistic system are misrepresented and distorted by the politicians and writers who arrogated to themselves the label of liberalism, the school of thought that in the nineteenth century crushed the arbitrary rule of monarchs and aristocrats and paved the way for free trade and enterprise. As these advocates of a return to despotism see it, all the evils that plague mankind are due to sinister machinations on the part of big business. What is needed to bring about wealth and happiness for all decent people is to put the corporations under strict government control. They admit, although only obliquely, that this means the adoption of socialism, the system of the Union of Soviet Socialist Republics. But they protest that socialism will be something entirely different in the countries of Western civilization from what it is in Russia. And anyway, they say, there is no other method to deprive the mammoth corporations of the enormous power they have acquired and to prevent them from further damaging the interests of the people.

Against all this fanatical propaganda there is need to emphasize again and again the truth that it is big business that brought about the unprecedented improvement of the masses' standard of living. Luxury goods for a comparatively small number of well-to-do can be produced by small-size enterprises. But the fundamental principle of capitalism is to produce for the satisfaction of the wants of the many. The same people who are employed by the big corporations are the main consumers of the goods turned out. If you look around in the household of an average American wage-earner, you will see for whom the wheels of the machines are turning. It is big business that makes all the achievements of modern technology accessible to the common man. Everybody is benefited by the high productivity of big-scale production.

It is silly to speak of the "power" of big business. The very mark of capitalism is that supreme power in all economic matters is vested in the consumers. All big enterprises grew from modest beginnings into bigness because the patronage of the consumers made them grow. It would be impossible for small or medium-size firms to turn out those products which no present-day American would like to do without. The bigger a corporation is, the more does it depend on the consumers' readiness to buy its wares. It was the wishes—or, as some say, the folly—of the consumers that drove the automobile industry into the production of ever bigger cars and force it today to manufacture smaller cars. Chain stores and department stores are under the necessity to adjust their operations daily anew to the satisfaction of the changing wants of their customers. The fundamental law of the market is: the customer is always right.

A man who criticizes the conduct of business affairs and pretends to know better methods for the provision of the consumers is just an idle babbler. If he thinks that his own designs are better, why does he not try them himself? There are in this country always capitalists in search of a profitable investment of their funds who are ready to provide the capital required for any reason-

able innovations. The public is always eager to buy what is better or cheaper, or better and cheaper. What counts in the market is not fantastic reveries, but doing. It was not talking that made the "tycoons" rich, but service to the customers.

Capital Accumulation Benefits All of the People

It is fashionable nowadays to pass over in silence the fact that all economic betterment depends on saving and the accumulation of capital. None of the marvelous achievements of science and technology could have been practically utilized if the capital required had not previously been made available. What prevents the economically backward nations from taking full advantage of all the Western methods of production, and thereby keeps their masses poor, is not unfamiliarity with the teachings of technology but the insufficiency of their capital. One badly misjudges the problems facing the underdeveloped countries if one asserts that what they lack is technical knowledge, the "know-how." Their businessmen and their engineers, most of them graduates of the best schools of Europe and America, are well acquainted with the state of contemporary applied science. What ties their hands is a shortage of capital.

A hundred years ago America was even poorer than these backward nations. What made the United States become the most affluent country of the world was the fact that the "rugged individualism" of the years before the New Deal did not place too serious obstacles in the way of enterprising men. Businessmen became rich because they consumed only a small part of their profits and plowed the much greater part back into their businesses. Thus they enriched themselves and all of the people. For it was this accumulation of capital that raised the marginal productivity of labor and thereby wage rates.

Under capitalism the acquisitiveness of the individual businessman benefits not only himself but also all other people. There is

a reciprocal relation between his acquiring wealth by serving the consumers and accumulating capital and the improvement of the standard of living of the wage-earners who form the majority of the consumers. The masses are in their capacity both as wage-earners and as consumers interested in the flowering of business. This is what the old liberals had in mind when they declared that in the market economy there prevails a harmony of the true interests of all groups of the population.

It is in the moral and mental atmosphere of this capitalistic system that the American citizen lives and works. There are still in some parts of the United States conditions left which appear highly unsatisfactory to the prosperous inhabitants of the advanced districts which form the greater part of the country. But the rapid progress of industrialization would have long since wiped out these pockets of backwardness if the unfortunate policies of the New Deal had not slowed down the accumulation of capital, the irreplaceable tool of economic betterment. Used to the conditions of a capitalistic environment, the average American takes it for granted that every year business makes something new and better accessible to him. Looking backward upon the years of his own life, he realizes that many implements that were totally unknown in the days of his youth and many others which at that time could be enjoyed only by a small minority are now standard equipment of almost every household. He is fully confident that this trend will prevail also in the future. He simply calls it the "American way of life" and does not give serious thought to the question of what made this continuous improvement in the supply of material goods possible. He is not earnestly disturbed by the operation of factors that are bound not only to stop further accumulation of capital but may very soon bring about capital decumulation. He does not oppose the forces that—by frivolously increasing public expenditure, by cutting down capital accumulation, and even making for consumption of parts of the capital invested in business, and, finally, by inflation—are sapping the

very foundations of his material well-being. He is not concerned about the growth of statism that wherever it has been tried resulted in producing and preserving conditions which in his eyes are shockingly wretched.

No Personal Freedom Without Economic Freedom

Unfortunately many of our contemporaries fail to realize what a radical change in the moral conditions of man, the rise of statism, the substitution of government omnipotence for the market economy, is bound to bring about. They are deluded by the idea that there prevails a clear-cut dualism in the affairs of man, that there is on the one side a sphere of economic activities and on the other side a field of activities that are considered as noneconomic. Between these two fields there is, they think, no close connection. The freedom that socialism abolishes is "only" the economic freedom, while freedom in all other matters remains unimpaired.

However, these two spheres are not independent of each other as this doctrine assumes. Human beings do not float in ethereal regions. Everything that a man does must necessarily in some way or other affect the economic or material sphere and requires his power to interfere with this sphere. In order to subsist, he must toil and have the opportunity to deal with some material tangible goods.

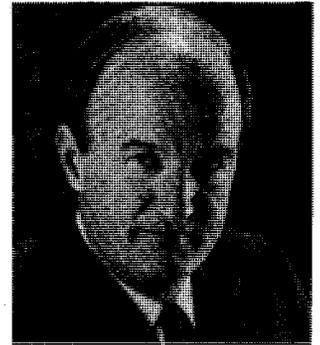
The confusion manifests itself in the popular idea that what is going on in the market refers merely to the economic side of human life and action. But in fact the prices of the market reflect not only "material concerns"—like getting food, shelter, and other amenities—but no less those concerns which are commonly called spiritual or higher or nobler. The observance or nonobservance of religious commandments—to abstain from certain activities altogether or on specific days, to assist those in need, to build and to maintain houses of worship, and many others—is one of the factors that determines the supply of, and the demand for, various consumers' goods and thereby prices and the conduct of business. The freedom that the market economy grants to the individual is not merely "economic" as distinguished from some other kind of freedom. It implies the freedom to determine also all those issues which are considered as moral, spiritual, and intellectual.

The simple truth is that individuals can be free to choose between what they consider as right or wrong only where they are economically independent of the government.

What makes many people blind to the essential features of any totalitarian system is the illusion that this system will be operated precisely in the way which they themselves consider as desirable. In supporting socialism, they take it for granted that the "state" will always do what they themselves want it to do. □

"Patiently, systematically, and intelligently, FEE has worked for economic literacy, changing the minds of academics, statesmen, and clerics such as myself. The philosophy of freedom, so ably articulated by FEE for fifty magnificent years, will change the world."

— **Father Robert A. Sirico**
President, The Acton Institute for the
Study of Religion and Liberty



One Graph Says It All

“But the free market is not primarily a device to procure growth. It is a device to secure the most efficient use of resources.”

—Henry C. Wallich¹

In celebrating fifty years of service by the Foundation for Economic Education, we observe one overriding lesson of history: Freedom is, on balance, a great blessing to all mankind.

Now, this may seem to be obvious; today we all nod our heads in agreement with this conclusion. But not everyone concurred during the post-war era. In fact, for much of the past fifty years, supporters of economic liberty were on the defensive. After World War II, *laissez faire* was an unwelcome phrase in the halls of government and on college campuses. Governments both here and abroad nationalized industry after industry, raised taxes, inflated the money supply, imposed price and exchange controls, created the welfare state, and engaged in all kinds of interventionist mischief. In academia, Keynesianism and Marxism became all the rage, and many free-market economists had a hard time obtaining full-time positions on college campuses.

The big-government economy was viewed by the establishment as an automatic stabilizer and growth stimulator. Many top

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economists argued that central planning, the welfare state, and industrial policy lead to higher growth rates. Incredibly, as late as 1985, Paul Samuelson (MIT) and William D. Nordhaus (Yale) still declared, “The planned Soviet economy since 1928 . . . has outpaced the long-term growth of the major market economies.”² Mancur Olson, a Swedish economist, also stated, “In the 1950s, there was, if anything, a faint tendency for the countries with larger welfare states to grow faster.”³

Henry C. Wallich, a Yale economics professor and recent member of the Federal Reserve Board, wrote a whole book arguing that freedom means lower economic growth, greater income inequality, and less competition. In *The Cost of Freedom*, he concluded, “The ultimate value of a free economy is not production, but freedom, and freedom comes not at a profit, but at a cost.”⁴ And he was considered a conservative economist!

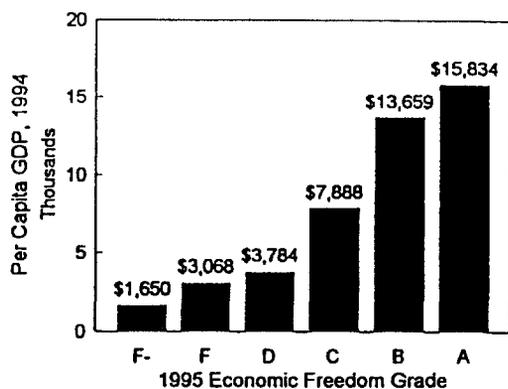
The New Enlightenment

Fortunately, the attitudes of the establishment have gradually changed for the better. In recent years the defenders of the free market have gained ground and, since the collapse of the Berlin Wall and Soviet central planning, have claimed victory over the dark forces of Marxism and socialism. Today, governments around the world are denationalizing, privatizing, cutting taxes, controlling inflation, and engaging in all

kinds of market reforms. And free-market economists can now be found in most economics departments. In fact, almost all of the most recent Nobel Prize winners in economics have been pro-free market.

Furthermore, new evidence demonstrates forcefully that economic freedom comes as a benefit, not a cost. Looking at the data of the 1980s, Mancur Olson now concludes, "it appears that the countries with larger public sectors have tended to grow more slowly than those with smaller public sectors."⁵ Contrast that with his statement about the 1950s.

Now comes the *coup de grace* from a new exhaustive study by James Gwartney, economics professor at Florida State University, and two other researchers. They painstakingly constructed an index measuring the degree of economic freedom for more than 100 countries and then compared the level of economic freedom with their growth rates over the past twenty years. Their conclusion is documented in the following remarkable graph:



If ever a picture was worth a thousand words, this graph is it.

Clearly, the greater the degree of freedom, the higher the standard of living (as measured by per capita real GDP growth).

Nations with the highest level of freedom (e.g., United States, New Zealand, Hong Kong) grew faster than nations with moderate degrees of freedom (e.g., United Kingdom, Canada, Germany) and even more rapidly than nations with little economic freedom (e.g., Venezuela, Iran, Congo). The authors conclude, "No country with a persistently high economic freedom rating during the two decades failed to achieve a high level of income."

What about those countries whose policies changed during the past twenty years? The authors state: "All 17 of the countries in the most improved category experienced positive growth rates. . . . In contrast, the growth rates of the countries where economic freedom declined during 1975-95 were persistently negative."⁶

If all this is true, what of the data that seemed to demonstrate a positive correlation between big government and economic growth in the 1950s and later? In the case of the Soviet Union, most economists now agree that the data were faulty and misleading. In the case of Europe, perhaps the economic incentives of rebuilding after the war overshadowed the growth of the welfare state. In other words, Europe grew in spite of, not because of, government. Once rebuilding was complete by the late 1950s, the weight of government began to be felt.

After fifty years of hard work, it is high time for FEE and the other free-market think-tanks to celebrate their untiring efforts to educate the world about the virtues of liberty. Their work is finally paying off. Let me be one of the first to say congratulations—a job well done! □

1. Henry C. Wallich, *The Cost of Freedom* (New York: Collier Books, 1960), p. 146.

2. Paul A. Samuelson and William D. Nordhaus, *Economics*, 12th ed. (New York: McGraw-Hill, 1985), p. 776.

3. Mancur Olson, *How Bright Are the Northern Lights?* (Lund University, 1990), p. 10.

4. Wallich, *The Cost of Freedom*, p. 9.

5. Olson, *How Bright Are the Northern Lights?*, p. 88.

6. James D. Gwartney, Robert A. Lawson, and Walter E. Block, *Economic Freedom of the World: 1975-1995* (Washington, D.C.: Cato Institute, 1996), p. xvii.

Rose Wilder Lane, Isabel Paterson, and Ayn Rand:

Three Women Who Inspired the Modern Libertarian Movement

by Jim Powell

Liberty was in full retreat in the early 1940s. Tyrants oppressed or threatened people on every continent. Western intellectuals whitewashed mass murderers like Joseph Stalin, and Western governments expanded their power with Soviet-style central planning. Fifty million people were killed in the war that raged in Europe, Africa, and Asia. The United States, seemingly the last hope for liberty, was drawn into it.

Established American authors who defended liberty were a dying breed. H.L. Mencken had turned away from bitter politics to write his memoirs, while others like Albert Jay Nock and Garet Garrett were mired in pessimism.

Amidst the worst of times, three bold women banished fear. They dared to declare that collectivism was evil. They stood up for natural rights, the only philosophy which provided a moral basis for opposing tyranny everywhere. They celebrated old-fashioned rugged individualism. They envisioned a future when people could again be free. They expressed a buoyant optimism which was to inspire millions.

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All were outsiders who transcended difficult beginnings. Two were immigrants. One was born in frontier territory not yet part of the United States. They struggled to earn money as writers in commercial markets dominated by ideological adversaries. All were broke at one time or another. They endured heartaches with men—one stayed in a marriage which became sterile, and two became divorced and never remarried.

These women who had such humble beginnings—Rose Wilder Lane, Isabel Paterson, and Ayn Rand—published major books during the same year, 1943: *The Discovery of Freedom*, *The God of the Machine*, and *The Fountainhead*, respectively. The women, recalled journalist John Chamberlain, “with scornful side glances at the male business community, had decided to rekindle a faith in an older American philosophy. There wasn’t an economist among them. And none of them was a Ph.D.” Albert Jay Nock declared that, “They make all of us male writers look like Confederate money. They don’t fumble and fiddle around—every shot goes straight to the centre.”

Rose Wilder Lane

Like her compatriots, Rose Wilder Lane surprised people. She once described herself by saying “I’m a plump, middle western, middle class, middle-aged woman.”

She had bad teeth, her marriage failed, she worked to support her aging parents, and at one point during the 1930s she was so financially distressed that her electricity was shut off. Yet she soared with great eloquence as she helped revive the radical principles of the American Revolution, and she inspired millions of adults and children alike as the editor of the beloved "Little House" books about individual responsibility, hard work, stubborn persistence, strong families, and human liberty.

Rose Wilder Lane was born December 5, 1886, near De Smet, Dakota Territory. Her father, Almanzo Wilder, and her mother, Laura Ingalls, were poor farmers, devastated by drought, hailstorms, and other calamities that ruined crops. For years, the family lived in a windowless cabin. They missed many meals. Their daughter, named after wild roses which bloomed on the prairie, often went barefoot.

When Lane was four, the family gave up on Dakota and moved to Mansfield, Missouri, which offered better farming prospects. She went to a four-room, red brick schoolhouse that had two shelves of books, and she discovered the wonders of Charles Dickens, Jane Austen, and Edward Gibbon. Her mainstay became the famous *Readers* compiled by Cincinnati College President William Holmes McGuffey, who imparted moral lessons as he taught the fundamentals of reading and exposed young minds to many great authors of Western civilization.

"We did not like discipline," Lane recalled, "so we suffered until we disciplined ourselves. We saw many things and many opportunities that we ardently wanted and could not pay for, so we did not get them, or got them only after stupendous, heartbreaking effort and self-denial, for debt was much harder to bear than deprivations. We were honest, not because sinful human nature wanted to be, but because the consequences of dishonesty were excessively painful. It was clear that if your word were not as good as your bond, your bond was no good and you were worthless . . . we learned that it is impossible to get something for nothing. . . ."

She quit school after the ninth grade and determined that somehow she would see the world beyond rural Missouri. She took a train to Kansas City and accepted a job as a Western Union telegraph clerk on the night shift. She spent most of her spare time reading, perhaps three hours a day. By 1908, she relocated to San Francisco for another Western Union job and romance with advertising salesman Gillette Lane. They married in March 1909. She became pregnant but had either a miscarriage or stillbirth. It became impossible for her to conceive again.

By 1915, the marriage had broken up, but through his newspaper connections Lane found her start as a journalist. For the *San Francisco Bulletin*, a radical labor paper, she began writing a women's column, then a series of daily 1,500-word personality profiles. She wrote an autobiographical novel serialized in *Sunset* magazine.

In March 1920, the Red Cross invited her to travel around Europe and report on their relief efforts, so that prospective donors—on whose support they depended—would know about the good deeds of the organization. Based in Paris, she traveled to Vienna, Berlin, Prague, Warsaw, Budapest, Rome, Sarajevo, Dubrovnik, Tirana, Trieste, Athens, Cairo, Damascus, Baghdad, and Constantinople. Lane imagined that Europe was the great hope for civilization, but instead she eluded bandits, encountered bureaucratic corruption, endured runaway inflation, witnessed civil war horrors and the darkening shadows of ruthless tyranny.

Lane visited the Soviet Union four years after the Bolsheviks seized power. Like many people, she was enchanted by the Communist vision for a better life. She met peasants whom she expected to be rapturous about Communism. But as she reported later, "My host astounded me by the force with which he said that he did not like the new government. . . . His complaint was government interference with village affairs. He protested against the growing bureaucracy that was taking more and more men from productive work. He predicted chaos and suffering from the centralizing of economic power in Mos-

cow. . . . I came out of the Soviet Union no longer a communist, because I believed in personal freedom.”

After returning to America, her career blossomed as she wrote for *The American Mercury*, *Country Gentleman*, *Good Housekeeping*, *Harper's*, *Ladies' Home Journal*, *McCall's*, and the *Saturday Evening Post*, among others. She wrote novels about pioneer life. Famed actress Helen Hayes dramatized one of Lane's novels, *Let the Hurricane Roar*, on the radio. But Lane was financially devastated during the Great Depression. In 1931, she wailed, “I am forty-five. Owe \$8,000. Have in bank \$502.70. . . . Nothing that I have intended has ever been realized.”

In 1936, Lane wrote “Credo,” an 18,000-word article on liberty for the *Saturday Evening Post*. Three years later Leonard Read, General Manager of the Los Angeles Chamber of Commerce, helped establish a little publishing firm called Pamphleteers, which reprinted Lane's article as *Give Me Liberty*.

In it, Lane explained how free competition enables civilization to flourish despite scoundrels. “I have no illusions about the pioneers,” she wrote. “In general they were trouble-makers of the lower classes, and Europe was glad to be rid of them. They brought no great amount of intelligence or culture. Their principal desire was to do as they pleased. . . . [Yet] Americans today . . . are the kindest people on earth. . . . Only Americans pour wealth over the world, relieving suffering in such distant places as Armenia and Japan. . . . Such are a few of the human values that grew from individualism while individualism was creating this nation.”

The Discovery of Freedom

In 1942, an editor of John Day Company asked Lane to write a book about liberty. She began work in a McAllen, Texas, trailer park, amidst a tour of the Southwest. She went through at least two drafts at her home in Danbury, Connecticut. Her book, *The Discovery of Freedom, Man's Struggle*

Against Authority, was published January 1943.

While most historians focused on rulers, Lane chronicled the epic 6,000-year struggle of ordinary people, who defy rulers to raise families, produce food, build industries, engage in trade, and in countless ways improve human life. She was lyrical about the American Revolution, which helped secure liberty and unleashed phenomenal energy for human progress.

With stirring, sometimes melodramatic prose, she attacked myriad collectivist influences, including government schools and so-called “progressive” economic regulations. She ridiculed claims that bureaucrats could do better for individuals than they could do for themselves. She swept away gloom with her towering self-confidence. “Five generations of Americans have led the Revolution,” she declared, “and the time is coming when Americans will set this whole world free.”

Individualist Albert Jay Nock lavished praise on the book, but Lane was dissatisfied with it and refused permission to reprint it. She never got around to completing another edition. Only a thousand copies of the book were printed during her lifetime.

Nonetheless, *The Discovery of Freedom* had a big impact, circulating as an underground classic. It helped inspire the launching of several organizations to promote liberty. Among them, Leonard Read's Foundation for Economic Education, F.A. Harper's Institute for Humane Studies, and Robert M. Lefevre's Freedom School. Read retained General Motors consumer researcher Henry Grady Weaver to adapt the book as *The Mainspring of Human Progress*, and hundreds of thousands of copies have been distributed by FEE.

The Little House Books

Although *The Discovery of Freedom* was a founding document of the modern libertarian movement, Lane had perhaps a greater calling behind the scenes. In 1930, Laura Ingalls Wilder gave Lane a manuscript about her early life from Wisconsin to

Kansas and Dakota. Lane deleted the material about Wisconsin, then went through two drafts of the rest, fleshing out the story and characters. This became a 100-page manuscript tentatively called *Pioneer Girl*, and she sent it to her literary agent, Carl Brandt. The Wisconsin material became a 20-page story, "When Grandma Was a Little Girl," a possible text for a children's picture book. One publisher suggested that the story be expanded to a 25,000-word book for younger readers.

Lane conveyed the news to her mother, and since the original manuscript had been rewritten beyond recognition, she explained, "It is your father's stories, taken out of the long PIONEER GIRL manuscript, and strung together, as you will see." Lane specified the kind of additional material needed, adding "If you find it easier to write in the first person, write that way. I will change it into the third person, later." Lane reassured her mother that the collaboration remained a family secret: "I have said nothing about having run the manuscript through my own typewriter. . . ." By May 27, 1931, the "juvenile" was done, and Lane sent it off to publishers. Harper Brothers issued it in 1932 as *Little House in the Big Woods*, and it became a beloved American story.

In January 1933, Wilder gave Lane *Farmer Boy*, a manuscript about Almanzo's childhood recollections. Publishers had rejected it, presumably because it was mainly a chronicle of farm skills. Lane spent a month turning it into a flesh-and-blood story, and Harper's bought it. The following year, Wilder gave Lane a manuscript about her life in Kansas, and she spent five weeks rewriting it into *Little House on the Prairie*.

The books began generating significant income for the Wilders, a relief to Lane whose aim was to help provide their financial security. Wilder expanded part of *Pioneer Girl* into another manuscript and gave it to Lane in the summer of 1936. "I have written you the whys of the story as I wrote it," Wilder explained. "But you know your judgement is better than mine, so

what you decide is the one that stands." Lane spent two months rewriting it and drafted a letter for their literary agent, asking for better terms. This manuscript became *On the Banks of Plum Creek*. Lane spent most of 1939 rewriting the manuscript for *By the Shores of Silver Lake*; in 1940, *The Long Winter*; in 1941, *Little Town on the Prairie*; and in 1942, *These Happy Golden Years*.

Throughout the later books especially, Lane portrayed young Laura Ingalls Wilder as a libertarian heroine. For example, in *Little Town on the Prairie*, she described her mother's thoughts this way: "Americans are free. That means they have to obey their own consciences. No king bosses Pa; he has to boss himself. Why (she thought), when I am a little older, Pa and Ma will stop telling me what to do, and there isn't anyone else who has a right to give me orders. I will have to make myself be good."

In 1974, NBC began adapting the books for *Little House on the Prairie*, a hugely popular television series which ran nine years and resulted in more than 200 programs. Then came a syndication agreement assuring that they will be run again and again for at least the next quarter-century. Michael Landon wrote and directed many shows, and starred as Laura's father, Charles Ingalls.

Lane's last blast was a book about American needlework, which she turned into a hymn for liberty. "American needlework tells you," she continued, "that Americans live in the only classless society. This republic is the only country that has no peasant needlework. . . . American women . . . discarded backgrounds, they discarded borders and frames. They made the details create the whole, and they set each detail in boundless space, alone, independent, complete."

Isabel Paterson

Lane knew but wasn't close to the bold, hot-tempered, sometimes tactless journalist Isabel Bowler Paterson. According to scholar Stephen Cox, she was "a slight woman, 5'3"

tall, very nearsighted, a lover of pretty and slightly eccentric clothes, fond of delicate foods, a light drinker, a devotee of nature who could spend all day watching a tree grow . . .”

Paterson held stubbornly to her views and told all who would listen what she thought about an issue. Dominating conversations tended to limit her social life, especially as she became a dissident against New Deal government intervention, but she did have some stalwart friends. One remarked that “if people can stand her at all, they eventually become very fond of her.”

Paterson wrote novels and some 1,200 newspaper columns, but it was *The God of the Machine* which secured her immortality in the annals of liberty. It mounted a powerful attack on collectivism and explained the extraordinary dynamics of free markets.

She was born January 22, 1886, on Manitoulin Island, Ontario. Her parents, Francis and Margaret Bowler, were poor farmers who moved to Michigan, then Utah and Alberta in search of better luck. Paterson made soap, tended livestock, and spent just two years in school. But she read books at home, including the Bible, some Shakespeare, and novels by Charles Dickens and Alexander Dumas.

When she was about 18 years old, Paterson went off on her own. She worked as a waitress, bookkeeper, and stenographer, earning \$20 a month. She was proud to be independent. “Listen, my girl,” she told a journalist, “your paycheck is your mother and your father; in other words, respect it.”

At 24, in 1910, she married Kenneth Birrell Paterson, but the relationship soured, and within a few years they went their separate ways. She seldom talked about him again. She was more determined than ever to maintain her independence.

She had done a little writing on the side to relieve boredom, and after she became a secretary to a Spokane, Washington, newspaper publisher, she did more. She began writing his editorials. She wrote drama criticism for two Vancouver newspapers. Next, fiction—her novel *The Shadow Riders* was published in 1916, and *The Magpie's Nest*,

the following year. Both were about young women struggling to achieve independence. Although Canada had become a protectionist nation, Paterson made clear in *The Shadow Riders* that she was a free trader.

Paterson moved East following World War I and started reading her way through much of the New York Public Library. In 1922, she persuaded *New York Tribune* literary editor Burton Rascoe to give her a job, even though he didn't like her. “She said bluntly that she wanted the job,” he recalled. “I told her my budget would not allow me to pay what she was worth. She said she would work for whatever I was prepared to pay. I said the pay was forty dollars a week. She said, ‘I'll work for that.’”

In 1924, she started writing a weekly column on books, and it became an influential forum for the next quarter-century. She used books as a point of departure to talk about practically anything. Many columns affirmed her commitment to American individualism. She attacked collectivist societies based on status and defended dynamic capitalism. She denounced Herbert Hoover's interventionism and Franklin Roosevelt's New Deal.

The God of the Machine

Many columns explored themes which became the basis for *The God of the Machine*, published by Putnam's in May 1943. Paterson attacked fascism, Nazism, and Communism as varieties of the same evil, collectivism. She reserved some of her most eloquent blasts for Stalin, who charmed so many intellectuals. Anyone who imagines that socialist horrors were exposed recently will be shocked to see how clearly Paterson understood why collectivism always means stagnation, backwardness, corruption, and slavery.

There's much more in this tremendous book. Paterson provided a grand overview of the history of liberty. She made clear why personal freedom is impossible without political freedom. She defended immigrants. She denounced military conscription, central economic planning, compulsory union-

ism, business subsidies, paper money, and compulsory government schools. Long before most economists, she explained how New Deal policies prolonged the Great Depression.

Paterson celebrated private entrepreneurs, who are the primary source of human progress. For instance: "Everything that was the creation of private enterprise in the railways gave satisfaction. Private enterprise mined, smelted, and forged the iron, invented the steam engine, devised surveying instruments, produced and accumulated the capital, organized the effort. In the building and operation of the railways, whatever lay in the realm of private enterprise was done with competence. . . . What people hated was the monopoly. The monopoly, and nothing else, was the political contribution."

By 1949, Paterson's libertarian views became too much for editors of the *New York Herald Tribune*, and she was fired. Nonetheless, she expressed her gratitude, saying they probably published more of her work than would have been tolerated anywhere else. They gave her a small pension, and she got along by investing her savings in real estate. She refused Social Security, returning her card in an envelope marked "Social Security Swindle."

Meanwhile, she had become a focal point for the fledgling libertarian movement. For example, after Leonard Read founded the Foundation for Economic Education, she introduced him to influential journalist John Chamberlain, whom she had helped convert into a libertarian, and a decades-long collaboration blossomed.

Back during the early 1940s, Paterson served as a mentor for Russian-born Ayn Rand who, 19 years younger, joined her weekly when she proofread typeset pages of her *Herald Tribune* book reviews. She introduced Rand to many books and ideas about history, economics, and political philosophy, helping Rand develop a more sophisticated world view. When Rand's novel *The Fountainhead* was published, Paterson promoted it in a number of *Herald Tribune* columns. Rand's books went on to surpass

Paterson's—and just about everyone else's for that matter—selling some 20 million copies.

Ayn Rand

Rand had a striking presence. As biographer Barbara Branden described Rand upon her arrival in America at age 21: "Framed by its short, straight hair, its squarish shape stressed by a firmly set jaw, its sensual wide mouth held in tight restraint, its huge dark eyes black with intensity, it seemed the face of a martyr or an inquisitor or a saint. The eyes burned with a passion that was at once emotional and intellectual—as if they would sear the onlooker and leave their dark light a flame on his body." Later in life, chain smoking and sedentary habits took their toll, but Rand was still unforgettable, as book editor Hiram Haydn recalled: "A short, squarish woman, with black hair cut in bangs and a Dutch bob. . . . Her eyes were as black as her hair, and piercing."

Rand was born Alissa Rosenbaum on February 2, 1905, in St. Petersburg. Her father Franz Rosenbaum had risen from poverty to the middle class as a chemist. Her mother Anna was an extrovert who believed in vigorous exercise and thrived on a busy social life. Alissa wanted nothing to do with either exercise or parties.

She was precocious. After school, she studied French and German at home. Inspired by a magazine serial, she began writing stories, and at nine years old she resolved to become a writer.

The Rosenbaums' comfortable world ended when the Czar entered World War I, which devastated the nation's economy. Within a year, more than a million Russians were killed or wounded. The government went broke. People were hungry. The Bolsheviks exploited the chaos and seized power in 1918.

The Russian Revolution spurred young Alissa to invent stories about heroic individuals battling kings or Communist dictators. At this time, too, she discovered novelist Victor Hugo whose dramatic style and

towering heroes captivated her imagination. "I was fascinated by Hugo's sense of life," she recalled. "It was someone writing something important. I felt this is the kind of writer I would like to be, but I didn't know how long it would take."

At the University of Petrograd, she took courses with the stern Aristotelian Nicholas Lossky who, scholar Chris Sciabarra showed, had an enormous impact on her thinking. She read plays by Johann Christoph Friedrich von Schiller (she loved him) and William Shakespeare (hated him), philosophy by Friedrich Nietzsche (provocative thinker), and novels by Feodor Dostoevsky (good plotter). She was utterly captivated to see some foreign movies. She had her first big crush, on a man named Leo who risked his life to hide members of the anti-Bolshevik underground.

In 1925, the Rosenbaums received a letter from relatives who had emigrated to Chicago more than three decades earlier to escape Russian anti-Semitism. Alissa expressed a burning desire to see America. The relatives agreed to pay her passage and be financially responsible for her. Miraculously, Soviet officials granted her a passport for a six months' visit. On February 10, 1926, she boarded the ship *De Grasse* and arrived in New York with \$50.

She soon joined her relatives in a cramped Chicago apartment. She saw a lot of movies and worked at her typewriter—usually starting around midnight, which made it difficult for others to sleep. During this period, she settled on a new first name for herself: Ayn, after a Finnish writer she had never read, but she liked the sound. And a new last name: Rand, after her Remington Rand typewriter. Biographer Branden says Rand might have adopted a new name to protect her family from possible recrimination by the Soviet regime.

Determined to become a movie script writer, she moved to Los Angeles. Through her Chicago relatives, she persuaded a movie distributor to write a letter introducing her to someone in the publicity department of the glamorous Cecil B. DeMille Studio. She met the great man himself while

entering his studio, and he took her to the set of his current production. She started work as an extra for \$7.50 a day.

At DeMille's studio, Rand fell in love with a tall, handsome, blue-eyed bit actor named Frank O'Connor. They were married April 15, 1929, before her visa expired. She no longer had to worry about returning to the Soviet Union. Two months later, she applied for American citizenship.

The DeMille Studio closed, and she found odd jobs such as a freelance script reader. In 1935 she had a taste of success when she earned as much as \$1,200 a week from her play *Night of January 16th*, which ran 283 performances on Broadway. It was about a ruthless industrialist and the powerful woman on trial for his murder.

We the Living

Rand spent four years writing her first novel, *We the Living*, about the struggle to find freedom in Soviet Russia. Kira Argounova, the desperate heroine, became the mistress of a party boss so she could raise money for her lover suffering from tuberculosis. Rand finished the book in late 1933. After many rejections, Macmillan agreed to take it and pay a \$250 advance. The company published 3,000 copies in March 1936, but the book didn't sell. Although word-of-mouth gave it a lift after about a year, Macmillan had destroyed the type, and *We the Living* went out of print. Rand had earned just \$100 of royalties.

In 1937, while struggling to develop the plot of *The Fountainhead*, Rand wrote a short, lyrical futurist story about an individual versus collectivist tyranny—*Anthem*. Rand's literary agent sold it to a British publisher but couldn't find a taker in the American market. About seven years later, Los Angeles Chamber of Commerce General Manager Leonard Read visited Rand and O'Connor—then living in New York—and remarked that somebody ought to write a book defending individualism. Rand told him about *Anthem*. Read borrowed her copy, read it, and his small publishing firm Pamphleteers made it available in the

United States. It has sold some 2.5 million copies.

The Fountainhead

Rand finished plotting *The Fountainhead* in 1938 after nearly four years of work. Then came the writing. Her hero, architect Howard Roark, expressed her vision of an ideal man. He battled collectivists all around him to defend the integrity of his ideas, even when it meant dynamiting a building because plans were altered in violation of his contract.

Selling the book proved tough. Rand's editor at Macmillan expressed interest and offered another \$250 advance, but she insisted the company agree to spend at least \$1,200 on publicity, so Macmillan bowed out. By 1940, a dozen publishers had seen finished chapters and rejected the book. One influential editor declared the book would never sell. Rand's literary agent turned against it. Her savings were down to about \$700.

Rand suggested that the partial manuscript be submitted to Bobbs-Merrill, an Indianapolis-based publisher which had issued *The Red Decade* by anti-Communist journalist Eugene Lyons. Bobbs-Merrill's Indianapolis editors rejected *The Fountainhead*, but the company's New York editor Archibald Ogden loved it and threatened to quit if they didn't take it. They signed a contract in December 1941, paying Rand a \$1,000 advance. With two-thirds of the book yet to be written, Rand focused on making her January 1, 1943, deadline for completion. She found herself in a friendly race with Isabel Paterson, then working to finish *The God of the Machine*.

Rand made her deadline, and *The Fountainhead* was published in May 1943, the same month as *The God of the Machine*, about nine years after the book was just a dream. *The Fountainhead* generated many more reviews than *We the Living*, but most reviewers either denounced it or misrepresented it as a book about architecture. For a while, Bobbs-Merrill's initial print run of 7,500 copies moved slowly. Word-of-mouth

stirred a groundswell of interest, and the publisher ordered a succession of reprintings which were small, in part, because of wartime paper shortages. The book gained momentum and hit the bestseller lists. Two years after publication, it sold 100,000 copies. By 1948, it had sold 400,000 copies. Then came the New American Library paperback edition, and *The Fountainhead* went on to sell over 6 million copies.

The day Warner Brothers agreed to pay Rand \$50,000 for movie rights to *The Fountainhead*, she and O'Connor splurged and each had a 65-cent dinner at their local cafeteria. Rand fought to preserve the integrity of the script and was largely successful, though some of her most cherished lines were cut. The movie, starring Gary Cooper, Patricia Neal, and Raymond Massey, premiered July 1949. It propelled the book onto the bestseller lists again.

Sometime earlier, when the hardcover edition had just come out, Rand told Isabel Paterson how disappointed she was with its reception. Paterson urged her to write a nonfiction book and added that Rand had a *duty* to make her views more widely known. Rand rebelled at the suggestion that she owed people anything. "What if I went on strike?" she asked. "What if *all* the creative minds of the world went on strike?" This became the idea for her last major work, tentatively called *The Strike*.

Atlas Shrugged

As Rand worked on the book for some 14 years, everything about it became larger than life. The book featured her most famous hero, mysterious John Galt, the physicist-inventor who organized a strike of the most productive people against taxers and other exploiters. The book introduced Dagny Taggart, Rand's first ideal woman, who found her match in Galt. Key characters delivered long speeches presenting Rand's philosophical views on liberty, money, and sex—the book often seems more like a polemic for individualism and capitalism. A friend suggested that the tentative title would make many people think the book

was about labor unions, and she abandoned it. O'Connor urged her to use one of the chapter headings as the book title, and it became *Atlas Shrugged*.

Rand's ideas were as controversial as ever, but sales of *The Fountainhead* impressed publishers, and several big ones courted her for *Atlas Shrugged*. Random House co-owner Bennett Cerf was most supportive, and Rand got a \$50,000 advance against a 15 percent royalty, a first printing of at least 75,000 copies, and a \$25,000 advertising budget. The book was published October 10, 1957.

Most reviewers were savage. The old-line socialist Granville Hicks was a vocal critic in the *New York Times*, and others were similarly offended by Rand's attacks on collectivism. The most hysterical review of all turned out to be in conservative *National Review* where Whittaker Chambers, presumably offended by her critique of religion, likened Rand to a Nazi "commanding: 'To a gas chamber—go!'" Word-of-mouth proved too strong for these naysayers, and sales began to climb, eventually past 4.5 million copies.

With *Atlas Shrugged*, Rand had fulfilled her dreams, and she became depressed. She was exhausted. She no longer had a giant project to focus her prodigious energies. She leaned increasingly on her Canadian-born intellectual disciple Nathaniel Branden with whom she had become intimate. To serve the growing interest in Rand and help revive her spirits, he established the Nathaniel Branden Institute, which offered seminars, marketed taped lectures, and began issuing publications. Rand wrote articles about her brand of libertarian philosophy, which she called Objectivism. Branden, 25 years younger than Rand, was sometimes an abrasive taskmaster, but he displayed remarkable skills promoting the ideals of individualism and capitalism. Good times continued until August 23, 1968, when he told Rand about his affair with another woman. Rand denounced him publicly, and they split, although the reasons weren't fully disclosed until Branden's ex-wife Barbara's biogra-

phy was published 18 years later. Branden later became a bestselling author about self-esteem.

During the past half century, no single individual did more than Ayn Rand to win converts for liberty. Her books sell a reported 300,000 copies year after year without being advertised by publishers or assigned by college professors. Indeed, her works have been trashed by most intellectuals. Her enduring appeal is an amazing phenomenon.

Curiously, despite the enormous influence of Rand's books, they have had limited impact outside the English-speaking world. The most successful has been *The Fountainhead*, with editions in French, German, Norwegian, Swedish, and Russian. *We the Living* is available in French, German, Greek, Italian, and Russian editions, but a fifth as many copies are sold. The only overseas edition of *Atlas Shrugged* is in German—incredibly, it was never published in England. *Anthem* still hasn't appeared in a translation, although French and Swedish editions are underway. Confirmation, perhaps, that America remains the world's hotbed of rugged individualism.

The Final Years

Rand, Paterson, and Lane saw little of each other over the years. Rand and Paterson, both prickly pears, had a bitter split during the 1940s; after publication of *Atlas Shrugged*, Paterson attempted a reconciliation without success. Paterson's friendship with Lane apparently had ended in some kind of intellectual dispute. Suffering gout and other infirmities, Paterson moved in with two of her remaining friends, Ted and Muriel Hall in Montclair, New Jersey. There she died on January 10, 1961, at age 74. She was buried in an unmarked grave.

Rand and Lane had already split over religion. Although Lane remained active throughout her life—*Woman's Day* sent her to Vietnam as their correspondent in 1965—she cherished country living at her Danbury, Connecticut, home. On November 29, 1966, she baked several days' worth of bread and

went upstairs to sleep. She never awoke. She was 79. Her close friend and literary heir, Roger MacBride, brought her ashes to Mansfield, Missouri, and had them buried next to her mother and father. MacBride had her simple gravestone engraved with some words by Thomas Paine: "An army of principles will penetrate where an army of soldiers cannot. Neither the Channel nor the Rhine will arrest its progress. It will march on the horizon of the world and it will conquer."

Rand had quarreled with many friends and led a reclusive life during her last years. She endured surgery for lung cancer. She kept more to herself after Frank O'Connor's death in November 1979, oblivious to how her ideas inspired millions. Two years later, she enjoyed one heartening view, though; entrepreneur James Blanchard had a private

train take her from New York to New Orleans where 4,000 people cheered her resounding defense of liberty.

Rand's heart began to fail in December 1981. She hung on for three more months, asking her closest associate, Leonard Peikoff, to finish several projects. She died in her 120 East 34th Street, Manhattan apartment on March 6, 1982. She was buried next to O'Connor in Valhalla, New York, as some 200 mourners tossed flowers on her coffin. She was 77.

With their acknowledged eccentricities, Rand, Paterson, and Lane were miracles. They came out of nowhere to courageously challenge a corrupt, collectivist world. They single-mindedly seized the high ground. They affirmed the moral imperative for liberty. They showed that all things are possible. □

"When I was thirteen years of age, I became interested in the freedom philosophy. I do not recall just how or from whom I received it, but a little postcard with FEE's address and an invitation to subscribe to The Freeman came into my possession. I sent off the card and received shortly thereafter what would come to be one of the most important influences in my life: The Freeman and the FEE Book Catalogue, the latter of which consumed much of my earnings for some time.

From The Freeman I learned every month about personal liberty, about the history of the market, about the relationship between property and liberty, and about the role of freedom in the development of personality and moral character.

In the late 1980s I spent a great deal of time and much energy spreading the freedom philosophy in the Communist countries of central and eastern Europe, and I always felt that Leonard Read, Henry Hazlitt, Ludwig von Mises, and the many other stalwarts of FEE were there with me, as I lugged suitcases full of illegal books or donated photocopiers into Prague or Moscow or Bucharest. The suitcases and cartons seemed lighter with the spirits of such heroes to help me lift them."

— Tom G. Palmer

Associate Vice President, Institute for
Humane Studies

Onward Still

by Hans F. Sennholz

When Leonard Read was laboring to launch the Foundation for Economic Education in early 1946, the American people were engaged in the giant task of converting from wartime to peacetime production. There were shortages of meat, sugar, and cereal products despite record-breaking crops. More than one million workers were out on strike in such essential industries as steel, motors, electrical equipment, and communications. Congress and the media were debating the wisdom of price and wage controls, which had affected almost every aspect of economic life since the spring of 1942. The Truman Administration not only was unable to cope with the vital problems of labor unrest, soaring prices, black markets, and shortages, but, according to some economists, was actually causing them. By the end of the year, it was so discredited that the people rose on election day and turned the Democrats out of both houses of Congress where they had ruled supreme since Franklin D. Roosevelt's first election.

Much more needed to be done than just change the political guard. Public opinion, that indicator of the political, social, and economic climate, which caused the people to cast their votes and the legislators to enact the contentious laws and regulations, needed to be changed. Most economists whose names attracted attention were concerned with macroeconomic schemes for a centrally managed economy. Among these were the Keynesian professors such as Paul

Samuelson and W. Fellner as well as the devout Marxians Oskar Lange, L. R. Klein, and P. M. Sweezy. Many younger economists were doing government work in the numerous offices of the federal government. The War Production Board, Office of Price Administration, and other government agencies were swarming with economists charting the course of "reconstruction."

Many Americans had come to accept the philosophical premises of the New Deal, differing only on the team of politicians who could carry out economic intervention most efficiently and effectively. They were convinced that the old economic order of unhampered competition and individual enterprise no longer served the interests of the working people, that greedy entrepreneurs and capitalists were abusing and exploiting them, and that legislators and regulators should be called upon to head off such evils.

Leonard Read saw the great issues of his time in a different light. His ideological mentors were William Graham Sumner and T. N. Carver, his favorite authors J. B. Clark, C. J. Bullock, and F. W. Taussig. From the day Leonard settled in Irvington, Henry Hazlitt and Ludwig von Mises were his staunch allies and steady companions. Together they set out to awaken public interest in sound economics and rekindle the freedom philosophy. The task was momentous and urgent. "A new generation, one which has never experienced economic liberty, is taking over," they wrote. "Young men who have become accustomed to being regimented and restricted are coming into positions of responsibility in business. The job of economic education must be undertaken now while those who appreciate the value of liberty are still in position to support it." To undertake this giant task, they molded the Foundation for Economic Education ("FEE").

A 1946 *Outline of Proposed Activities and Reasons Therefor* expounded five basic principles of education which were to become FEE's guiding principles.

1. "The Foundation shall confine itself to the field of ideas. It shall not disparage or support particular persons or political

Dr. Sennholz is president of the Foundation for Economic Education.

parties. Its purpose shall be a program of economic education rather than political campaigning. It shall content itself with presenting its findings for whatever use citizens want to make of them."

2. Education cannot be imposed. Unless economic enlightenment is wanted and sought it falls on barren ears. FEE must create a desire for economic understanding and then serve the desire thus created.

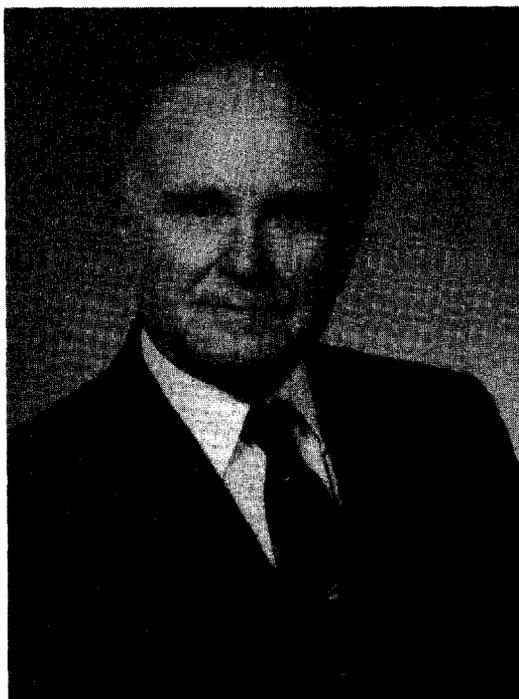
3. FEE will conduct an "integrated program of production, promotion, and distribution," engaging scholars and specialists now working in isolation and calling on others to assist FEE from the outside.

4. Since the intellectual leaders of tomorrow cannot be known today, the only way to reach all possible leaders is by "creating opportunity for the enlightenment of all."

5. There is an intellectual hierarchy among scholars. The thought leaders from all walks of life must reach out to those who write, expand, and explain to yet larger groups until "almost any literate person can understand and appreciate" the importance of economic knowledge.

Freedom education not only imparts knowledge of economic theories and principles but also aims to develop a sense of right, self-reliance, and responsibility. It needs writers and teachers who can explain the meaning and beauty of liberty, who impart knowledge and teach by example. Leonard Read, therefore, surrounded himself with men and women of excellence, seekers of knowledge and students of liberty such as V. Orval Watts, Frank Chodorov, F. A. Harper, George C. Roche III, The Reverend Edmund A. Opitz, and others. He invited famous professors such as Fred Rogers Fairchild of Yale University, J. Hugh Jackson of Stanford University, and Leo Wolman of Columbia University to join him on the board of trustees. This they did as a gesture of endorsement of a great task and noble endeavor to which they gladly contributed some of their time and effort.

The Foundation helped to revive and guide the intellectual opposition to the ideological mainstream. It refused to be fashionable but, instead, stood for what it believed



Hans F. Sennholz, President of FEE

to be right. In time, FEE was to become a "home" for the friends of freedom everywhere, a bright beacon of hope inspiring the creation of numerous similar organizations at home and abroad. After ten years on Leonard's senior staff, F. A. Harper left FEE to found the Institute for Humane Studies on the west coast. Ken Ryker created the Freedom Center in Fort Worth, Texas, and Ralph Smeed The Center for Market Alternatives, in Boise, Idaho. In other countries, Antony Fisher and his friends founded the Institute for Economic Affairs in London; Alberto Benegas Lynch established the Centro de Estudios sobre la Libertad in Buenos Aires; Manuel F. Ayau built a new university, Universidad Francisco Marroquín in Guatemala City; Gustavo Velasco and Agustin Navarro created the Instituto de Investigaciones Sociales y Económicas in Mexico City, and Nicomedes Zuloaga forged the Instituto Venezolano de Análisis Económico y Social in Caracas. To all, FEE pointed the way and instilled new hope for the future of freedom.

Hope ever tells us that tomorrow will



FEE senior staff and associates, 1955 — first row (left to right): W.M. Curtiss, Bettina Bien (now Greaves), Leonard Read, Ludwig von Mises, F.A. Harper; second row: Paul L. Poirot, Edmund Opitz, Ivan Bierly, Charles Hull Wolfe, Thomas Shelly.

be better. All things change, and we must change with them. Half a century has passed since the doors of FEE first opened. That which stood in front of the founders is behind us, and that which they could not foresee is before us. The “Evil Empire” has disintegrated and the overall political and economic climate of the world has improved dramatically. The old conditions of super-power confrontation and constant danger of nuclear devastation may have given way to amicable negotiations and discussions. The Soviet empire in all its forms and colors, which had degenerated to a backward collectivistic prison, was weighed in the balance and found wanting. All over the world the political and economic gates have opened, permitting individual freedom to advance. But they may close again if the opening is misunderstood and misinterpreted. Only the philosophy of individual freedom and the property order can keep them open.

Socialistic countries have collapsed be-

cause the system itself is chaotic, unnatural, and inhuman; but the doctrines and values of socialism are very much alive in all parts of the world. They live on in the minds of many Americans under the labels of “social market economy,” “moderate” Democracy or Republicanism, “middle-of-the-road,” or just “welfarism,” and merely proceed more slowly to the same destination: economic poverty and social disintegration.

Socialism and welfarism are cousins of the same family having many features in common. Both are guided by messianic objectives such as “social justice” or “social security” to which all individual concerns are held captive. In the name of “social justice” both enslave their people—one by barbed-wire fences, and the other by tax collectors who force their victims to spend half their working lives laboring for “the will of the people.” Both resort to legislation and regulation to arrange and settle all things. Both politicize economic activity



The staff of FEE, February 1996—first row (left to right): Bettina Bien Greaves, Beth Hoffman, Mary Sennholz, Hans Sennholz, Felix Livingston, Barbara Dodsworth; second row: William Watkins, Harriet Bender, Kyle Swan, Renate Oechsner, Michael Darcy, Kathleen Walsh, Gregory Pavlik, Janette Brown, Marion Sheehan, Mary Ann Murphy, Helen Dalzell.

and collectivize many manifestations of social life. Both substitute public law for contract law, passing hundreds of public laws in every session of the legislature and imposing countless new regulations every year. Both make a mockery of property rights. One confiscates means of production and allocates income, while the other forcibly redistributes income from the means of production. The difference is minimal when both consume more than one half of the social product.

In the name of “social security” both systems create much insecurity. When the crime rates soar, one may inflict cruel and unusual punishments on the violators, while the other incarcerates millions of its citizens in comfortable recreation centers. Both destroy self-reliance, responsibility, and morality. Where government makes all decisions, everyone is merely obliged to obey. No one is responsible for the consequences of his blunders, but everyone has “rights” which are claims against all others. Both

disavow family responsibility for the education of children and the care of the old and sick. Both erode the basic Judeo-Christian values of honesty, fairness, trustworthiness, reliability, diligence, frugality, and dependability. Both give birth to a “new morality” which actually is immorality and dissolution.

Social disintegration may take the form of soaring crime rates, growing underground economic activity, ethnic and racial confrontations, and even calls to arms. An early symptom is the growing weight and gravity of politics, which turn into an unending bitter battle about taxes and entitlements. Politicians become rancorous spokesmen for their special entitlement groups while all the rest, in their view, are strangers, enemies, or thieves and highwaymen. While the economy stagnates or even declines, the people belligerently cling to their political privileges and entitlements: the young clutch their educational benefits from the nursery to medical school (always at other

people's expense), the elder generation clings to Social Security and Medicare benefits, and millions of middle-aged Americans thrive on government payrolls or subsist on public assistance. The number of government employees now exceeds that of all American manufacture. The number of people with "entitlements" is incalculable. In a society so torn by political conflict it may be difficult, if not impossible, to halt the social deterioration.

All Western welfare states are heading toward disintegration. The weight of the pyramid of entitlement debt amounting to trillions of dollars is likely to crush the very system that incurred the debt. It will cause welfare governments to default in one form or another to both their creditors who financed the pyramid and to the entitlees who were promised much more. The ultimate default oftentimes leads to angry polarization and even bloody confrontation. In societies of homogeneous ethnic and cultural composition, the crisis may give rise to a political and economic command system which brutally suppresses all entitlement conflicts. In societies with various ethnic and cultural classes, individual alienation tends to turn into civil strife and bloody warfare.

The potential for political, social, and economic strife may be greater today than when FEE was born. Surely, the United States now is the sole superpower of the world and no longer needs to fear any one adversary. It rules the world as no country ever did. But it may also be weaker morally and spiritually than it was half a century ago. The welfare state has eroded the moral fiber of the people, has created a conflict system with classes of beneficiaries and victims, and fostered the growth of multiculturalism which breeds hatred and hostility. It casts doubt on the feasibility of a roll-back or even purge of the conflict system and raises the spectre of civil violence in case the benefit system should fail to meet the demands of the entitlees. Economic stagnation and decline tend to seriously aggravate the social conflict.

The task of education is more urgent and momentous than ever. There is but one method of preserving our freedom and maintaining the social peace, and that is by disseminating the seeds of Judeo-Christian morals and economic knowledge by means of education. As public tax-supported education is a root cause of the rise of welfarism and an important pillar of the conflict system, this can be done effectively only by the means of purposeful private education. There is no room for complacency. It is imperative that we face political and social turmoil with courage and self-assurance, always pointing toward the light of freedom.

The Foundation for Economic Education is dedicated to preserving and strengthening the moral and ideological foundation of a free society. It is not just one of many organizations seeking to impart economic knowledge and promote the cause of freedom. From the day it opened its doors in 1946 to this very day it has never compromised its principles. It cares more for the truth than for popularity, for truth is its own witness.

The Foundation shuns politics and keeps a respectful distance from politicians. Government has come to be an institution of booty and privilege, and is managed primarily on class-war principles. Many people plunge into politics to make their own and their electorate's fortune and care only that the world will last their span of days.

The Foundation seeks to impart not only economic knowledge but also individual values which are essential for social peace such as honesty and integrity, industry and self-reliance, prudence and courage, and charity toward all men and women.

Wisdom, knowledge, and virtue are necessary for the preservation of our freedom and the republican form of government. Therefore, we must discover and disseminate the seeds of virtue and knowledge through every part of society by all means at our disposal. We must dedicate ourselves and our labors to this very end. □

FEE and the Climate of Opinion

by Bettina Bien Greaves

The genuine history of mankind," as Ludwig von Mises wrote, "is the history of ideas." In this sense, history is made, although it is not planned, by men and by their ideas. We can see the power of ideas by studying history. Just as water can in time wear away rock, so too may an idea whose time has come erode the rock of public opinion and change the course of history. For instance: the concepts of the eighteenth-century Enlightenment—individual rights, private property, religious freedom, and limited government—sparked an "industrial revolution" and reduced absolute monarchs to figureheads; socialist, Communist, and fascist ideas produced the totalitarian states and the world wars of the twentieth century; political propaganda catering to the fears and hopes of people persuaded the voters in the 1930s to welcome Roosevelt's New Deal and Hitler's national socialism; and the widespread belief that government spending and inflation are needed for the economy to prosper has produced today's "welfare states."

But ideas, and with them the climate of opinion, are constantly changing. There are signs today that people are beginning to reject some aspects of the "welfare state" and to look outside government for solutions to problems. Time and again, political "ins" are voted out. Cuts in government spending and privatization are now being discussed in the halls of Congress; and

private enterprise and entrepreneurship are being studied on college campuses. Do these events portend a widespread ideological shift toward freedom and limited government, with more recognition of individual rights, private property, religious freedom? Only time will tell.

When the Foundation for Economic Education (FEE) was established in 1946, World War II had just ended. Discussion of military matters had, of course, been strictly prohibited during the war, and even criticism of government was considered unpatriotic. The majority of the people in the United States at that time undoubtedly believed that President Franklin Delano Roosevelt had rescued the nation from a serious depression and had been responsible for our victory in a war that destroyed the foreign "devil," Adolf Hitler. A few organizations founded in opposition to the New Deal¹ survived, but, generally speaking, criticism of government was not in fashion.

Most organizations that want to bring about ideological change try to influence the masses, to change votes and politicians at the next election. But FEE was different. Through Henry Hazlitt, Leonard Read had encountered the Austrian economist Ludwig von Mises, who stressed the importance of ideas and the power of ideology. Thus, FEE looked beyond the next election; it hoped to bring about a more lasting change in people's ideas and attitudes.

When FEE was founded, most people in this country believed that government planning was necessary to recover from the war,

Mrs. Greaves has been with the Foundation since 1951 and presently serves as its resident scholar.

that economic prosperity depended on government spending and inflation, and that government should provide a “safety net” to protect people from the effects of hunger, poverty, and old age. The ideas on which we act come from many sources—family, school, church, workplace, friends, colleagues, and books.

The final spark that ignited Read’s interest in promoting the freedom idea had come from California businessman W. C. Mullendore. However, the freedom philosophy itself has a broad base; it is built on the principles of classical liberalism as developed by thinkers over the ages, and as they are still being developed today by philosophers, scholars, historians, economists, and others who ponder the problem.

Foremost among the thinkers on whose theories and writings FEE has depended is the Austrian-born free market economist Dr. Ludwig von Mises. Mises was one of the first persons Henry Hazlitt introduced to Read when he was making plans to establish the Foundation. Mises already had a well-deserved reputation in economic circles in Europe as a scholar, as an outspoken advocate of capitalism, and also as a critic of government intervention. It is not surprising, therefore, that Read asked Mises to serve as FEE’s economic adviser. Mises was never a regular member of FEE’s staff, but he visited FEE regularly, lectured at seminars, and wrote articles for FEE. One draft of Mises’ magnum opus, *Human Action: An Economic Treatise*, was typed on FEE’s premises by FEE secretaries. When Yale University Press published it in 1949, FEE distributed copies to college and university libraries throughout the country. Mises’ teachings on economics, market operations, monetary theory, the role of government, the importance of private property, and the dangers of socialism, communism, and interventionism pervade all FEE’s efforts.

Henry Hazlitt was one of the Foundation’s founding trustees. Although he was never on FEE’s staff, his ideas and his writings have been FEE staples from the very beginning. Hazlitt’s powerful little

Economics in One Lesson, first published in 1946, has been, and still is, one of the best easy-to-read introductions to economic thinking. It has had wide appeal; *Reader’s Digest* published two separate chapters before the book was published, and it has been translated into twelve different languages.² FEE still sells several thousand copies every year.

Promoting the Freedom Philosophy

Read used to say “You can’t sell freedom like soap.” In trying to promote the freedom philosophy, he refused to try to reach the masses; he rejected the use of flashy advertisements or radio “sound bites”—TV had barely been born in 1946. To change opinions long-range, not simply in time for the next election, to effect a turnabout in thinking, FEE wanted to reach people interested in ideas—intellectuals, teachers, writers, and anyone else who could help to spread the freedom philosophy. FEE began publishing books, pamphlets, and articles; holding seminars; and giving lectures. FEE’s writers, of course, criticized the New Deal/Fair Deal “welfare state” philosophy of the day. But they did more; they also presented the positive free-market alternative.

In FEE’s view, there is good and bad in everyone. Most people recognize the advantages of voluntary cooperation and want to cooperate, to get along and live at peace with others. Thus the market itself, a product of voluntary cooperation, tends to bring out the good, the moral, the best in people. On the other hand, government controls and regulations help some, hurt others, cause conflicts, and thus inevitably tend to bring out the worst in people.

Government should not interfere in the economy; it should not play favorites; it should protect everyone equally against aggression, domestic and foreign. *Period*. That is all! The New Deal/Fair Deal programs obviously interfered. Moreover, they didn’t accomplish what their proponents intended; price and wage controls led to shortages and agricultural subsidies to sur-



Bettina Bien Greaves amidst her books.

pluses. As Mises stated, government interference with the market not only fails to accomplish the ends aimed at but "makes conditions worse, not better," even from the point of view of the government and those backing its interference.

FEE explained that the solution for almost any problem was to get government off people's backs. Free men and women could solve their own problems better than any government planner or bureaucrat. Individuals must assume responsibility for themselves and their families and stop looking to government for help. Only then would they be free to pursue their personal goals in peace. "Anything that's peaceful" became Read's mantra.

FEE gradually began to build up a mailing list of persons to whom it sent, free of charge, one-page easy-to-read "Clippings of Note" and small pamphlets. Each commented on some current event. They raised questions. They made people think!

The Foundation also published longer studies, more serious booklets including "Roofs or Ceilings?" by two future Nobel laureates, Milton Friedman and George Stigler, "No Vacancies" by Bertrand de Jouvenel, *Fiat Money Inflation in France* by Andrew Dickson White, *Planned Chaos* by Ludwig von Mises, *Why Kill the Goose?* by Sherman Rogers, *Will Dollars Save the*

World? and *Illusions of Point Four* by Henry Hazlitt, *Industry-Wide Bargaining* by Leo Wolman, *Liberty: A Path to Its Recovery* by F. A. Harper, and *The TVA Idea* by Dean Russell.

The Foundation's tracts attacked some of the government's most "sacred cows." And they were effective.

The National Association of Real Estate Boards reprinted and distributed to its members nationwide many thousands of copies of "Roofs or Ceilings?"

In February 1949, *Reader's Digest* (distribution then 4.5 million in the U.S. alone) reprinted FEE's "No Vacancies" by Bertrand de Jouvenel.

FEE Investigated and Criticized

Like a burr under a horse's saddle, FEE's critiques of government programs festered and irritated some politicians. In the spring of 1950, the House of Representatives set up a Select Committee for Lobbying Activities. Its objective was to investigate "all lobbying activities." In actual fact, it spent most of its time examining a few "conservative" organizations, including the Foundation. Were they pressuring Congressmen on behalf of their "conservative" agenda? Were they lobbying in the guise of engaging in "educational" activities? Should they be registered as lobbyists? And who was paying for their attacks on public housing? Rent control? Farm price supports? TVA? Foreign aid? Labor unions?

The Committee asked to see the Foundation's financial records and Mr. Read finally decided to open FEE's files. Four Committee staffers spent about a week in Irvington going through FEE's records.

Mr. Read testified before the Committee on FEE's role as an educational organization:

The Foundation is not, I believe, charged by you with lobbying or with violation of the existing act. Rather, the thought is that activities such as those carried on by the Foundation, while not being regarded as lobbying as that action is commonly construed, may,



International students pictured on FEE's front porch during the August 1989 seminar.

nonetheless, have as much or more influence on legislation than those actions popularly thought of as lobbying. It has been said that our activities are in the "fringe" zone of lobbying, implying that these "fringes" might be included in any new lobbying act. That, as I understand it, is why your Committee investigated the Foundation, and why I am here.

The organization which I represent is a non-profit research and educational institution. Its sole purpose is a search for truth in economics, political science and related subjects. It is that, and nothing more—an institution for learning. I doubt that any college or university or other institution of learning in this country is more genuinely, and with any more uncompromising honesty, dedicated to the search for truth in these matters than is the Foundation. . . ."

Syndicated columnist Drew Pearson called the Foundation "A mysterious organization, . . . a vigorous lobby aimed at wrecking the European Recovery Program [that] has been flooding the country with propaganda aimed at undermining the Marshall Plan, rent control, aid to education and social security."

One radio commentator called FEE "one

of the biggest and best financed pressure outfits in America. . . . It is the fountain-head for half-truths and distortions, designed to deceive the American public for the benefit of the outfits who are behind this thing." The next day the same commentator said: "The Foundation for Economic Education is a vicious anti-labor propaganda outfit. It spreads its venom in order to crush organized labor and, if possible, to crush Farm Bureau cooperatives as a secondary objective."

FEE's largest donors, according to the *CIO News*, included "some of the same wealthy individuals and firms who have kicked in to every anti-labor, pro-big business propaganda and lobby outfit in the business of trying to convince the average American that the country is going socialist, if it isn't there already, and that such aids to mankind as social security, unemployment compensation, the TVA, public housing, rent and other price controls are depriving him of his freedom to go hungry and unsheltered in his own sweet way."

A labor union spokesman wrote: "the Foundation doesn't have to scrounge for

dollar bills like labor organizations do. . . . The list of big contributors sounds like the 'Who's Who' of American big business."

FEE's President, Leonard Read, was described in *Ammunition*, a left-wing publication, as "smooth. . . . He wears \$250 suits, \$30 shoes, \$10 cravats (you wear a necktie, he wears cravats), and \$15 shirts. . . . The Foundation for Economic Education . . . was set up with plumbing that included a pipeline into the treasury of every really big corporation in America."

One radio report released by the UAW-CIO Education Department charged that Donaldson Brown, a retired Vice President of General Motors had been "so impressed" with Read that he "set him up in the propaganda business." The release went on to say that there is "something called the Corrupt Practices Law which forbids corporations to contribute money to political campaigns and there is the Lobby Registration Act which requires lobbies to list the source of all of their contributions over \$500. But this foundation operates outside both these laws."

One Democratic Congressman, Carl Albert of Oklahoma, paid FEE a backhanded compliment. Read was "far more effective," he said, "than the average buttonhole artist, so-called, around the Capitol."

The House Select Committee on Lobbying had set out to determine whether or not new legislation was needed to regulate lobbyists. Its hearings did not lead to new legislation. However, only the Democratic members of the Committee would sign its report; the Committee Republicans considered it too biased. It was "designed to help 'leftists' now running for office," they charged; the Democratic conclusions were "lopsided" and as "intolerant as an article in Pravda." The Republicans called the majority report a "Socialist white paper. . . . The majority members say all lobbying by business and conservative elements is bad; all lobbying by left-wingers, labor organizations and Fair Deal office holders is good."³

In 1951, Eleanor Roosevelt, widow of Franklin Delano Roosevelt, commented in

her syndicated column on F. A. Harper's "Morals and the Welfare State," a FEE pamphlet. She was "struck" by the implication that there is some similarity between the "welfare state" and Communism. "[M]uch that appears in this pamphlet," she wrote, is "dishonest in its thinking. . . . the mere tying together of communism and socialism" was "dishonest. They are two quite different things. . . . We can have opinions as to whether all the things that have been done and euphemistically grouped together under the name of 'welfare state' are wise economic measures. Or we may question the effect on the character of the people when the government assumes certain responsibilities in conjunction with the people. However, that does not make us Communist or Socialist.

"We are a free people and what we choose to do should not be labeled something which it is not."

FEE's Efforts Continue

The Buchanan hearings interrupted but did not deter FEE from its educational goal. The Foundation went quietly on its way trying to erode the rock of pro-government public opinion with the written and spoken word. Its influence was gradually spreading beyond FEE's immediate circle through its readers and personal contacts. Yet during these years the media paid little attention.

The early 1950s saw the publication of two of FEE's long-term "best sellers." *The Mainspring of Human Progress* by Henry Grady Weaver, inspired by Rose Wilder Lane's *Discovery of Freedom* (1943), had been privately printed. FEE acquired the rights and put out a new edition. Weaver's thesis is that individuals have prospered throughout history only when they have been free. The book proved popular and has gone through many printings, sold many thousands of copies (several thousands each year just to one firm that uses the book as an aid in teaching their students of fast-reading).

Read "discovered" FEE's second best

seller—*The Law* by French deputy and journalist Frederic Bastiat (1801–1850)—while still in California. Bastiat had written the book as an attack on the socialist thinking of his day but it was just as pertinent to twentieth-century thinking. Bastiat distinguished “law” from “morality.” Depriving a person of his property for the benefit of another was “plunder,” Bastiat said, and it was wrong no matter who did it. When the government authorized “plunder,” when it taxed some people to protect manufacturers or to give subsidies to farmers, Bastiat said, it was “legal plunder.”

Through Pamphleteers, Read had reprinted in California the somewhat archaic British translation then available of *The Law*. Read was disappointed at the book’s reception. So after FEE was started, he had the book retranslated from the original French into modern colloquial English. The new translator, Dean Russell, a young journalist, was a World War II veteran who had been a bombardier in the U.S. Air Force. Read’s attention was attracted to Russell by a *Saturday Evening Post* article Russell had written explaining why he would not take government money under the G.I. Bill to attend graduate school. Russell’s rendition of *The Law* has sold more than a half million copies and has been translated into Spanish and Polish. As a result of FEE’s promotion, Bastiat has even been “rediscovered” in France.

Read lectured far and wide on behalf of FEE. One of his favorite talks was on “How to Advance Liberty.” The task, he said, was a learning, not a selling, process. Freedom would be won only as individuals, one by one, “did their homework,” acquired enough understanding first to reject socialist teachings, and then to climb the ladder step by step until in time they, themselves, could become spokesmen for the freedom philosophy. This has been FEE’s educational approach throughout the years.

Read used to tell the tale of “Whitey,” a fiery labor union organizer. Whitey had led a violent life, had even had one of his fingers

bitten off in a fight. Read’s acquaintance with Whitey began with a vitriolic letter from Whitey attacking something Read had written about unions. Rather than answering in kind, Read replied soberly, calmly, and sent Whitey some books to read. Whitey had hardly expected such gentlemanly treatment. He read the books and asked for more. Read and Whitey continued to correspond for a couple of years. But then for a time no word from Whitey. Finally a letter. Whitey had been in an automobile accident and hospitalized for three months. Then Whitey added: “. . . but, Mr. Read, you should see the interest my three doctors are showing in *our* philosophy.”

Anti-free trade protectionists protested vigorously when, in 1953, FEE published W. M. Curtiss’s *The Tariff Idea*. Many producers panic at the thought of free trade for fear of lost sales due to cheap foreign imports and lost jobs because of low-cost foreign competitors. Shortly after its publication, J. Howard Pew, CEO of Sun Oil and a FEE trustee, announced that he would have to resign from the Board and stop supporting FEE financially. Generally speaking, he said, he was in favor of the Foundation’s position. But, he said, when the government had pressed for exchange controls, he, as head of his company, had actively fought *for* tariffs as the lesser evil. Pew did not think he should *support* tariffs as his company’s CEO and at the same time *oppose* tariffs as a FEE supporter. His obligations to Sun Oil’s workers and stockholders compelled him, he said, to resign from FEE’s board and to withdraw all financial support. Pew had been contributing to the Foundation from the beginning, had even withstood the Buchanan Committee onslaught, and had become one of FEE’s largest supporters. Read didn’t consider for a moment dropping FEE’s anti-tariff, pro-free trade position; “We’ll miss you, Howard,” he said. Fortunately for FEE, a fellow Board member and close friend of Pew’s persuaded him not to resign and he remained a FEE Trustee and supporter until he died.

The Freeman

The Freeman began publication in New York City in the fall of 1950, as a biweekly pro-free market *Newsweek*-sized magazine of opinion. Given the widespread acceptance of the “welfare state” philosophy at that time, free-market oriented journals found it difficult to survive financially; subscriptions and advertising could not cover expenses. After a few years, in the hope of cutting costs, the financial backers of *The Freeman* decided to move the publication to Irvington. In the summer of 1954, *The Freeman* was taken over by Irvington Press, a subsidiary of FEE. It was then converted into a monthly with Frank Chodorov as editor. But it still lost money.

For almost ten years, the Foundation had been issuing occasional one-page releases, “Clippings of Note” and “Clichés of Socialism,” also pamphlets and once in a while a book. In 1955, it started *Ideas on Liberty*, intended to be a quarterly. Only three issues had appeared when the decision was made to combine it with *The Freeman*. In January 1956, the first issue of *The Freeman: Ideas on Liberty*, reduced to *Reader’s Digest* size, appeared under the aegis of the tax-exempt Foundation. This journal then became FEE’s principal publication outlet. Another format change in 1986 altered its appearance but not the free market principles expounded.

FEE’s Seminars

Silently and steadily over the years, a stream of books, pamphlets, lectures, letters, monthly issues of *The Freeman*, have issued forth from FEE. The Foundation has also reached many individuals personally by means of the spoken word, through lectures and seminars, both in Irvington and on the road.

In 1956, FEE held its first summer seminar in Irvington. FEE’s limited government philosophy was so strange to the ears of the participants, many of them Keynesian and anti-business teachers, that they rejected it out of hand. Dr. F. A. Harper, FEE’s most

scholarly staffer on the program that summer, was an advocate of “natural rights.” For him, the right to own property was sacred; it should not be violated, not by anyone, not ever! He wouldn’t steal, he said, not even if he and his family were starving; certainly he didn’t want the government to “steal” on his behalf. Heated discussions followed. At the close of the seminar week, the participants lined us FEE-staffers up at the front of the lecture room. With great ceremony they presented us with a peck of potatoes—to assure that we needn’t starve, not even if we refused to steal or to accept government handouts.

Just as every individual is different and has a definite personality, so do groups have different “personalities,” depending on their individual members. Attending the next FEE seminar that same summer was a young Mexican, Agustín Navarro. To Agustín, FEE was “Mecca,” the source of all truth. His enthusiasm and eagerness were infectious; all were affected and, as a result, the participants at that seminar received FEE’s message most favorably. That was a time when Mexico was hostile, even dangerous, for anyone advancing anti-Communist and pro-market ideas. Yet upon Navarro’s return, he took over the Instituto de Investigaciones Sociales y Económicas and operated it for years, publishing leaflets and pamphlets criticizing socialism and Communism and promoting the free-market philosophy.

FEE’s Message

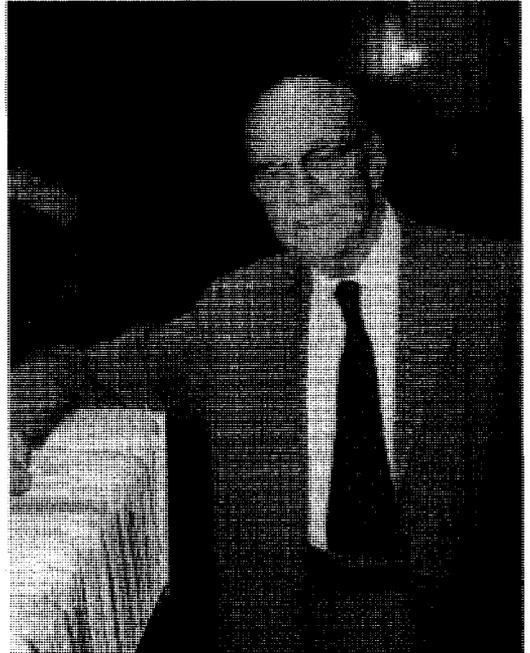
What is FEE’s message? For many years, FEE publications have stated that the Foundation’s goal was to promote the philosophy of the free market, limited government, private property. Its message may be boiled down to three easy-to-grasp concepts: individual freedom is good, moral, and productive (see *Mainspring*); for one person to plunder another’s property is wrong and immoral, just as is government-authorized plunder, or “legal plunder,” as Bastiat called it (see *The Law*); and individuals working, exchanging, and cooperating vol-

untarily in a free market increase production and improve economic conditions, while government interferences make matters worse (see Hazlitt's *Economics in One Lesson* and the logical explanations in Mises' works). Over the years, FEE has persuaded many persons to accept these basic concepts. In many cases, these ideas have changed their thinking, goals, and lifestyles.

As has been pointed out, many factors influence the ideas on which a person acts. Everyone we meet, everything we read, see, hear, learn, can affect our ideas. Even when persons have told us directly, as some have, that FEE has changed their lives, that does not mean that FEE was the only influence. Nevertheless, we can point to a few specific cases. A former public school teacher told us that he became disillusioned with the public schools because of what he learned from FEE, left the system and became an entrepreneur. One couple withdrew their daughter from the public school system and enrolled her in a private school because of a personal letter from a member of FEE's staff. Others have turned to homeschooling. Several teachers have told us that attending a FEE seminar made them more effective, and quite a few have returned for refresher seminars in free-market economics. FEE's ideas have challenged many, forcing them to rethink their basic philosophy of life. Some have started discussion groups, written books and articles and others have been inspired to go on the lecture circuit.

FEE's articles have been reprinted many times, in many places. Many have appeared in newspapers as op-eds. Quite a few FEE publications have been translated and distributed abroad. *Reader's Digest* has published at least eight articles from *The Freeman* in their American and international editions where they reached many millions of readers in the United States and overseas.

A number of FEE "alumni" have been influenced, at least in part by FEE, to start their own free-market oriented think-tanks. None has been an actual FEE clone; rather each has aimed at a somewhat different audience, used another approach, or dealt



Henry Hazlitt, founding trustee, in the FEE annex that houses his personal library, 1984.

with some special field. Dozens of such free-market institutions, foundations, or think-tanks have sprung up since the Foundation was started. Although FEE may have had nothing directly to do with their founding, if you scratch the persons responsible for their operations, you are bound to find somewhere some connection with FEE.

A Worldwide Shift in Ideology?

Now, fifty years after World War II and the founding of FEE, it is apparent that the climate of opinion in the United States is changing. There is less antagonism toward "big business," less confidence that welfare state programs are succeeding, and less pressure to grant privileges to labor unions or subsidies to special interest groups than there was when FEE was founded. There is talk now of cutting government budgets, even of trying to restrict spending on such sacred government programs as Social Security, Medicare, and welfare. There is more discussion of free enterprise, entrepreneurship, and privatization. Unfortunately, however, not enough. People are

still not confident enough of the advantages of free markets to elect politicians who appreciate the importance of drastically limiting government so as to leave people really free.

If we look back, however, we see a hopeful trend. From the time of the Great Depression, which was wrongly blamed on capitalism, until the 1960s, the advocates of big government met little or no serious opposition. But ideas seem to have changed somewhat. The Foundation may not have been directly responsible for the 1964 nomination of Barry Goldwater as the Republican presidential candidate, for the 1979 election of a conservative Margaret Thatcher in England, for the 1980 election of the emotionally pro-freedom Ronald Reagan, or for the 1989 downfall of Communism in the U.S.S.R. and Eastern Europe. However, it is possible that FEE's constant pounding away at the freedom philosophy for fifty years, together with the efforts of other

advocates of free markets such as Mises and Hazlitt, and those of the many new free-market oriented think tanks, have played, and are playing, a small role in this ideological shift. What role, if any, no one can really know. We can only say that FEE was among the early promoters of the freedom idea in this country after World War II, that FEE has been pegging away at the same thesis ever since, and that *ideas have consequences*. □

1. The more prominent "conservative" organizations established during the early years of the New Deal were The National Economic Council, founded in 1930-1931; the Economists' National Committee on Monetary Policy, set up in 1933 when the United States went off the gold standard; and the Committee for Constitutional Government, established originally in 1937 as the National Committee to Uphold Constitutional Government to fight Roosevelt's proposal to pack the U.S. Supreme Court. The America First Committee, started in 1940 in opposition to Roosevelt's foreign policy, which the Committee's members held was taking the country into a war that wasn't our business, had been disbanded promptly after the Japanese attack on Pearl Harbor.

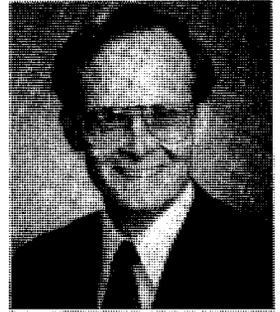
2. Czech, French, German, Italian, Lithuanian, Norwegian, Romanian, Polish, Portuguese, Spanish, and Swedish.

3. *The New York Times*, October 30, 1950.

"No other organization has done more in the past fifty years to promote free enterprise and individualism than FEE.

*FEE's literature was crucial in developing my free market orientation. I was an intellectually isolated teenager in Buffalo's inner city when I started questioning the wisdom of government regulations. FEE's materials, especially its effective rebuttals of the clichés of socialism, provided an intellectual explanation of why government failed to achieve its purported benefits. I eagerly accepted FEE's offer of *The Freeman* when I had few resources to subscribe to other publications. I have attempted to do my part for individual freedom ever since."*

*— Ron Robinson
President, Young America's Foundation*



FEE: A Lighthouse for Freedom

When G. K. Chesterton was asked why there were no statues in England to commemorate the influence there of the Romans, he answered, "Are we not *all* statues to the Romans?" In a very real way, statues to the Foundation for Economic Education are everywhere—in the form of people and institutions that seek to advance ideas nurtured for years by FEE when those ideas were not popular.

Yes, ideas do indeed have consequences—more powerful and longlasting than appearances on the surface might suggest. FEE's work provides ample proof.

I manage an influential organization in Michigan known as the Mackinac Center for Public Policy. Often termed a "think-tank," we advance a distinctive "free-market" perspective on a range of economic issues of concern to the people of our state. Starting with a staff of two and a budget of \$80,000 in 1988, the center now employs 14 full-time individuals on a budget well over a million dollars. Friend and foe alike frequently acknowledge the great impact of our work and that of a growing number of similar organizations in other states. We are changing the climate of public opinion, state by state, by the sheer force of persuasive argumentation.

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In no small measure, the success of groups like the Mackinac Center can be linked to the inspiration of the Foundation for Economic Education. I am one of countless people who support or are associated with free-market organizations that trace their roots to FEE, *The Freeman*, and Leonard Read. Back in the days when FEE kept freedom's candle lit in a night of statist darkness, we were devouring whatever came forth from the venerable scholars in Irvington-on-Hudson. And what a cornucopia it has been—articles, monographs, books, speeches, seminars—all that freedom's partisans on the cusp of ideological revolution could hope for from a single organization!

FEE's work has been, and continues to be, of great importance to groups like mine precisely because of the uniqueness that has defined FEE since its inception. It does not lobby legislatures. It does not advise governments on how to do their business more efficiently. It does not tinker at the margins of reform. Rather FEE's work is that of an intellectual lighthouse; it illuminates broad principles, focusing light on the ideal. The rest of us who work to change laws and policies fill in the blanks as freedom's light shines brightly over our shoulders.

Sam Staley, Vice President for Research at the highly acclaimed Buckeye Institute for Public Policy Solutions in Dayton, Ohio, cut his intellectual teeth on FEE's publications and seminars. He sees FEE's contributions this way:

FEE was one of the first organizations that developed a complete program around communicating the concepts of classical liberalism—free markets, limited government, individual rights, and respect for civil liberties—to a non-academic audience. Its mission was broad: FEE didn't focus only on a small audience of academics or inside-the-beltway policy insiders. It published a journal that used a principled, yet accessible style to widely disseminate the ideas essential to the functioning of a free society. I am convinced that FEE's example laid important ground work for the now burgeoning think-tank movement in the United States and abroad.

The Mackinac Center in Michigan, the Buckeye Institute in Ohio, the Goldwater Institute in Arizona, and some two dozen other state-based organizations work daily to stimulate private initiatives and tear down barriers to progress erected by governments. We are constantly tantalized by compromise and expediency. The temptation to get along with the politicians, to settle for something less than what's right, comes with the territory. Without a lighthouse like FEE to remind us of the noble and enduring principles that attracted us to this movement in the first place, we might degenerate into a gaggle of "better government" groups.

The Higher Plane

FEE and *The Freeman* remind us that there is a higher plane of human interaction than good intentions backed by the force of the state. That higher plane is the peaceful, voluntary context in which enlightened citizens who respect life and property choose to associate. As for me, I find myself asking this question of almost everything my organization produces: "Does it meet the highest standards for advancing the cause of liberty?" Or as the late Leonard Read himself would ask, "Does it leak?"

Largely because the persona of FEE's founder, Leonard Read, is so firmly embedded in the organization, FEE is more than a publisher of books and articles and a sponsor of seminars. It is an organization with a distinctive style, approach, attitude, and

demeanor, that freedom advocates find compellingly attractive.

FEE champions *ideas*, not personalities. Once that is understood, new avenues for persuasion open up. The most fruitful way to advance liberty is rarely to assail the intelligence or the motives of those who believe another way. Focusing on ideas and appealing to reason are much less likely to provoke hostility. That approach, seasoned with patience and a smile, is a vital ingredient in FEE's recipe for winning minds and hearts for liberty.

FEE promotes self-improvement in place of a condescending know-it-all attitude. If you want to be a missionary for liberty, to be vaguely familiar or generally sympathetic with the concept is not enough. Success at convincing others requires attention to the attractive qualities of a well-rounded individual. Be as good as you can possibly be, Read used to say, and others will seek your tutelage.

I think I also absorbed from FEE a sense of eternal optimism. No matter the turn of events in the short term, people inspired by FEE's work almost always look to the future with great hope. I have never met a regular reader of *The Freeman* who despaired or felt the urge to give up and "let history take its course." The reasons for this are obvious: FEE believes that ideas rule the world and that individuals can indeed alter the course of events by influencing ideas. Moreover, FEE promotes the freedom idea in a fashion that appeals to the loftiest instincts and ideals humans possess, thereby inspiring devotees to carry forth the message. Lights go on, not out, when you read *The Freeman* or hear a lecture by a FEE speaker.

The FEE recipe for advancing liberty lives on in the organization itself and in many others like mine. On this occasion of the Foundation's anniversary, many of us will be celebrating not only the last fifty years, but the next fifty as well. We know, beyond any shadow of doubt, with every assurance that success breeds success, that FEE's light will lead us to a freer tomorrow. □

Leonard Read, the Founder and Builder

by Mary Sennholz

In 1946, the eyes of most Americans were on the U.S. Congress debating full employment, higher minimum wages, extended social security benefits, price and rent controls, public housing projects, and government health insurance. Many Americans were eager to follow in the footsteps of the British Labour Party which, having won an overwhelming electoral victory, was busily nationalizing various industries and enacting a comprehensive Social Security system, including a national health service; but they did not dare call their aspirations "socialism," as the Labour Party openly proclaimed; instead, Americans called it just another deal, a "Fair Deal," which, in the years to come, was to have its essential parts enacted by both popular political parties.

Unbeknownst to the political world, the former manager of the Los Angeles Chamber of Commerce, Leonard Edward Read, was laboring in Irvington-on-Hudson to rally the remnants of old-fashioned liberalism and prepare for an intellectual counteroffensive. Read was an entrepreneur par excellence, confident, ambitious, and courageous, who could have launched any enterprise to which he had set his mind. But for reasons no one will ever know, he chose to enter

the world of thought and ideas, of ideologies and philosophies, and create the Foundation for Economic Education.

Leonard's passion had not always been for ideas and ideologies. For much of his adult life (1928–1945) he had been a business and trade association executive, a vocal Chamber of Commerce spokesman who faithfully defended the official Chamber position, which at that time was sympathetic to President Franklin D. Roosevelt's New Deal and his attempts to pull the economy out of depression by organizing business, regulating prices, and stimulating bank credit through monetary inflation. His moment of reformation and conversion came in the fall of 1933 when, after hearing that a prominent California executive had been criticizing the Chamber, he arranged a visit to set the businessman "straight." The businessman was W. C. Mullendore, an official of Southern California Edison Company. Having made the Chamber of Commerce pitch, he was then obliged to listen to Bill Mullendore patiently explaining individual liberty and the private property order and refuting the New Deal contentions. Until his dying days Leonard swore this explanation had been his best lesson ever—it had removed the blinders from his eyes.

Leonard was a self-educated man who learned much not only from books but from a great deal of experience. Leonard's prac-

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tical education began when most children are still preoccupied with mastering the Three R's. Already by the age of twenty he had faced an unusual share of challenges which shaped his lofty spirit, empowered him with knowledge, and became the kernels of an industrious adult life. By the age of 48 he had achieved remarkable success in two endeavors when he brought forth his greatest creation, the Foundation for Economic Education.

Formative Years

Leonard Edward Read was born September 26, 1898, on an 80-acre farm just outside Hubbardston, Michigan. He was the first-born of Orville Baker Read and Ada Sturgis Read. The family labored from dawn to dusk to wrest a meager living from the bounty of nature. Leonard's father had come there from Watertown, New York, a descendant of a long line of farmers who immigrated from England early in the eighteenth century. Leonard's mother often spoke of her Grandfather Sturgis, who was the first settler in Shiawasee County. Both families truly were pioneer folk with pioneer attitudes—venturesome, hardworking, willing to share, thankful for their blessings.

When Leonard was barely eleven and his sister Rubye nine, tragedy struck. Their father died at the age of forty from septicemia, commonly called blood poisoning. His death changed the life of the family dramatically, leaving Leonard the man of the family who now faced adult responsibilities. He helped his mother sell the farm and establish the first boarding house in town. To supplement the family income, he at times worked sixteen hours a day, milking cows at Uncle John's farm and working in the village store.

A boy is said to be more trouble than a dozen girls. But Leonard had little time for play and trouble. He labored diligently and yet did not neglect his school work, hoping to become a physician. Because Hubbardston High was a rural public school with limited resources, he had to look elsewhere to complete studies necessary for college and ultimately medical school. The nearest



Aggie and Leonard Read in the 1960s

accredited school that was well known for its excellence in college preparatory instruction was Ferris Institute in Big Rapids. Founded in 1884 by Woodbridge Ferris (later to become Governor of Michigan), it was a poor child's private school with more than 1,200 pupils. A poor boy could earn his tuition by working for the school. At Ferris Institute, hard work and severe discipline were the rule. Any student failing in his academic subjects or violating the tough rules of conduct and behavior was expelled immediately, before the whole assembly.

When Leonard was seventeen his mother let him go. To work his way through Ferris Institute he would fire the furnace (at 5 a.m.), carry in wood and water, rake leaves, mow lawns, shovel snow, and so forth. He charged every new difficulty, in both studies and living conditions, with every ounce of his energy. He tackled his most uncongenial subjects and conquered them. He read and studied fervently and graduated a year later, in June 1917. "One way to check whether you ought to be doing this or that," he was to say later, "is to feel your zest pulse. If it's low, chances are you should be elsewhere or doing something else. My zest pulse seems to be high in everything."

The "War to End All Wars"

World War I had been raging in Europe since August 1, 1914; the United States had joined on April 6, 1917. Soon after his graduation Leonard enlisted with the Aviation Section, U.S. Signal Corps. He hoped to become a pilot, but on the very day he was to be transferred to a training program his Squadron was ordered to leave for New York and embark for France. Leonard was so eager to go to war that he declined the pilot training. Much later, in another war, his two sons, Leonard E. Read, Jr., and James Baker Read, were both to become pilots and flight instructors.

Many young men are attracted by the glamour, pride, and glory of war. In times of war they would think poorly of themselves for not having been a soldier who tested his courage in battle. Soldiers rarely question the justifiableness of war, or virtue and righteousness. Leonard Read was skeptical of President Woodrow Wilson's pronouncements that the war was the "culminating and final war to end all wars." He wondered about Theodore Roosevelt's oration that he was to fight "in the quarrel of civilization against barbarism, of liberty against tyranny." To Leonard, it was not his business to question, but to fight.

In France, Leonard became a "rigger," who assembles and services planes. He always kept in mind that the pilot's life depended on the care and accuracy of his work, which made him labor hard and give scrupulous attention to detail. He bought books on aerodynamics, which he studied in the evening and learned the refinements of his craft. He later was able to boast that no flyer ever lost his life because of structural failure of a plane that he had rigged. When his reputation for knowledge and capability grew, he became a natural teacher as other ground crews sought his guidance. He learned two lessons which remained with him throughout life: (1) whatever you do, it is of paramount importance to pay attention to detail; (2) when you improve your own learning and understanding, others will seek you out for knowledge and advice.

Upon discharge from the service in July 1919, Leonard was eager to go to college and earn a degree so that he could proceed to medical school. But his severance pay would barely see him through the freshman year. He had to seek employment which would permit him to save for his college career.

Husband, Father, and Entrepreneur

After he had worked in several bookkeeping and cashier positions that were disappointing, he set out to establish himself in the business he knew best, the farm produce business. For more than five years Leonard struggled to build his Ann Arbor Produce Company. While other young men of his age were attending college, Leonard built a thriving business with six employees and better than a quarter of a million dollars in gross sales, which in today's minidollars would be more than three million dollars. He even found time to marry petite, vivacious Gladys Cobb—later affectionately called Aggie. They soon were blessed with two strong and energetic sons—Lenny, Jr., and "J.B." At the age of 25 Leonard was a well-known and highly respected businessman in Ann Arbor, owning a stately home in a prosperous neighborhood.

Yet, there is an element of fate that shapes man's ends. Leonard's situation so radically changed through the advent of chain stores that he was to liquidate the Ann Arbor Produce Company, forever leave the produce business, and move to California for an entirely new career. What had begun as a step toward medical school had yielded valuable experiences and many joys, and ended with a step forward into the next phase of his life.

A great talent is often lost for the want of a little courage. For Leonard it took a great deal of courage to give up his business, a lovely home in his native state, and move 2,000 miles in order to find a new beginning. And yet, a stirring restlessness, nourished by growing doubts as to the future of his Ann Arbor Produce Company, prompted the



Leonard Read, at the celebration of his seventieth birthday in 1968, flanked by Lawrence Fertig and F.A. Hayek.

difficult decision and took the Leonard Read family to California, the Golden State.

Seeking More Light

Success in life is a matter of concentration and service. Step by step, little by little, bit by bit—that is the way to success. Unbeknownst to himself, Leonard was about to enter a phase of his life that would take him to the very summit of accomplishment. He would succeed above his fellows because he would continue to grow in strength, knowledge, and wisdom. He would seek more light, and find more the more he sought. Leonard Read was to become one of those rare individuals who take and give every moment of time.

He spent the next eighteen years with the Chamber of Commerce, serving as manager of Chambers in four locations: Burlingame, Palo Alto, the National Chamber's Western Division in Seattle, and finally, as General Manager of the Los Angeles Chamber. Here

he directed a staff of 150 serving 18,000 members.

Leonard grew in many fields and branches of knowledge. In time he became a vocal critic of policies that would limit the scope of individual freedom and expand the powers of government. There were many local issues on which the Chamber of Commerce was expected to take a position such as the "Production for Use" movement, the popular "Ham and Eggs" scheme, "End Poverty in California," and many other programs. In hundreds of speeches and pamphlets Leonard Read opposed these welfare schemes with some success. "After six years of these 'successes,'" he later wrote, "it became evident that if the intellectual soil from which these fallacies sprung were rancid, new ones would spring up in their places. Only the labels would be different. What I had been doing was comparable to proving only that the earth isn't flat. The positive knowledge of someone discovering that the earth is a spheroid has

rid us of the whole collection of fallacies about the earth's shape. While it is necessary to understand and explain fallacies, that's less than half the problem. Finding the right is the key to salvation, for the wrong can be displaced only by the right."

Leonard felt a sense of duty to speak out clearly and courageously. He raised his voice against any abuse of power and especially against injustice committed in the name of law. His devotion to the cause of freedom caught the attention of many people in high places. Virgil Jordan, the President of the National Industrial Conference Board (NICB) in New York, had the wisdom to invite Leonard Read to achieve with NICB on a national scale what he had accomplished so admirably at the L.A. Chamber. And so, on May 15, 1945, Leonard Read became Executive Vice President of the National Industrial Conference Board and was looking forward to launching a nationwide educational program for the restoration of individual freedom and the market order.

As was his wont, Leonard poured his full effort and energy into raising money for the great task he was about to undertake. He was "on the road" most of the time, calling on prospective donors and presenting his ambitious program. However, NICB's policy was to organize public meetings at which "both sides" of an issue were presented. Leonard opposed this policy. How do you represent "both sides" when "one side" is all around you? How do you state your case for individual freedom and the private property order when the other side is monopolizing the stage?

After eight frustrating months with NICB, Leonard resigned his position. Since he had raised many thousands of dollars for a cause he was unable to promote fullheartedly, he felt obliged to visit the donors and apologize for his failure. One of these men was David Goodrich, Chairman of B.F. Goodrich Company in New York City. When Leonard brought him the sad news of his failure, Mr. Goodrich raised a simple question: "If you had an organization of your liking, what would it look like?" Leonard went home,

dazed and puzzled, with renewed courage and hope. He went to his typewriter, and between 3 p.m. and midnight wrote a description of the organization he envisioned. On that day in January 1946, the idea of the Foundation for Economic Education was born. To join all its pieces it would take a few more months, but a great idea had come to the world and now was pressing for admission.

The Founding of FEE

On March 7, 1946, seven founders of the Foundation met in the office of Dave Goodrich for the inaugural meeting. They were Leonard Read, Donaldson Brown of General Motors Corporation, Professors Fred R. Fairchild of Yale University and Leo Wolman of Columbia University, Henry Hazlitt of the *New York Times*, Claude Robinson of Opinion Research Corporation, and Goodrich himself.

The founders were convinced that New York City, with its splendid education and financial facilities, provided the ideal setting for FEE. But rent control had created a painful shortage of office space while confiscatory income and estate taxation had forced luxury homes and mansions to the market, which were now being sold at fractions of their original construction costs. When a thoughtful real estate agent showed Leonard a property at 30 South Broadway in Irvington-on-Hudson with its badly overgrown grounds and a mansion that showed evidence of neglect, he knew he had found the ideal home for his fledgling organization. Here he could set out to complete his mission "to discover, gather and to fasten attention on the sound ideas that underlie the free market economy which, in turn, underlies the good society."

Leonard sought to surround himself with men and women of excellence, seekers of knowledge and students of liberty. Throughout the years his senior staff consisted of scholars who combined in a common effort and with energy and industry sought to serve the cause. Most of them spent a few years in Irvington and then moved on to



More 1968 birthday festivities: Leonard Read joined by Benjamin Rogge (center) and William F. Buckley Jr.

other important pursuits in industry and education. Some were to become captains of industry, founders of enterprise, or famous educators. They all became wiser for their years of learning at FEE and their association with Leonard.

Ludwig von Mises was associated with the Foundation from the day FEE opened its doors to the day of his death in 1973. Read and Mises formed a team of discovery, united in the love of liberty and truth, succeeding in all they undertook, and whose successes were never won by the sacrifice of a single principle. Their association and friendship, which began for an end, continued to the end. Their joint efforts were to make the Foundation in Irvington-on-Hudson the intellectual center of the freedom movement.

In time *The Freeman* was to become the flagship publication of the Foundation. It came to FEE in 1955 when it ran into financial difficulties. In the dreary world of political strife *The Freeman* brings new hope to the weary mind and instills new strength.

In the early days of FEE, Leonard himself responded to all requests for lectures and speeches explaining the freedom philosophy. His friends and members of the board of trustees would invite him to speak to their service clubs and other groups. As the request for lectures and speeches continued to grow, the senior staff, too, was called upon to explain the work of the Foundation. Leonard and his colleagues traveled thousands of miles, from Maine to Hawaii, Manitoba to Miami, in order to explain the benefits of freedom. The growing popularity of the FEE speakers, finally, pointed to the need for short courses or "seminars" lasting one or two days. Throughout the year they conducted seminars at the Foundation in Irvington, attended by eager students of liberty from many parts of the country and world.

Leonard was always aware of the ethical and religious dimensions of human liberty. American institutions and the American way of life, he believed, ultimately rest on the tenets of the Judeo-Christian religion. It is from this source that we derive our convictions as to the meaning of life, the nature of man, the moral order, and the rights and responsibilities of individuals. The American system, as it was originally conceived, is a projection of this religious heritage, and the American dream has an implicit religious content.

Leonard used what he knew about nature as evidence for his belief in God. Nature reveals certain qualities that are characteristic of an intelligent mind which designed nature for a purpose. In his own words: "There is the Mind of the Universe—God—from which all energy flows. Individuals are receiving sets of this Infinite and Divine Intelligence."

Although Leonard Read published numerous tracts on political economy, his chief contributions to social thought lie in what he added to the philosophical, ethical, and psychological basis of human action. He was essentially a social philosopher who was more interested in moral and psychological principles than in economic theory.

A Commitment to Principle

For the founder of the Foundation for Economic Education, the meaning of education was of crucial concern and occupied his mind from FEE's beginning. In *The Coming Aristocracy* (1969) he stated his concern in simple terms: "Intentionally working on others takes the effort away from self. It has no effect on others, unless adversely; and the unevolving self is always the devolving self. The net result is social decadence—and has to be. The corrective for this is to rid ourselves of the notion that Joe Doakes must stand helpless unless he be made the object of our attention. Joe will do all right—and the same can be said for you and me if we'll just mind our own business, the biggest and most important project any human being can ever undertake!"

This message is repeated in several of his 27 books, written largely between 1954 and 1982, sometimes two volumes in one year. He did not compromise in matters of principle no matter how the world censured him for his strict and unyielding position. His answer was uncompromising: "Principle does not lend itself to bending or to compromising. It stands impregnable."

Leonard kept a journal of his labors and principles, never missing a day of entry since he began on October 16, 1951. In his journal entry of 9/5/54 he explained his reason for this activity. "Recording what one does and thinks each day is more of a discipline than one would at first suspect. Not that it isn't possible to do or think what one does not record. But there is a forceful tendency to act only in ways that are recordable." On the 22nd anniversary of his first entry, he reminisced: "I have kept you faithfully for all of these years, never missing a day. In a word, you are a joy to me or this would never have been accomplished."

Among his achievements, Leonard was proud of his performance and accomplishments in his favorite sports: golfing and curling. He learned to play golf as a young Chamber of Commerce executive in Seattle and later played when time and weather

permitted the rest of his life. He sometimes declared that the most important lesson which golf may teach its devotees is the "magic of believing." In belief lies the secret of all valuable exertion and success.

It should not surprise us that a man who found so much fun and pleasure in life on the golf course and the curling rink, as did Leonard, displayed a great deal of interest in the practices of the "good life." He took his cooking stove, saucepans, and pantry seriously and believed that dinner tables should be ever pleasant places in an otherwise arid world. With his love of innovation and experimentation Leonard transformed the Read cuisine into a gourmet's laboratory, ever searching for exclusive culinary delights for the benefit of soul and body. Because Aggie, an excellent cook in her own right, didn't care to be called upon to pare the potatoes or chop the vegetables while he put on the finishing touches, they agreed that each one would prepare his or her dishes from beginning to end. For many years, Leonard used to don a cook's hat and prepare his *Chicken Livers Leonardo* for appreciative guests.

Until his death at the age of 84, Leonard continued to combine a youthful sense of wonder and curiosity with the profundity and erudition that are the fruits of many years of experience and labor.

In the early hours of May 14, 1983, Leonard E. Read died peacefully in his sleep. He had spent the day before at his desk, preparing for the annual meeting of the FEE Board of Trustees scheduled for the following week. At the age of 84, he left his grand creation, the Foundation for Economic Education, in sound condition intellectually and financially. He left his family as he left the Foundation, well ordered and well instructed.

Leonard Read was one of the most notable social philosophers of our time. His name will forever be associated with the rebirth of the freedom philosophy. The Foundation for Economic Education constitutes an enduring monument to his energy and talent. □

From Leonard Read: A Legacy of Principles

by Melvin D. Barger

The first time I ever read anything by Leonard Read—in the late 1950s—I thought he was arbitrary, opinionated, and reactionary.

Within a few years, however, I was following his ideas with close attention and was also contributing to *The Freeman*. And when I met him personally in March of 1961, I had come to view him as principled, focused, and visionary. Today, nearly thirteen years after his passing, I view him as a great pathfinder in my own life, and, more importantly, as a social philosopher who will shape the future.

What brought about this changing viewpoint?

It wasn't any change in Leonard, because he hardly ever wavered from the principles he championed when establishing the Foundation for Economic Education in 1946. The change was my own. First, more reading and thinking about our general social organization brought about a realization that we needed new moorings and a better sense of direction in human affairs. I also became disillusioned by the failures of ideas in which I had believed. It became clear, too, that a large number of our leaders may have lost their way.

While Leonard Read often wrote on timely subjects, he was never caught up in

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political movements or felt that a single election or candidate would either doom us or save us. He consistently followed his carefully honed set of principles, and it was always possible to find this consistency in his writings. Three Radian principles stand out in my own memory of him, and almost define the way he thought about life and the world. Though Leonard expressed these ideas in many forms, I have chosen here to word them as I perceive them:

1. Anything that's peaceful should be permitted.

2. Coercion is never creative and cannot bring about continuing human progress. Only freedom does.

3. Each of us is some part of the Universal Consciousness and can achieve greater good for ourselves and others through self-improvement, which comes by expanding the individual consciousness.

How well do these principles work in practice? Here are examples of my experience with them:

Anything that's peaceful should be permitted. Leonard Read's views on peace were nothing short of radical, but they would please few of the radicals who march for peace and hold other demonstrations for it. Nor would Leonard have believed that many of those who advocated peace were really peaceful in their own thinking or in the way they wanted to deal with others. Since most of them were really interested in

using government power to impose their views on the rest of us, Leonard would have regarded such advocates as being anything *but* peaceful.

One of Leonard's radical ideas is that government power is organized force that should be used sparingly; actually, only to protect individuals from crime and fraud, to enforce lawful contracts, to protect property, and to defend the country. In doing this, it is maintaining peace and acting peacefully.

But when government expands its powers into other areas, it cannot and does not act peacefully. In redistributing income, for example, it must use police power to take from one in order to benefit another. This process goes on in countless ways and has many supporters, but Leonard saw it as violence, even if the police officers do not actually appear to collect the taxes. Any other government action must also be enforced by violence if certain individuals or groups refuse to go along with it.

But Leonard had little sympathy for those who objected for the wrong reasons when the government appeared to be abusing or exceeding its powers, when they protested about specific incidents of power abuse without facing the underlying causes that had put such abuses in motion.

In 1961, for example, there was a great outcry when the Internal Revenue Service seized horses belonging to an Old Order Amish farmer in Pennsylvania who had refused to pay his Social Security taxes. The IRS agents who confiscated and sold the horses for taxes were seen by the public as villains. But Leonard rightly pointed out that the agents were doing precisely what they should have done. "This agency of government is not in the business of deciding the rightness or wrongness of a tax," he wrote. "Its job is to collect regardless of what the tax is for." He even went on to suggest that in carrying out their duties as law enforcement officers, they had to treat this gentle Amish farmer just as they would have treated John Dillinger or some other infamous bank robber.

It seemed quite a stretch to compare an

action against a peaceful Amish farmer with the manhunt to get the notorious and dangerous Dillinger. But since the Amish farmer had become a lawbreaker, police power had to be applied just as it was against deliberate felons. As a last resort, the federal agents could have used deadly force had the Amishman carried his protest too far.

Leonard's view on this is useful to remember when considering current actions of the IRS or federal agents in general. Time and again, we hear about the arbitrariness and high-handedness of the IRS, but we don't hear much support for real elimination of taxation or the lavish spending which makes it necessary. And when we hear criticisms of other government actions, such as the Waco Branch Davidian catastrophe or the killings at Ruby Ridge, we still do not have many people pointing out that such tragedies are likely to occur as a result of the relentless expansion of government police power.

If we believe that the coercive powers of government should be used to address every social problem, we can expect various unwanted consequences. Government power must be enforced at gunpoint. So, if we don't like it when the guns really appear and are used, then we should get back to basics and place strict limits on the power and scope of government. Limited government, as Leonard saw it, would require only sparing use of police power.

But even as the debates over government actions continue, Leonard's basic principles serve as a useful guide when considering other issues. In recent years, for example, I've written about government subsidy of the arts. It's clear that government support of the arts is not a peaceful action: coercive means are used to take money from taxpayers to support forms of art which are sponsored and defended by various pressure groups. Whether we approve of the art or not is irrelevant; we simply have no real choice in the matter of supporting it.

When recent controversy arose over the nature of some subsidized art, there were cries of "censorship" because elected officials took a stand against certain shocking

examples. But elected officials have a right and even a duty to exercise judgment over tax-supported projects. Had this been *privately* funded art, however, any government criticism or interference would have been wrong and certainly in violation of the First Amendment. The protesters, unfortunately, were so addicted to government grants as a “right” that they could not understand the difference between “public” and private funding of the arts. The correct solution would have been to end all government support of the arts while continuing to fight the battle for artistic freedom on Constitutional grounds.

Leonard’s principle of permitting “anything that’s peaceful” is also a model for personal behavior. It can help us steer clear of wrong actions when our so-called friends try to enlist us in bad practices. Shortly after I began writing for *The Freeman*, for example, I had a visit from a man who organized telephone campaigns against left-leaning school teachers in his district. The method was to harass and hound them until they were forced to quit or asked to resign. While not in agreement with the teachers, I could not condone this method of dealing with them. It was an abusive and practically violent tactic that no real student of liberty would endorse.

In adopting this principle of acting only peacefully, it’s also necessary to determine whether or not a certain practice is peaceful. The late Ben Rogge, who taught often at FEE, would uphold “anything that’s peaceful,” and then go on to point out “that we’re not being peaceful if we build a fire and allow the smoke to drift into our neighbors’ yards.” This explanation would seem to justify all the wretched actions the government has taken in the name of environmental protection. But I think both Ben and Leonard would have argued that people who really believe in peaceful actions will also practice common sense, good ethics, and courtesy, whether tending to a backyard fire or a large factory.

A second idea I acquired from Leonard (and other FEE writers) is that *coercion is never creative and cannot bring about*

continuing human progress. Only freedom does. Leonard had great admiration for the geniuses of the past who had brought about the industrial revolution and other modern miracles. But creativity could not be coerced; it had to flow from the voluntary efforts and thought processes of people working together in harmony.

He stated this in various essays, but his classic was “I, Pencil,” in which he argued that no single individual knows how to make a simple pencil, and yet we produce billions of them every year. Years later, the noted economists Milton and Rose Friedman used this wonderful example in their popular 1979 book, *Free to Choose*. If nobody knows enough to make a pencil, it is equally true that nobody knows everything that’s required to produce all the other things we now enjoy and use. The market takes care of progress, if people are permitted to think, invent, produce, and sell without undue interference or outright prevention of their activities.

And where there was outright prevention of economic activity, Leonard could easily cut through the confusion. For the past fifty years, for example, there has been rising concern about the mediocre performance of the government-owned postal service, with frequent attempts to modernize and reorganize it. Despite considerable effort and the talents of some fine managers, the postal service still ranks low in the public’s esteem and loses business to those entrepreneurs who are permitted to compete with it in some types of services (but not in first-class deliveries).

Leonard believed that the answer to the postal confusion was simply to “let anybody carry mail.” There was no real reason that the government should have a legal monopoly on first-class mail, thus preventing other delivery services from trying their luck in the field. He would point to the market’s success in bringing telephone messages across the country in fractions of seconds, while mail deliveries continued to be clogged and inefficient.

With Leonard’s approval and the support of *Freeman* editor Paul Poirot, I wrote

several articles about the post office, suggesting that free-market mail was the answer. These articles were considered quixotic and downright impractical in the 1960s and '70s, but time has vindicated them. At the same time, Leonard's belief that anybody should be permitted to carry mail is now being seriously considered and would even soon become lawful if not for the fierce opposition of the postal unions.

But the market is taking steps of its own to deal with the postal monopoly. Even if letter mail continues to be a government monopoly, the fax machine and E-mail are now competing effectively with postal deliveries. Both developments were just coming onto the scene during Leonard's final years, but he would have cited them as more proof of the creativities that lie in the free marketplace.

The third important idea I learned from Leonard is that *each of us is some part of the Universal Consciousness and can achieve greater good for ourselves and others through self-improvement, which comes by expanding the individual consciousness.* To some, this sounds a mite religious, but I never learned anything about Leonard's church affiliations or matters of that sort.

His approach was simply to point out that we didn't create ourselves or bring about the intelligence that is in all things. We also have an earthly purpose, which is the improvement and advancement of the individual consciousness. We cannot really improve others except by offering them our perceptions of the truth and also by setting good examples in our own lives. Any coercive effort *outside* the individual is bound to fail in the long run, since it is only our own personal acceptance of ideas that gives them lasting power and effectiveness.

I had good reason to go along with Leonard's position on this, because my own background as a recovering alcoholic had prepared me for it; indeed, I outlined these points in a 1961 *Freeman* article titled "The Lessons of Lost Weekends." But lingering in the back of my mind were doubts that the individual consciousness could have any real impact on the formidable political pow-

ers that were causing so much misery in the world.

But time would prove Leonard right, at least to my satisfaction. The decline of Communism is an outstanding example. Back in the 1960s, most of us in Leonard's circle of friends were appalled by the astonishing hold Communism seemed to have over large areas and populations. We could not see any light at the end of this tunnel, and there was a paralyzing fear that this demonic force would eventually enslave the entire world. It did not seem possible that Communist power could ever be broken without armed rebellion or perhaps a preemptive war by democracies. Indeed, during those years people did argue that the United States had the right to strike preemptively against the Soviet Union to save our own freedom.

Fortunately, we never took such a course, which would have been terribly wrong in Leonard's view as another case of using guns to carry out something that comes only by a change of consciousness on the part of many people.

And thus came the change. Though the threat of retaliation also slowed the Communist advance, at work was another process—year by year, gradual shifts in the way citizens in the Communist countries viewed themselves and their governments. The process was so slow that only a few people realized it would someday reach a critical mass and topple one government after another, and without a great deal of bloodshed. The toppling began in the late 1980s in the Eastern European countries. When the Soviet government finally yielded to this process, we discovered that the people required no educating about the nature of Communism nor informing that Marx and Lenin were just as responsible for its horrors as such perpetrators as Stalin and his henchmen. From bitter experience they understood Communism better than we did. And really, it would not have collapsed without a general "change in consciousness."

This fall of Communism took place after Leonard's passing and is not yet complete.



Leonard Read in his office in 1954 with his secretary, Bette Fletcher.

But he would have understood it, and also would not be surprised that considerable crime, chaos, and ethnic strife followed in many of the formerly Communist countries. These problems, too, grow out of the individual consciousness and can only be eliminated when people come to realize their errors and make the appropriate changes in their political environments. The current problems in the former Soviet Union and Yugoslavia also show that the coerced togetherness did nothing to change the real feelings of the people involved. Even with seventy years in power, Communism in the Soviet Union could only keep the lid on ethnic rivalries; it could not remove them. And it is probably beyond the reach of any intervening country, however well-intentioned, to force permanent changes in the world. We have learned, to our sorrow, that there are strict limits to what guns can accomplish in dealing with world strife. While Communism was always an organized threat, our real problems continue to be the human failings that go back to the beginning of time.

Yet, though millions of people throughout

the world seem to be caught up in fear, corruption, hatred, and envy, Leonard had hope for the future. He believed that "thoughts rule the world," and even gave that title to one of his books of essays. He felt that the United States and other democracies, ensnared by many of the same problems that cause havoc elsewhere, should not preach or interfere with others.

But he had immense faith in the final triumph of freedom that would come about with a change in human thinking. This, in turn, would bring about the elimination of the coercive, destructive practices that are raging because people are not really pursuing peace. Also, there is no dearth of good thinkers we can look to for the ideas we need to create a peaceful, prosperous, and happy society. As examples, Leonard listed such great thinkers as Confucius, Socrates, Jesus, Epictetus, John Locke, Edmund Burke, Bastiat, Cobden, Bright, Adam Smith, Washington, and Marcus Aurelius, among many more.

It's a great list. My only change would be to add one name: Leonard Read. The world owes him more than we will ever know. □

"I happened to have been in London for three months in the early 1930s and had four private interviews with John Maynard Keynes. He sold me a bill of goods to the point that I thought he set the moon. I came home with the idea of getting Keynes and FDR together. When the latter came to town, I sat on his platform and marveled at the way he handled himself. If I could only get the two together, maybe we could get the economy rolling again. My father was quite upset with my thinking at that time.

What turned me was not only meeting Leonard Read, but FDR's attempt to pack the Supreme Court because they had turned him down. To me, that was like trying to change the referee because you were losing. Then came the realization that Keynesian thinking just didn't work. Deficits in depression did not disappear in recoveries. In fact, the politicians spend more. So these revelations began to temper my liberal feelings, and meeting Leonard satisfied them rather permanently.

My connection was an interesting one. I had just returned from World War II when I dropped in at my father's house to pick up something. The telephone rang and I answered. It was Edgar Queeney, President of Monsanto, calling my father. I told him that my parents were out of town — down South. He asked me to play golf with a man who was visiting him. I told him that I was just home from the Navy and hadn't played for 4½ years. He was tied up and couldn't take care of him and asked if he could send him over. I said 'Yes.' He didn't even mention his name. I returned to my own house and soon a big Cadillac drove up and out stepped a man. I rushed out to meet him and it was Leonard Read. He came in and within two hours, he turned my whole world around."

— Harry F. Langenberg
St. Louis, Missouri

"One can look at the proliferating free market groups throughout the nation and see their boards of directors liberally sprinkled with FEE alumni. One can read of Mises, Hayek, and peaceful volunteerism in places unthinkable 40 years ago. And for all of this and more, we can be grateful for FEE's steadfast presence in the world of ideas. I am proud to count myself among the countless other individuals who have found inspiration and insight from The Freeman and the teachings of FEE. May it carry the torch of freedom for decades to come as it has so courageously in years gone by."

*— William H. Mellor III
President and General Counsel
Institute for Justice*

"On behalf of the staff of the Intercollegiate Studies Institute (ISI), I want to convey our heartfelt congratulations to everyone at the Foundation for Economic Education on the occasion of your landmark fiftieth anniversary.

Many are perhaps unaware of the historic connection that exists between ISI and FEE. Not long after ISI was launched in Washington, D.C., in the early 1950s, its founder, Frank Chodorov, was appointed editor of The Freeman. As a result, Frank moved ISI to Irvington-on-Hudson where we were given temporary shelter by FEE's president, Leonard Read.

Those were days dominated by collectivist minds, but we nevertheless harbored the conviction that the future would be shaped by conservative minds. FEE should certainly share some of the credit for the realization of that conviction. Indeed, the future of freedom, though always tenuous, is less so today thanks to the invaluable resources and publications FEE provided to countless numbers of beleaguered freedom lovers."

*— E. Victor Milione
President Emeritus
Intercollegiate Studies Institute, Inc.*

The Moral Dimension of FEE

by Gary North

“... man playing God is a prime evil, an evil seed that must grow to a destructive bloom, however pretty it may appear in its earlier stages.”

Leonard E. Read¹

A quarter of a century ago, Jerome Tuccille wrote a book, *It Usually Begins With Ayn Rand*. For some people, this may have been true in 1971. But far more true even then was this statement: “It usually begins with a copy of *The Freeman*.” For over three decades, I have asked people: “How did you get into the conservative movement?” More than any other answer, I have heard this one: “Somebody gave me a copy of *The Freeman*. I don’t remember who.”

When we think of the Foundation for Economic Education, we think of *The Freeman*. The two are completely intertwined. *The Freeman* is much better known than FEE. Yet this was not always the case. FEE began in 1946. It had no magazine for almost a decade. But more important for the purposes of this essay, FEE had little recognition prior to *The Freeman*. It was an unknown organization. *The Freeman* is what put FEE on the map and has kept it there.

In this sense, *The Freeman* has represented FEE to the public far more than most journals represent their publishers. For four decades, FEE has appeared to the

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public as *The Freeman*’s publisher more than as an organization with a comprehensive program, one aspect of which is a monthly magazine. We do not think of the Harvard Business School primarily as the publisher of the *Harvard Business Review*. We do think of FEE primarily as the publisher of *The Freeman*. This has elevated *The Freeman* to special status, both for FEE and for the libertarian movement.

A Brief History of *The Freeman*

In the 1920s, Albert Jay Nock had edited a magazine called *The Freeman*. Frank Chodorov, Nock’s disciple, revived the name in the late 1930s for the magazine he edited for the Henry George School. He was soon fired, and the name went with him.² It was revived again in 1950 when Henry Hazlitt and John Chamberlain began publishing a magazine that replaced Isaac Don Levine’s *Plain Talk*.³ George Nash writes of this effort:

By the end of its first year of publication, *The Freeman* had attained a modest circulation of about 12,000. This rather low figure does not, however, adequately reflect either its influence or its significance in the early 1950’s. Here at last was a respectable journal (“a fortnightly for individualists”) which was providing a regular forum for hitherto dispersed writers. Here at last was a periodical applying libertarian theories to daily realities. Not only professional journalists but also scholars like Hayek, Mises, and Germany’s neo-liberal economist Wilhelm Röpke appeared in its

pages. Men as diverse as Senators Harry Byrd and John Bricker, John Dos Passos, Roscoe Pound, and General Albert Wedemeyer acclaimed its value. It is difficult to convey a sense of the crucial role of *The Freeman* at the height of its prestige, between 1950 and 1954.⁴

FEE anonymously took over publication of this *Freeman* through its Irvington Press entity from 1954 until its demise in late 1955. In January 1956, the modern *Freeman* was born under the then anonymous editorship of Paul Poirot. This 64-page magazine was formatted somewhat like *Reader's Digest*. Like *Reader's Digest* in those days, *The Freeman* contained no outside advertising. Even today *The Freeman* only accepts advertisements related to the overall purpose of FEE.

In 1953, Chodorov founded the Intercollegiate Society of Individualists, with young William F. Buckley Jr. as its first president.⁵ At that time, ISI had no regular publication, but it sent books and articles to college students around the nation. This organization was another key player in the revival of conservatism. What should be apparent is that Frank Chodorov, a defender of Henry George's single tax on increased land value, a non-interventionist foreign policy, and the free market, was the key figure in the revival of both conservatism and libertarianism, yet few people remember him today. Of his three surviving legacies—*The Freeman*, ISI, and Buckley—only the first retains Chodorov's forthright commitment to the unhampered free market and non-interventionist philosophy generally.

Oasis in a Desert

The publishing world was an intellectual desert for conservatives and libertarians in 1956. The number of conservative American publications was so small and their influence so minimal that it is difficult to remember them. *Human Events* had begun in 1944, a joint effort of Frank Hannigan, Felix Morley, and William Henry Chamberlin.⁶ It was a libertarian newsletter, not the tabloid it is today. There was *The American Mercury*,

but by then it had become an outlet for defenders of a conservative variety of fiat money inflation. The year before *The Freeman* began, Buckley launched *National Review*. He had wanted to use the name, *The Freeman*, but FEE's trustees refused to surrender it. There was *Christian Economics*, a tabloid funded by Calvinist-libertarian multimillionaire J. Howard Pew of Sun Oil. It had begun in 1950. It was sent free of charge to American clergymen. The *Saturday Evening Post* and the *Chicago Tribune* were conservative in tone and both published conservative and libertarian authors, but neither publication was openly ideological. So, in 1956, there were few outlets for conservatives and libertarians.

Our memory of FEE prior to *The Freeman* is sketchy, at best. FEE put out numerous pamphlets and short books, but there was no regular pattern of publication for nine years. Leonard Read assembled a staff of competent but unknown free-market economists out of Cornell University's Department of Agriculture: F. A. ("Baldy") Harper, who was not very bald, W. M. ("Charley") Curtiss, and in 1949, two of their former Ph.D. students, Paul Poirot and Ivan Bierly. Orval Watts, another key figure on FEE's original staff, probably had more to do with teaching Read his economics than anyone else. Dean Russell and the two Cornuelle brothers, Richard and Herbert, also were on board. There was also a young woman who would later become better known as Mary Sennholz. Ludwig von Mises would journey up from New York City to give lectures at FEE, but he was never on FEE's full-time staff. Neither was Henry Hazlitt.

The staff's early contributions are now forgotten in the mists of time. What is remembered is *The Freeman*. The importance of *The Freeman* was not just the quality of the articles that appeared in it, but its very survival. It has survived for four decades, just as *National Review* has survived; and between these two journals, we can identify and trace the history of post-War American conservatism's two factions: libertarian and conservative. Their survival

has been basic to the origins and extension of the conservative movement.

Positioning

To survive and prosper in a highly competitive market, a product, service, or company has to become known for its unique contribution to the consumer. This is known in modern advertising as positioning. To position itself, an organization needs what has been called a USP: a unique selling proposition. In non-profit circles, it probably should be known as the unique service proposition. An organization's USP is that unique service which no other company can offer equally well, or at least no other company can offer without appearing to be a copycat. One of the most famous USP's in history is the one for M&M candies: "Melts in your mouth, not in your hand." Another famous one is Federal Express's, which offers next-day delivery "when it absolutely, positively has to get there overnight." The unique selling proposition shapes both the development and operations of the organization. If it unofficially changes its USP, or if its operations do not testify to and reinforce its USP, a successful firm's success will almost always depart. The most famous recent example of a near-suicide in this regard was Coca-Cola's decision to change its formula. The re-introduction of the old formula under the name Coca-Cola Classic saved the company from a disaster.

There has never been a systematic effort to produce a USP for FEE. *The Freeman* has always had a slogan: *ideas on liberty*. But a slogan is not a unique selling proposition. Nevertheless, *The Freeman* has always had an unarticulated USP:

The only magazine that introduces newcomers to the idea of the free market as a moral institution, not just as a means of efficient production.

Notice that this USP conforms to the old box-top contest rule: "25 words or less." *The Freeman's* editors have never departed from this unarticulated USP. If there is a miracle of FEE, this is it.

In 1946, FEE was unique: the only non-

profit organization devoted to spreading the story of the free market. It had a monopoly. That original monopoly, like all monopolies, has faded, and it has faded rapidly since the mid-1960s. There have been many imitators. This is a positive development. As Read liked to say, "You never know if your idea has been successful until someone repeats it to you without knowing where it came from."

In 1946, FEE's unstated unique selling proposition was obvious: "The world's only free-market think-tank." Of course, the phrase "think-tank" had not yet come into existence, but you get the idea. Nevertheless, that USP was highly vulnerable: as soon as FEE was imitated, FEE could no longer claim that USP. It can still claim that it was the world's first free-market think-tank, but in a culture devoted to the latest fad, this is not a particularly awe-inspiring claim. But because of *The Freeman*, FEE has not needed a USP. As the publisher of *The Freeman*, FEE has always had one.

The Moral Dimension

Leonard Read once heard a speech by one of FEE's most popular speakers, Ben Rogge (pronounced "rō-gue"). Rogge had stated something to the effect that it is a shame that socialism doesn't work, since it is a good idea ethically. According to Read's account, he challenged Rogge on this point after his speech. Read told him, and continued to tell audiences for years thereafter, that he would hate to live in a world in which a good, moral idea produces harmful results. That would mean that an idea which produces better results—the free market—could be immoral. The reason that socialism produces bad results is because it is an immoral idea. Or, as he wrote, "But even if socialism were the most productive of all economic systems, it would not meet with my approval. Socialism de-emphasizes self-responsibility, and, thus, is contrary to my major premise which is founded on the emergence of the individual."⁷ This statement encapsulated Read's moral vision. Read gave FEE its operational slogan in the title of his book, *Anything That's Peaceful*.

But a slogan is not a USP. A slogan does not convey to the observer what the organization's unique service is in the competitive marketplace.

There are numerous free-market think-tanks today. Most of them present academic extensions of formal economics, most notably the University of Chicago's department of economics. They may be oriented more toward policy than academics, as the Heritage Foundation and the American Enterprise Institute are. They may be both academic and policy oriented, as the Cato Institute is. They may be strictly academic, as the Mises Institute is. They may be ideological, as the Center for Libertarian Studies is. But none of them can say, as *The Freeman* implicitly announces in the name of FEE,

The only organization that introduces newcomers to the idea of the free market as a moral institution, not just as a means of efficient production.

Academic free-market economics is tied self-consciously to a value-free theory of knowledge. The standard slogan is this: "Economics is not good or bad; it is either true or false." What has distinguished FEE for half a century has been its commitment to another worldview: "Economics is either true or false to the extent that it is moral or immoral." This outlook has always relegated FEE to the fringes of academic discourse. At the same time, however, it has given FEE a unique position within conservative and religious communities that are convinced that value-free anything is a myth, either an academic myth or a cover for a hidden agenda. For those who take seriously the words, "thou shalt not steal," FEE has offered a well developed body of literature to support this moral assertion. It has been doing this for fifty years.

Defenders of the free market have faced a major obstacle for over a century: the socialists and economic interventionists have always claimed possession of the high moral ground. They have been able to appeal to people's better instincts in their defense of coercive State power. They have pointed to the effects of capital shortage—poverty—

and have called for programs of coercive wealth redistribution in the name of the downtrodden. This moral appeal has always been stronger than the economists' precise technical arguments regarding the two systems' comparative rates of output per unit of resource input. Even today, in the wake of the collapse of the Communist economies, socialism's moral appeal is still dominant. It asks some variation of this rhetorical question: "Would you let the poor starve?"

FEE has always responded to this moral claim in terms of a rival moral claim. It has had this moral response to socialism's rhetorical question: "The pathway to wealth, long term, is not theft but personal responsibility. Theft in the name of the poor is still theft." *The Freeman* has been FEE's monthly report: "How has political plunder failed? Let me count the ways." The goal has not been to count the ways merely to pile up examples of socialism's technical failures; the goal has been to provide evidence that coercion for noble purposes must produce ignoble results.

From the beginning, FEE has defended the market in terms of the high moral ground. In an era of pragmatism, this positioning has not impressed many academics, whether of the free-market persuasion ("value-free") or the socialist persuasion. Yet the ultimate pragmatism, in FEE's universe of moral cause and effect, should lead people to accept the high moral ground. Freedom works. It delivers the goods. Socialism fails. This failure became visible to all but hard-core Communists and socialists with the collapse of Europe's socialist economies, followed within months by the fall of the Soviet Union in 1991. Nevertheless, freedom must be defended, not because it works but because it is right. FEE's position has always been that we must not get the pragmatic cart before the ethical horse. This outlook has always distinguished FEE from its many imitators.

The Non-Miracle of the Market

FEE has never really believed in the miraculous quality of what has often been

described as “the miracle of the free market.” For teaching purposes, Leonard Read liked to speak of such a miracle, but that was because he dealt with readers and listeners who were entranced by the myth of the State. The so-called miracle of the free market has seemed miraculous to those who assume that socialism is a good idea and ought to work. The non-miracle of the market rests on this fact: personal responsibility, the desire to improve one’s condition, and minimal civil government work together to allow the productivity of the most precious of all scarce economic resources, human creativity. The so-called miracle of the market is nothing more and nothing less than the outworking of “thou shalt not steal.”

The miracle is not the market; the miracle is that two centuries ago, English-speaking political rulers began to change their minds regarding the supposed benefits of government coercion. Beginning in the late eighteenth century, decision-makers for the British Empire decided that less regulation might be beneficial after all. The American Revolution had persuaded them that they would have to reduce regulation in this hemisphere. Both sides decided that reduced trade barriers were necessary if both countries were to benefit. Adam Smith’s *The Wealth of Nations* (1776) justified intellectually what Jefferson’s *Declaration of Independence* (1776) soon produced: an international trading zone in which British bureaucrats would no longer set the terms of trade. Had they never attempted to set the terms of trade, there probably would not have been a revolution.

This was a revolutionary concept on both sides of the Atlantic in 1776. It was grounded in Jefferson’s moral vision: life, liberty, and the pursuit of happiness. This concept in turn rested on the long accepted but rarely honored idea that man is responsible before God for his own actions. This moral vision includes economics but is not limited to economics. As Read wrote: “Our revolutionary concept was economic in this sense: that if an individual has a right to his life, it follows that he has a right to sustain his life

—the sustenance of life being nothing more nor less than the fruits of one’s labor.”⁸

When this principle was progressively and haltingly put into practice on both sides of the Atlantic after the American Revolution, the “miracle of the market” appeared: the phenomenon of compound economic growth. Into the hands of the poor were placed low-cost technological wonders that were beyond the dreams of kings in 1776 or even 1906. As Will Rogers put it in the middle of the Great Depression of the 1930s, “America is the first nation where a person goes to the poorhouse in an automobile.”

The Road to Unserfdom

In the words of Clarence Carson’s series in *The Freeman*, the world has been caught in the grip of an idea: socialism. Our world is still in the grip of that idea. This grip is looser today than it was in 1946, and it is called something else than socialism, but it is still far tighter than it was a century ago, in that golden age described best by this phrase: “After indoor plumbing but before the income tax.” Prior to World War I, as Robert Nisbet has said, the only contact that most American had with the federal government was the Post Office.⁹

Today, the promises men live by are still government promises. Whether in the field of education, health care, retirement income, or any of a hundred other areas of modern man’s dependence on government, the reigning faith has not changed: In Government We Trust. This faith has been challenged, but nowhere more eloquently than in the pages of *The Freeman*. This faith has also been challenged by events. It will be challenged in the next century by the inability of governments to make good on their promises, at least not in money with today’s purchasing power. This is why FEE and *The Freeman* must continue to play a prophetic role by sounding the alarm. Economic events will eventually catch up with the unchanging moral premise of FEE: thou shalt not steal. Again, this is a matter of positioning. He who sounds the alarm in advance and provides cogent testimony for

his case is in a better position to exercise leadership in the midst of the crisis that he predicted.

Men cannot predict the future course of events. But we can say this in confidence: if certain practices continue, certain consequences will follow. We live in a universe of moral cause and effect. Bad policies will eventually produce bad results. This takes time, but it is the law of liberty. Societies break it at their peril.

Where are those who will respond to FEE's message? Where is the Remnant? We cannot know for sure, any more than most of us can remember who it was who gave us our first copy of *The Freeman*. But we can make informed guesses. We can ask ourselves this question: Who among us has begun to break with the religion of the Savior State? Who has begun to unplug from dependence on the State for his future? I suggest the following groups: (1) parents who have pulled their children out of the public schools; (2) investors who have decided that Social Security is going to default before they die; (3) users of the Internet who have begun to explore alternative sources of information; (4) churches that have never accepted the Social Gospel; (5) full-time foreign missionaries who are in the field, trying to show people a better way to live; (6) small businessmen who are tired of the government red tape that strangles them and who are ready to forfeit government subsidies to get out of the trap. Members of these groups are obvious candidates for the unofficial office, *liberator*.

Personal Evangelism

The appropriate response of any new believer is evangelism. This is why so many people have been handing out copies of *The Freeman* for over four decades. They have recognized that *The Freeman* is a means of evangelism: "good news" for people who have grown weary of the seemingly endless pleas that civil government intrude into the economic affairs of individuals.

For over four decades, *The Freeman* has offered case studies of very bad ideas,

morally speaking, that have produced very bad results, economically speaking. To a lesser extent, it has offered positive case studies where liberty has worked. But in an age that is caught in the grip of the socialist idea, the economy's successes have been attributed to socialism and the failures have been attributed to the free market. This was especially true prior to the late 1960s. Even today, the welfare State—the State as healer, meaning the State as Savior—is still widely believed in by most people, though not in its more obviously tyrannical forms. To refute this error, *The Freeman* has published many articles that demonstrate that the failures should be attributed to some variant of political plunder.

Because so many people have spent their lives as targets of government propaganda, which includes the propaganda of the government school system, reading *The Freeman* has been a liberating experience. They have felt as though they have been set free. *The Freeman* has put into clear, cogent language the case for liberty. New readers have responded again and again: "I always suspected this, but I was all alone. Now I know I have allies." For some readers, *The Freeman* has served mainly as ammunition in the war against government coercion. But for others, it has been more like a religious experience: making the connection with others who share their views. In the words of one of the characters in *Shadowlands*, the movie about C. S. Lewis, "I read to know that I'm not alone." For those who do not intend to remain alone, giving away copies of *The Freeman* has been an obvious solution.

For many years, FEE sent out *The Freeman* free of charge. In recent years, FEE has limited this free subscription to three months. FEE also asks donors to provide gift subscriptions. Both approaches have advantages. The important thing is that those who want to continue to read *The Freeman* can do so, either by paying for it or, in the case of students, through the generosity of subscription donors. The evangelical impulse is valid and should be yielded to, but it must be paid for.

What Is to Be Done? By Whom?

Leonard Read always said that improvement begins with self-improvement. Plans to reform the world must begin with plans to reform my assigned segment of the world. The answer to the question, "What is to be done?" should begin with "What am I prepared to do?" So, I can begin by asking myself these questions:

Have I made a list of people I know who might want to read a copy of *The Freeman*?

Have I bought extra copies of *The Freeman* to send out with a personally signed cover letter or to hand out personally?

Am I ready to donate money to FEE to pay for three student subscriptions?

Do I know of any private high school that might be ready to assign *The Freeman* or other FEE publications?

Do I know any physician or other professional who would place copies of *The Freeman* in his office's waiting room?

Am I prepared to sponsor a local chapter of FEE's network of discussion clubs?

Read always spoke of a majority of one: the self-governed individual. I control this majority. I have the only vote that counts. It does no good for me to curse the darkness unless I am prepared to light a candle. Am I prepared to buy a candle? Am I prepared to give away an occasional candle? *The Freeman* is a very bright candle.

Conclusion

There is no doubt that FEE is the granddaddy of the conservative movement in the post-World War II era. It has been in public service longer than any other organization. *Human Events* has been published longer than FEE has existed—by about two years—but FEE is more than a publisher, however much the success of *The Freeman* makes FEE appear to be merely a publisher. *The Freeman* has been published longer than any other libertarian journal, even if we do not view the post-1955 *Freeman* as an extension of its five-year-old predeces-

sor. FEE has maintained its unique service proposition longer than any other organization on the American right.

Will this continue? That depends. As Leonard Read used to say, "FEE is doing just fine: it gets all the money that people think it's worth." If FEE's supporters continue to be pleased with what FEE is doing, FEE will survive. It flourished during the first two decades of Read's tenure for two reasons: first, it had an operational monopoly; second, because Read was the incarnation of a unique service proposition. He had the remarkable ability to raise lots of money without appearing to raise money, a skill he combined with his even more remarkable refusal to acknowledge any exceptions to the free market's principle of voluntarism but these: defense against violence, enforcement of contracts, and prosecution of fraud.

Unlike the other libertarian think-tanks, FEE has avoided the pitfalls of political cheerleading or behind-the-scenes policy-making. Read's original vision has been maintained. This also makes FEE unique. In what today appears to be a time of political fruit-gathering after all the decades of wandering in the wilderness, FEE's stand is clear: *anything that's peaceful*. If FEE continues to maintain this stand, it will continue to prosper. But even if FEE's non-political stand were somehow to lead to its demise, that would surely be better than the alternative. As Read would say today, "But even if political cheerleading were the most productive of all fund-raising systems, it would not meet with my approval." □

1. Leonard E. Read, *Anything That's Peaceful: The Case for the Free Market* (FEE, 1964), p. 57.

2. George H. Nash, *The Conservative Intellectual Movement in America Since 1945* (New York: Basic Books, 1976), p. 16.

3. For a brief history, see John Chamberlain, *A Life with The Printed Word* (Chicago: Regnery, 1982), ch. 12.

4. *Ibid.*, p. 27.

5. *Ibid.*, p. 30.

6. *Ibid.*, p. 14.

7. Read, *Anything That's Peaceful*, p. 46n.

8. *Ibid.*, p. 14.

9. Robert A. Nisbet, *The Present Age: Progress and Anarchy in Modern America* (New York: Harper & Row, 1988), pp. 2-3.

"In 1977, I was serving on the board of trustees for the local Legal Aid Society, a governmental agency that provided legal assistance to poor people. I was also the local representative for the ACLU. I had no doubts that a proper function of government was to provide for those at the bottom of the economic ladder.

Then I discovered the first four volumes of Essays on Liberty, which had been published by FEE in the 1950s. My life was changed forever. Leonard Read, Ed Opitz, Frank Chodorov, Ludwig von Mises, and others helped me to see that the welfare state and the regulated economy were morally wrong, that America had abandoned her heritage, and that the free market was the only way to achieve a virtuous and prosperous society.

Leonard Read and FEE truly changed the course of my life. I ultimately left the practice of law to work at FEE – a dream come true! And now The Future of Freedom Foundation carries forward that same spirit of liberty that FEE lit within me."

*– Jacob G. Homberger
Founder and President
The Future of Freedom Foundation*

"Many free-market publications and institutions have sprung up over the past two decades, and their efforts have begun to bear fruit in the United States and around the world. Prospects for liberty are bright. They were not so bright – and the friends of liberty were not so many – when Leonard Read and FEE began their work of education in the wake of the New Deal and the Second World War.

In 1946 the battle was lonelier and harder, and the forces of interventionism seemed more forbidding. It was easy to be pessimistic. The Foundation found cause for optimism in the power of ideas and in its own quiet, steadfast dedication to principle. And for all the years since its beginning, FEE and The Freeman have served as a resource, outlet, and inspiration, a bulwark and a beacon, to all advocates of liberty everywhere."

*– Andrea Millen Rich
Howard S. Rich
Laissez Faire Books*

"FEE has been a very large and important factor in my life and in my developing an understanding of the free market and how it works.

It all began when I first met Ed Opitz over fifty years ago. He moved to FEE and introduced me to Leonard Read and The Freeman. I then attended several FEE seminars and later was privileged to become a lecturer myself, then took my son Roger to a seminar. He soon became a member of the staff and I became an infrequent contributor to The Freeman.

FEE has made a great and lasting contribution to freedom and has informed and strengthened innumerable proponents of America's traditional values, who at one time thought they were fighting the battle alone. God bless FEE and give it at least another fifty productive years."

*— The Reverend Norman S. Ream
Estes Park, Colorado*

"It is no exaggeration to say that FEE has been chiefly responsible for shaping my view of the way the world works. My first exposure to FEE began when I was a high school student and my parents formed a discussion club in Milwaukee with other parents of teenagers. When I left home for college, a gift subscription to The Freeman accompanied me. It provided intellectual ammunition for debates with faculty and fellow students.

Following my first year in college, I attended a summer seminar at FEE with my father. It was incredible to absorb the ideas on liberty from Edmund Opitz, Hans Sennholz, Robert Anderson, Perry Gresham, Israel Kirzner, and many others. The culmination of the seminar was Leonard Read's challenge: rather than trying to convert a resistant world, an individual should strive to become a 'wellspring of the freedom philosophy' within one's own orbit. I returned to FEE as a summer fellow and later as the director of seminars.

I congratulate the Foundation for Economic Education for keeping the light of liberty shining brightly for fifty years. May its important work continue for another fifty!"

*— Roger R. Ream
Executive Vice President
The Fund for American Studies*

The Freeman: Ideas on Liberty

by Paul L. Poirot

Henry Hazlitt (1894–1993), on the hundredth anniversary of his birth, most deservedly was designated “journalist of the century.” He also was the last survivor of the founding trustees of the Foundation for Economic Education. The fortnightly magazine, *The Freeman*, began publication in 1950 with Hazlitt and John Chamberlain (1903–1995) as co-editors. Hazlitt continued writing for the magazine after it became the Foundation’s monthly journal of ideas on liberty in January 1956. John Chamberlain, until shortly before his death in 1995, contributed a lead book review each month. So it is fitting and proper that these two giants of liberty, along with Leonard Read, be commemorated in this story of *The Freeman*, published continuously since 1950, and by FEE since 1956.

As a biweekly “subscription” magazine in the early 1950s, *The Freeman* was operating at a loss of about \$100,000 annually. In order to save it, several of the trustees, also serving on the Board of FEE—Henry Hazlitt, Leo Wolman, Claude Robinson, and Lawrence Fertig—brought Leonard Read into the picture. With enthusiasm and self-assurance and the support of his board, he offered to purchase the magazine.

For a year and a half *The Freeman* appeared monthly in an 8" × 11" format under the editorship of Frank Chodorov. The circulation rose from 14,000 to 24,000 in that

first year in Irvington, but there continued to be heavy losses for the “subscription” magazine.

At a special meeting of the trustees in November 1955, *The Freeman* was merged with FEE’s *Ideas on Liberty* journal. The mailing lists were combined, and in January 1956, in a new digest size with 64 pages, the first issue of *The Freeman: Ideas on Liberty* appeared. It has been published regularly since that time, offered to all FEE donors and others who want it in the expectation that most of them will want to help cover expenses with donations to FEE.

The Freeman is the oldest and most widely circulating periodical devoted to the study of free societies. One of the principles of freedom Leonard Read brought into the Foundation was a primary emphasis on ideas rather than personalities. No name-calling or blanket condemnation of persons and organizations but a clear, non-technical, attractive explanation of the ideas underlying the free market and limited government. Among students of liberty, the teaching would be by example and without coercion, all learning and acceptance strictly voluntary. So *The Freeman* at FEE became primarily an attractive presentation of the ideas and principles of freedom more than a news report of U.S. and international economic and political affairs. Leonard Read’s ideal role for government was to police the market to keep it open, and to protect private property, leaving individuals otherwise free to do anything that’s peaceful.

Dr. Poirot served as managing editor of The Freeman from its acquisition by FEE in 1956 until his retirement in 1987. He also served as secretary of FEE’s board.



Paul L. Poirot

For the economics of freedom, Read, FEE, and *The Freeman* relied heavily upon the Austrian School writings and teachings of Dr. Ludwig von Mises. In 1938, Hazlitt introduced Mises to American audiences in a *New York Times* review of the book *Socialism*—"the most devastating analysis of the system ever written."

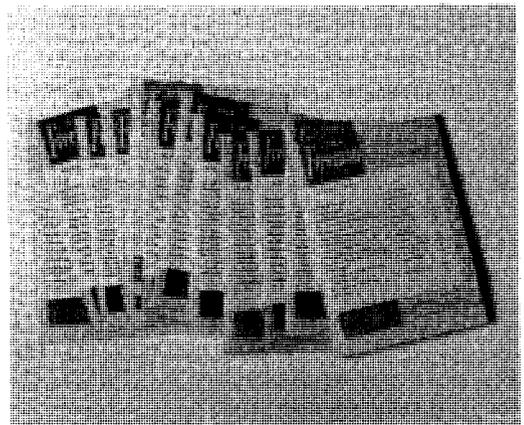
When Mises moved from Europe to New York City in 1940, he became a close friend of Hazlitt, of Leonard Read, and of the Foundation. Among the followers of Mises are outstanding professors such as Hans Sennholz and Israel Kirzner and a host of their students whose works also have graced *The Freeman*.

Leonard Read was the author most frequently seen in *The Freeman*, though his name appeared on the masthead not as editor but as President of FEE. The managing editor, of course was free to accept—or reject—the President's offerings. Roughly half of the articles and reviews in a typical issue would have been written by the staff of FEE, a few on some special topic by commission, and others chosen from the many free-lance submissions. Now and

then an entire monthly issue might be devoted to a single topic, various authors each offering his or her special expertise, but never invited or encouraged by the editor to present opposing views. Now and then, and sometimes without alerting the editor, an astute Henry Hazlitt or Hans Sennholz or Clarence Carson would start a topic that simply had to be continued in the following issue and eventually might run to a dozen or more chapters of a book.

Many of *The Freeman* authors over the years have been distinguished academicians in their respective fields of economics, law, philosophy, political science, banking, medicine, and other disciplines. But their common mark of distinction has been the capacity to express their ideas and explanations not in the jargons of their trades but in the clear language of the layman. These experts from the academy have shared the pages of the journal with other experts from any and every walk of life, perhaps a housewife, a lawyer, a merchant, and yes, probably a thief, since there have been articles by prisoners.

The editor's guide for acceptance was the clear evidence of the author's understanding and capacity to shed special light on one or another facet of liberty. Not that editors made no mistakes. But never was there an editorial view that one "good turn," or explanation, deserves equal space or time for the contrary opinion. Financial support of the Foundation is not for the purpose of airing opinions counter to freedom.



The Freeman in the 1960s.

Over the last fifteen years, editorial and opinion pages have played an increasingly important role in the discourse of the national political culture. Therefore, FEE has sought to influence public opinion through the placement of shortened *Freeman* articles as opinion pieces in newspapers in the United States and throughout the world. The articles are chosen to make a principled case for a free society.

FEE's newspaper outreach began in April of 1986 under the direction of Brian Summers, at the time Senior Editor of *The Freeman*. Mr. Summers developed and expanded the program during his tenure at the Foundation. Since January 1995, the op-ed program has been managed by Greg Pavlik, who is currently Associate Editor of *The Freeman*.

The success of the program is testament to the appeal of FEE's message. Opinion pieces based on *Freeman* articles have appeared in many of the nation's leading newspapers, from the *Washington Post* to the *Wall Street Journal*. Local and suburban papers have featured *Freeman* articles. Grassroots newsletters and magazines of various political creeds have utilized Foundation material. *Freeman* articles have even appeared in the religious press. Through this program, the Foundation has reached a vast spectrum of audiences across the country. Every month, millions of readers across the country are exposed to the Foundation's message. And the number of papers that use material from FEE continues to grow.

The latest area of expansion for FEE's newspaper program has been in its international efforts. Many articles from *The Freeman* have been adapted to highlight the benefits of a free market economy to readers around the world. Translations of *Freeman* articles—prepared at FEE—have appeared in Spanish-language newspapers throughout Central and South America. The demand for essays from *The Freeman* has been explosive. From Argentina to Guatemala, the message of freedom is spreading.

Perhaps the most impressive sign of the effectiveness of FEE's newspaper outreach effort is the feedback from individuals who contact the Foundation as a result of a *Freeman* essay they have read in their paper. Many readers request information about FEE and subscriptions to *The Freeman*. Some just write to thank FEE for having the courage to stand on principle.

I had joined the staff of FEE in 1949 and served as managing editor from 1956 until my retirement in 1987. Other members of the Foundation staff, in addition to contributing articles, were often consulted about manuscripts under consideration.

The scholarly Reverend Edmund Opitz served as book review editor and stood always at hand to lend moral and spiritual guidance. He also had a firm understanding of economic issues.

Mrs. Bettina Bien Greaves was well schooled in "the gospel according to Mises," helping to look for "leaks" in any article. She also was the expert expected, and willing, to research any questionable fact or opinion.

W. M. Curtiss saw to business and financial affairs to cover authors' fees, printing bills, and other costs of *The Freeman*. He

also had the time and wisdom to help decide which articles seemed best.

Robert Anderson gave up college teaching to rejoin the staff as business manager when Curtiss retired. Like Curtiss, Bob found time now and then to draft an article, always excellent. After Leonard Read's death in 1983, Bob was there to help hold the standard during a succession of presidents until Dr. Sennholz agreed to assume that position. But perhaps the outstanding contribution Bob Anderson made to *The Freeman* was to bring Beth (Herbener) Hoffman aboard as production editor. Eventually she became managing editor, with guest editors now helping to compile each issue.

Brian Summers worked with Beth as co-editor for a time, developing a rapport with newspapers and other publications in the United States and abroad that were

interested in reprinting *Freeman* articles. One of his contacts was with *Reader's Digest*, which eventually offered him more as an associate editor than FEE could afford.

Aside from the memory banks of a Beth or a Bettina, there has been no cumulative index of topics covered in the pages of *The Freeman*. But the value of those back issues as a reference shelf is not to be denied. This is why numerous readers over the years have spoken with pride of their monthly files, or annual bound volumes, or both. The reader fortunate enough to have accumulated a complete set since 1956 now possesses a total of 485 issues, or more than 30,000 pages or over 14 million words of text skillfully crafted into essays by more than 1,400 different authors explaining the many aspects of freedom.

Dr. Clarence Carson is one of those who has written articles in a series in *The Freeman*. Early on, he offered *The American Tradition* with chapters on constitutionalism, republican government, federalism, individualism, equality, rights and responsibilities, voluntarism, free trade, internationalism, virtue and morality, and so on. In a sense, his list covered the subjects most often tackled in *The Freeman*. In a later series, he described *The Flight from Reality*, the departure from tradition, beginning in the mind of the reformer—the intellectual turn—then emerging as the domestication of socialism, capturing and remaking the hearts of men, and finally manifesting as a political flight.

In more recent years, especially at the nudging of Dr. Sennholz, FEE has published a regular series of *Freeman* "classic" books. Each volume is devoted to a given subject and draws from the wealth of knowledge contained in some forty years of *The Freeman*. Having started with *The Freedom Philosophy*, the series contains books covering a wide range of ideas, including: the



Brian Summers and Beth Hoffman, senior editors of *The Freeman* during the 1980s.

moral foundations of capitalism, political interventionism, individual spirit, free trade and world peace, the formation and function of market pricing, money, inflation, banking, private property rights, taxation, conservation of resources, education, medical care, agriculture, unionism, crime, and more.

The Freeman since 1950 consistently and continuously has stood against the fallacies and clichés of politics, not by bitter denunciation, but by reasoned and attractive explanations of the better way of limited government, private ownership, voluntary exchange, moral behavior, and self-improvement. The golden rule of the marketplace is that the person who gains most is one who best serves others. □

An Honor Roll of all Freeman authors published since 1956 appears on pages 412 to 416. We salute these writers for their commitment to sound economic education and the principles of a free society.

The Function of *The Freeman*

by Henry Hazlitt

Editor's note: Henry Hazlitt wrote this piece several years after he and others revived The Freeman in 1950. Although it pre-dates the magazine's merger with FEE's Ideas on Liberty, Hazlitt's message faithfully reflects the continuing mission of FEE and The Freeman.

On the positive side, of course, our function is to expound and apply our announced principles of traditional liberalism, voluntary cooperation, and individual freedom. On the negative side, it is to expose the errors of coercionism and collectivism of all degrees—of statism, “planning,” controlism, socialism, fascism, and communism.

We seek, in other words, not only to hearten and strengthen those who already accept the principles of individual freedom, but to convert honestly confused collectivists to those principles.

A few of our friends sometimes tell us that a periodical like *The Freeman* is read only by those who already believe in its aims, and that therefore we believers in liberty are merely “talking to ourselves.” But even if this were true, which it isn't, we would still be performing a vital function. It is imperative that those who already believe in a market economy, limited government, and individual freedom should have the constant encouragement of knowing that they do

Henry Hazlitt (1894–1993), author of Economics in One Lesson, The Failure of the “New Economics,” and other classics, was a founding trustee of FEE.

not stand alone, that there is high hope for their cause. It is imperative that all such men and women keep abreast of current developments and know their meaning in relation to the cause of freedom. It is imperative that, through constant criticism of each other's ideas, they continue to clarify, increase, and perfect their understanding. Only to the extent that they do this can they be counted upon to remain true to a libertarian philosophy, and to recognize collectivist fallacies. Only if they do this can the believers in freedom and individualism hope even to hold their ranks together, and cease constantly to lose converts, as in the past, to collectivism.

But the function of a journal of opinion like *The Freeman* only begins here. The defenders of freedom must do far more than hold their present ranks together. If their ideas are to triumph, they must make converts themselves from the philosophy of collectivism that dominates the world today.

A Lesson from the Enemy

They can do this only if they themselves have a deeper and clearer understanding than the collectivists, and are able not only to recognize the collectivist errors, but to refute them in such a way that the more candid collectivists will themselves recognize, acknowledge, and renounce them as errors. A friend of free enterprise is hardly worth having if he can only fume and sputter. He must know the facts; he must think; he must be articulate; he must be able to

convince. On the strategy of conversion, our side can take at least one lesson from the enemy. The task of the Bolsheviks, Lenin once wrote, is "to present a patient, systematic and persistent analysis." And our own cause, the cause of freedom, can grow in strength and numbers only if it attracts and keeps adherents who in turn will become, not blind or one-eyed partisans, but enlightened and able expositors, teachers, disseminators, proselytizers.

To make this possible, it is essential that there should exist a prospering periodical with the aims of *The Freeman*. We must restore "conservatism" and the cause of economic freedom to intellectual repute. They have not enjoyed that repute, in the eyes of most "intellectuals," for many years—perhaps since the beginning of the twentieth century.

"We are all Socialists now," said Sir William Harcourt in 1894, and he was not joking as much as his listeners, or he himself, supposed. We must never forget that, in the long perspective of human history, "capitalism"—i.e., individualism and a free-market economy—is the newest form of economic organization. Communism is the most primitive form; it is as old as primordial man. Feudalism, a regime of status; rigid State and guild control; mercantilism; all these preceded the emergence of economic liberty. Socialism as a self-conscious "intellectual" movement came into being a century and a half ago with such writers as Saint-Simon, Owen, and Fourier. In its Marxian form it made its official debut, so to speak, in the revolutions of 1848 and in the *Communist Manifesto* of the same year.

And it was not, contrary to popular myth, the proletarian masses or the starving millions who were responsible for either originating or propagating socialist ideas. It was well-fed middle-class intellectuals. This description applies not only to Marx and Engels themselves, but to the epigoni, and to the literati who were chiefly responsible for parroting and popularizing the socialist doctrines. Intellectual hostility to capitalism was made fashionable by the Carlyles and Ruskins of the nineteenth century, and later

by the Fabians. Since the beginning of the twentieth century it has been difficult to find an outstanding novelist or playwright, from Bernard Shaw to H. G. Wells, or from Anatole France to Andre Gide, who did not proudly proclaim himself a Socialist.

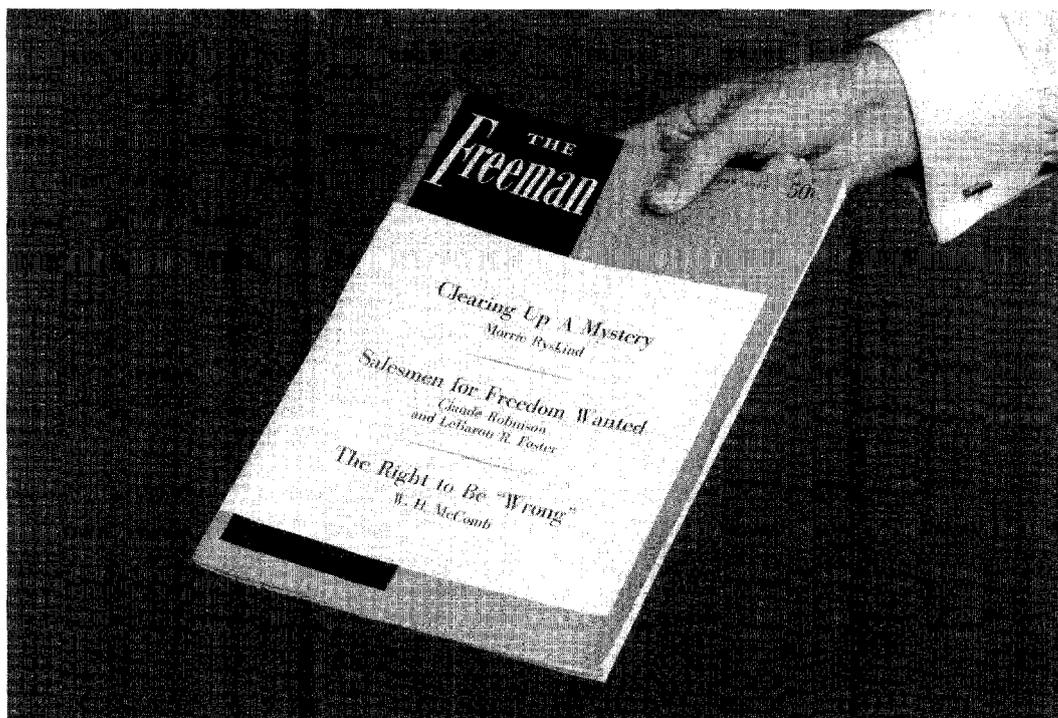
The late Lord Keynes, in the last pages of *The General Theory of Employment, Interest, and Money*, a book not always distinguished for wisdom or sense, pointed out one fact that is profoundly true.

The ideas of economists and political philosophers [he wrote] both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

The irony and tragedy of the present is that Keynes himself has become the chief "academic scribbler" and "defunct economist" whose ideas dominate the "madmen in authority" and the intellectuals today. The restoration of economic, fiscal, or monetary sanity will not be possible until these intellectuals have been converted or (to use a word coined by Keynes himself) debamboozled.

The Influence of Intellectuals

Who are the intellectuals? They include not merely the professional economists, but novelists, playwrights and screen writers, literary and music critics, and readers in publishing houses. They include chemists and physicists, who are fond of sounding off on political and economic issues and using the prestige gained in their own specialty to pontificate on subjects of which they are even more ignorant than the laymen they presume to address. They include college professors, not merely of economics but of literature, history, astronomy, poetry. They include clergymen, lecturers, radio commentators, editorial writers, columnists, reporters, teachers, union leaders, psychoan-



The 1955 "Chodorov" Freeman.

alysts, painters, composers, Broadway and Hollywood actors—anybody and everybody who has gained an audience beyond that of his immediate family and friends, and whose opinions carry kudos and influence either with other intellectuals or with the man on the street.

To consider this group of intellectuals is to recognize that it sets the fashion in political, economic, and moral ideas, and that the masses follow the intellectual leadership—good or bad—that it supplies. Clearly also there is a hierarchy within this hierarchy. The ballet dancer, say, gets his ideas from the pages of *The New Yorker*, and *The New Yorker* from some vague memory of Veblen; the popular leftist novelist gets his notions from *The Nation* or the *New Republic*, and these in turn from the Webbs, the Harold Laskis, or the John Deweys.

The hopeful aspect of this process is that it can also be used to revise or reverse ideas. If the intellectual leaders, when they go wrong, can have a great influence for harm, so, when they are right, they can have a great influence for good. When we consider

the immense practical influence for evil that has been exercised by Karl Marx's *Das Kapital*, we should also recall the immense practical influence for good exercised by Adam Smith's *The Wealth of Nations*. If the intellectual leaders can themselves be converted or reconverted, they can be counted on, in turn, to take care of the task of mass conversion. For the masses do respect and follow intellectual leadership.

Above all, we must keep in mind the rising generation, which will comprise both the future masses and the future intellectual leaders, and whose ideas and actions will be heavily determined by what they are taught today.

Few practical businessmen realize how economic and social ideas originate and spread, because they are not usually themselves students or readers. It is perhaps unrealistic to expect them to be. There is a necessary division of labor in society, and most businessmen have enough to do in improving their particular product to satisfy consumers, in reducing costs and in meeting competition. But one result of the preoccu-

pation of business leaders with their own immediate problems is that they hardly become aware of the existence and power of ideas—conservative or radical—until some legislative proposal that would destroy their business is put before Congress, or until the labor union in their own plant makes some ruinous demand. Then they are apt to think that this demand comes from the rank-and-file of the workers, and that it can be answered by some statistics showing the smallness of profits compared with wages.

But usually neither the assumed origin nor the assumed cure is correct. The demands come, not from the working rank-and-file, but from labor leaders following a suggestion thrown out in some college classroom, or by some radical writer; and the practical businessman, even though he knows the immediate facts of his own business, finds himself at a heavy disadvantage in these controversies because he cannot answer, and perhaps is even unaware of, the *general premises* on which the contentions of those hostile to business really rest.

These general premises, seldom explicitly stated or even clearly formulated by those

who reason from them, form part of the climate of opinion in which particular radical proposals come to growth. Even competent experts in their special fields are usually not aware that some proposal they are combatting is merely part of a whole system of thought. That is why their arguments against it, often unanswerable in detail, are as often ineffective. It is a comprehensive though confused philosophy that we have to meet, and we must answer it by an equally comprehensive philosophy. Above all we must combat the superstitious belief that the coming of socialism is inevitable.

It is the aim of *The Freeman* to address itself specifically to the leaders and molders of public opinion and to thinking people everywhere, in order to help create a healthier climate for the preservation of free enterprise and the liberty and moral autonomy of the individual. It is our aim to point out the fallacies in the basic premises of the collectivists of all degrees up to the totalitarian.

It is our aim, above all, to expound the foundations of a philosophy of freedom. □

"I shudder to think what the state of the world might now be if it weren't for the efforts of FEE and the great work it has done on behalf of liberty and the achievement of the civil society. IHS probably would not exist. And most likely, many of the other organizations that were either inspired by or spawned directly from FEE would not exist either.

The impact of FEE, its publications, and its people is indeed impossible to calculate and easy to underestimate. I wish you continued great success and an additional fifty years of influence. But only fifty more years – because by then I hope the great work of FEE will be completed."

— David C. Nott

President, Institute for Humane Studies

"In 1946, when FEE was founded, it was almost the only source of ideas supporting the free market and individual liberty. At that time I was fully in the free market camp, but I was also of the school that we had to raise lots of money, put up good political candidates, and elect much better people to government!

One of the most important ideas I absorbed from Leonard was that to achieve the highest ends, one must use only the highest means. You cannot achieve a great end by using forceful means.

It is so heartening to witness the explosion of think tanks promoting our ideas. It is equally gratifying to see the numbers of college students who reject the heavy diet of political correctness almost universally being taught in this country's colleges and universities. Of course, most of these students will try first for the quicker political solution, but it is wonderful how many are aware of the power of good ideas. Stay the course on the high road and you will help make a better world. In the long run the best ideas, well explained, will carry the day."

*— Lovett C. Peters
Pioneer Institute*

"I am delighted that FEE is continuing its unique role of introducing people to free-market economics, in the form of thoughtful articles that relate directly to real-world issues and concerns.

In my own case, The Freeman was the lifeline I grasped in order to survive two semesters of Paul Samuelson mathematical economics at MIT.

In a very significant way, The Freeman introduced me to the world of free-market public policy, in which I was ultimately to make my career with Reason magazine and the Reason Foundation. For this I owe FEE an enormous debt of gratitude."

*— Robert W. Poole, Jr.
President, Reason Foundation*

The Foundation for Economic Education: Success or Failure?

by Benjamin A. Rogge

The question before us is this: Has the Foundation for Economic Education, in its first twenty-five years, succeeded in its mission? Most speakers on such occasions are capable of supplying only one answer to such a question. Tonight, at no extra cost to you, I intend to give you *four* answers to this question. They are in order: yes, probably no, almost certainly no, and unqualifiedly yes. Are there any questions?

The reason I can give you four answers to this one question is that the phrase, "succeeded in its mission," is capable of at least four meaningful interpretations, each calling for its own answer.

One possible interpretation is that the mission of any organization, at first instance, is quite simply to survive. That FEE has survived is testified to by our presence here tonight. Nor should any of us think lightly of this accomplishment. Given the general social and economic climate of the immediate postwar period, the survival chances of any organization committed to individual freedom and limited government could well have been described in 1946 as two in number: slim and none.

So much, you might think, for the criterion of mere survival—but survival is not

as "mere" as you might think. Never underestimate the significance of the simple fact of the continuing existence of an island of sanity in an increasingly insane world. Whether this sanity can eventually turn the battle is still moot and will be discussed in a moment, but its simple existence is a very present help in time of trouble.

I am reminded of Tolstoy's description of the role of the Russian commander, Prince Bagration, in the battle of Schön Grabern. Although himself in doubt of the outcome and aware of how little he really knew of the battle's progress, the Prince stood serene and confident in the view of all, answering each report of the action, whether encouraging or discouraging, with a sonorous, "Very good!"—as if even the local defeats were part of an overall pattern of events that foretold ultimate victory. As Tolstoy put it:

Prince Andrew noticed that . . . though what happened was due to chance and was independent of the commander's will, his [Bagration's] presence was very valuable. Officers who approached him with disturbed countenances became calm; soldiers and officers greeted him gaily, grew more cheerful in his presence, and were evidently anxious to display their courage before him.¹

As with these soldiers, we grow more cheerful in the presence of FEE and Leonard Read, more anxious to display our limited courage. Believe me, this is something; even though the battle itself were to

Dr. Rogge (1920–1980) was Dean and Professor of Economics at Wabash College in Indiana and a long-time trustee of FEE. This essay is an adaptation of his remarks at FEE's twenty-fifth anniversary celebration in 1971.



Summer seminar group picture, July 1966. Lecturers and FEE staff (front row, left to right): W. M. Curtiss, George Roche (director of seminars), Edmund Opitz, Percy L. Greaves, Jr., Bettina Bien Greaves, Ben Rogge, Paul Poirot, and Leonard Read.

be already lost, as it well may be, FEE as the island of sanity to which we repair for warmth and comfort, may still be counted a great and significant success.

A second way to evaluate an organization is to examine its chances for survival in the long run. Do we have here an organization so significant and successful that it will live through the centuries (or at least the decades) ahead?

Not only do I answer, "Probably no," to this question but I add "and I hope not" to that answer. The real danger to an organization of this kind is not that it will simply disappear, but that its *form* will long survive its *soul*.

Do not misunderstand me; I am not forecasting an early end to FEE. It is true that even Leonard Read is not immortal, but Read's leaving will not mean the end of this organization. It will carry on, and for x number of years continue to be a center of strength in the cause of freedom.

But times change, and people change, and institutions change; it is as certain as death itself that sooner or later FEE will be, in

spirit, something quite different from what it now is. Moreover, the chances are that that spirit will be significantly alien to the spirit that now moves this organization.

When that day comes, if any of us are still around, let us have the courage and good sense to give FEE a decent burial, rather than yield to a pagan attachment to a body from which the spirit has already fled. The world of organizations is cluttered with deformed and defaming relics of noble causes; let FEE not be one of them.

Turning the Tide

We turn now to a third possible interpretation of success as it relates to the work of FEE. Has FEE succeeded in its mission in the sense of being a part of an action that promises to actually turn the tide of battle in the direction of freedom? My answer to this is, "almost certainly no."

I offer this not as a criticism of the work of FEE but as what seems to me to be the only realistic appraisal of where the current of events is tending in this world. The

situation in this world, as it relates to individual freedom, is almost certain to become much worse, before *and* if it ever becomes any better. Why must I adopt this apparently defeatist line and on this should-be gladsome occasion in particular?

My own none-too-original analysis of the trend of events tends to bring me into agreement with the many friends and foes of capitalism alike who believe that the odds are very much against the survival of capitalism in the decades immediately ahead of us.

This is not the time or the place for a detailed presentation of the analysis that leads me to this conclusion. Moreover, my thesis has been more cogently reasoned and more ably presented in the works of Schumpeter, Mises, Hayek, Popper, and others.

I offer only the following straws in the wind. First, there is the incredible recrudescence of the most primitive forms of utopianism. Young people (and old) possessed of superior intellectual equipment (as measured by aptitude tests) are every day repeating to me, in one form or another, the chiliastic musings of Marx in his *German Ideology*:

In communist society, where nobody has an exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner, just as I have a mind.

I am not surprised to find that the young are enchanted by visions of a do-your-own-thing New Jerusalem, complete with almost continuous love-play; after all, even the brightest of the young tend to think largely with the heart and the loins. What shocks me is that supposedly mature scholars either encourage them in their daydreaming or hesitate to bring their schemes to full and vigorous and rational challenge.

Nowhere is this denial of reason, of process, of rational choice more clearly revealed than in the approach of the more demented environmentalists. In one of the

best critiques of this approach I know, an article in *The Public Interest*, the author writes as follows: "Those who call for immediate action and damn the cost, merely because the spiney starfish and furry crab populations are shrinking, are putting an infinite marginal value on these creatures. This strikes a disinterested observer as an overestimate."²

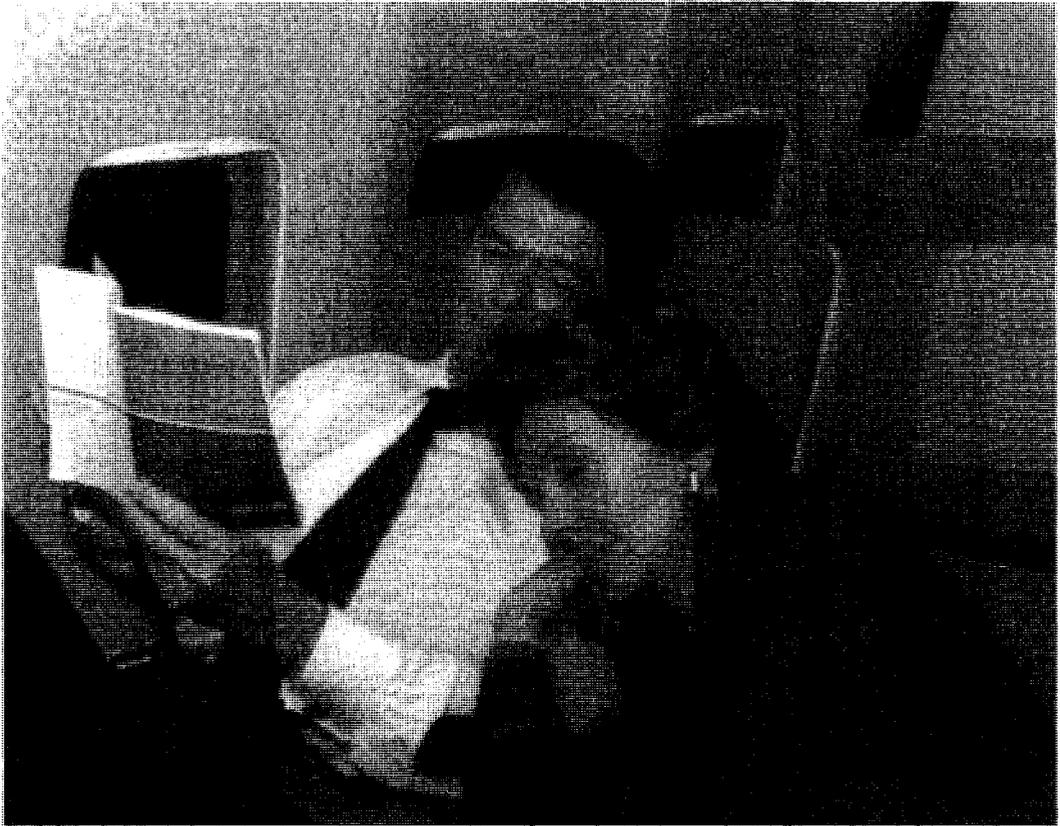
But the voice of reason is rarely raised and is shouted down by the new romantics (and the new barbarians) as soon as it is raised.

Lady Chatterley's lover, once a hero of the young and the teachers of English literature for his sexual acrobatics, is now their hero as the man who said, "It's a shame, what's been done to people these last hundred years: men turned into nothing but labor-insects, and all their manhood taken away. . . . I'd wipe the machines off the face of the earth again, and end the industrial epoch absolutely, like a black mistake."

It is symptomatic of the times that a call like this for over 90 percent of those now living in the Western world to be wiped out (for such would be the effect of such a proposal) is hailed as a voice of humanitarianism and love, while those who dare to offer even gentle caveats are derided as gross and disgusting materialists.

So much for the treason of the intellectuals, a treason that Mises and Hayek and Schumpeter forewarned us of, and one that is now largely a fact. If FEE is to be judged by its success in swinging the intellectual vote, then it has failed indeed.

What of the businessman? Surely FEE and its companion organizations have been able to make secure for freedom this section of the American public! At this point, it is difficult to know whether to laugh or cry. There is not one piece of lunacy put on paper by some academic scribbler or spoken by some public demagogue that is not to be found in at least one, if not more, of the published statements of the self-designated spokesmen for the business community. For reasons that I don't have time to develop here, it is also clear that the larger the firm, the more certain is its leaders' commitment or at least lip service to the philosophy of



On an airplane trip in 1980, Ronald Reagan took time to read The Freeman, while Mrs. Reagan napped.

statism. Study the changing character of the business firms that have contributed to FEE over the last twenty-five years. In the first years, at least a dozen of the largest, best-known firms in this country were making direct contributions to FEE. Less than a handful are still on the list of donors. Those socialists and those defenders of capitalism who expect the average American businessman to put up a desperate fight in defense of the system are simply out of touch with the situation as it really is.

Yes, even the businessman is more likely to be a part of the problem than a part of the solution, and FEE's failure, so judged, could not be more obvious or complete. But of course, contrary to the popular impression, there is no reason to expect the businessman to be more committed to the system of economic freedom than anyone else. Not only is he *not* the greatest beneficiary of that system—he is not even the *principal* beneficiary. Again contrary to the popular

impression, it is the “little man,” the member of the masses who, far from being the exploited victim under capitalism, is precisely its principal beneficiary. Under all other arrangements, those possessed of intelligence, high energy, and a strong desire to achieve (i.e., precisely those who tend to become the entrepreneurs, the businessmen under capitalism) get ahead by using their positions in the political or caste or religious hierarchy to exploit the masses. Only under capitalism can the stronger get ahead only by serving the weaker—and *as the weaker wish to be served!* (Ralph Nader to the contrary.)

The strong tend to survive and prosper under any system, and strength does not necessarily carry with it a sophisticated understanding of systems. The American businessman has probably been, on balance (wittingly or unwittingly), the most important single force working against the capitalist system.

This brings us to another of the straws in the wind. If further evidence of where we seem to be headed is needed, I offer you the current [Nixon] administration in Washington, D.C. It is manned by a number of intelligent, capable public servants of roughly conservative outlook and headed by an intelligent, well-meaning man of sound conservative instincts [*sic*]. Yet I am prepared to wager that history will reveal that no administration in modern times did more to move the country away from freedom and toward socialism and authoritarianism than the one now in power. I say this in sorrow, not anger, sorrow at the fact that the prevailing ideology of the day traps even the apparent foes into serving its cause, once they acquire political power. If the prevailing climate is interventionist, a conservative administration will not only be compelled to serve that climate of opinion but will be able to command a larger consensus for interventionist actions than an openly left-wing administration could ever command. In addition, the man on the street (who, in my opinion, also has generally conservative instincts) is less on his guard when a group identified as conservative is in power—and is thus largely unaware as one socialist scheme after another is imposed upon him.

In other words, wherever we look—to the intellectuals, to the businessmen, to the political leaders—we find the score to be Lions, 100; Christians, Zero. If FEE's mission has been to win such games in the here and now, then it is indeed a one-hundred carat failure. Not only has FEE not turned the tide of battle, the situation in this country has gotten steadily worse in every one of the last twenty-five years and promises to get even worse in the next twenty-five.

Am I predicting that we are inevitably headed for a great, all-encompassing crisis at some time in the next few decades? I am not. In the first place, nothing is inevitable. What has happened has happened because of decisions made by human beings and could be undone by the decisions of human beings in the years ahead. I am simply saying that if things continue to go as they

have been going (as seems likely), we are going to move further and further away from reasonable prosperity and substantial freedom, and toward stagnation and authoritarianism.

If any of you have seen FEE's mission as that of winning now and winning big, then you have no choice but to label it a failure. But as I have understood him, his thinking, and the organization he brought into being, I have always believed that Leonard Read saw his mission as something quite different from (and quite superior to) that of winning tomorrow's election or next week's idea popularity poll. He seems little interested in triumphs as spectacular and as short-lived as the hula hoop.

Again let us be honest with each other. I suspect (I know) that this aspect of FEE's thinking has been occasionally irritating to many of you and particularly to the more activist-minded of you. Read must have been about as satisfying to you at times as would be a football coach at your alma mater who asked for fifty years to do a rebuilding job with the team. Who knows, they might not even be reporting the scores to the local papers where Rogge and Read and many of you will be fifty years from now. You would like to see (and in person) the old scoreboard light up and read, Christians, 100; Lions, Zero. If that really is your goal, then you are at the wrong dinner for the wrong man.

Not only does Read not promise us a win in the *near* future; not only does he not guarantee us a win in the *distant* future; he has the unmitigated gall to tell us that we still don't even fully understand the game or how to recognize a win when we see one. Finally, he refuses us even the consolation of the assurance that while *we* may not know the full truth, *he* does and will tell us all about it. Stop worrying about such things, he tells us; "the readiness is all." Here are some typical statements from this strange and difficult man:

Not a man among us is entitled to look down his nose at any other; scarcely anyone has more than scratched the surface. And there are reasons aplenty: the complexities of this subject are akin to the mysteries of Creation.

Always skeptical of activist efforts, I have, until this moment, agreed that our own work has only long-range prospects—preserving the remnant, as it were. Now I see it the other way around; the chance of getting results here and now lies exclusively in the study and exposition of ideas on liberty.

The freedom idea is in fact a recent, idealistic, elevated acquisition of the human mind. Not being rooted in tradition and having little in the way of second-nature behaviors working for its security, it lacks stability; it is easily lost; freedom concepts are fragile, wonderful ideas, few of which we've yet embraced by second nature within our relatively unconditioned consciousness.

Freedom will always be insecure; it will forever be touch-and-go. Even eternal vigilance and devoted effort can do no more than to set the trend aright, as high an aim as we should embrace. And this expectation is warranted only if we view our problem realistically, see it as profound and difficult as it really is. To assess it superficially, to think of it as requiring anything less than practices consonant with freedom becoming second nature, is to waste our time and energy, to spin our wheels, as the saying goes.

Is this too dismal a prospect? Not to those among us who enjoy a challenge; it's magnificent!

How can he call magnificent a challenge where the odds-makers have installed the Lions as 100-point favorites? Because, he tells us, "it is the effort, not the outcome, that counts in the life of the human being." "Cervantes' 'The road is better than the inn,' should serve to remind aspiring men that there isn't any inn for them, but only the road, now and forever. It is the effort along the trail that matters."

The Measure of Success

And now the final interpretation of the phrase "succeeded in its mission": Leonard Read's *own* definition of how the success of a FEE (of a Leonard Read) should be measured:

"To measure a teacher's success, to evaluate his work, one must ask: Does the

teaching induce in others what Aristotle termed 'activity of soul'?"

It is to this question that the final and unqualified and only significant "yes" can be given. Throughout this country, throughout the world there is "activity of soul" underway that would never have been undertaken but for the work and the inspiration of Leonard Read and the Foundation for Economic Education. Some of it all of us in this room know about and can identify with FEE; some of it is known to only one or two of those in this room; the greater part, and probably the most important part, is totally unknown as yet to any of us (including Leonard Read) and will come to light only in the decades and centuries ahead—and much of it will be done by people who will never have heard of this foundation and will have no awareness that the activity of soul in which they are involved is the last link in a long chain that goes back to something that was started by this foundation in the middle of the twentieth century.

I close with a piece of verse that seems to me to capture what I have been trying to say. It is from the remarkable poem by W. H. Auden, "September 1, 1939," written at another dark moment in the history of the Western world. Here is the final stanza:

Defenceless under the night
Our world in stupor lies;
Yet dotted everywhere,
Ironic points of light
Flash out wherever the Just
Exchange their messages:
May I, composed like them
Of Eros and of dust,
Beleaguered by the same
Negation and despair,
Show an affirming flame.

For these twenty-five years of showing a brilliant and never-failing and affirming flame, our most serious and total appreciation, Mr. Leonard Read. □

1. Tolstoy, *War and Peace*, Inner Sanctum ed., p. 193.
2. Larry Ruff, "The Economic Common Sense of Pollution," *The Public Interest*, Fall 1970, p. 74.

"Among the many and substantial contributions we Argentinians owe to our close friend and benefactor Leonard Read is the Centro de Estudios sobre la Libertad and the Graduate School in Economics and Business Administration (ESEADE). My son, Alberto Jr., is one of the founders and Dean of ESEADE, where younger generations are taught to successfully defend the noble cause of the philosophy of freedom."

*— Alberto Benegas Lynch
Buenos Aires*

"The work of all those involved with the Foundation for Economic Education has had a profound impact in my personal and professional life. In the early '70s the father of one of my closest friends gave me a copy of a small book he wrote about markets and the existence of a natural order. The book included many citations from authors well known to FEE, as well as the writings of leading Argentine classical liberals. Free-market books were published by the Centro de Estudios sobre la Libertad, an Argentine organization which was conducting programs similar to those at FEE and translating some of its books. It was then that I first heard about FEE, especially from Dr. Alberto Benegas Lynch, head of the center.

By the mid-seventies, I was reading one FEE book per month. At this time, there were only a handful of young Argentine liberals, and I became the head of the only youth organization of that political orientation. Meeting Professor Hans Sennholz would be a turning point in my life. I was asked to translate his presentation at several events with Argentine VIPs.

Dr. Sennholz never forgot us. Two years after our encounter, he offered a scholarship to study at Grove City College and I was chosen to go. Almost twenty Argentine students have followed in my footsteps. After going to Grove City, many of us went back to teach at leading Argentine universities, using material from FEE for our classes."

*— Alejandro A. Chafuen
President, Atlas Economic
Research Foundation*

"During 1968 I received a scholarship from FEE to work on my doctoral dissertation. I participated in a program on political economy and philosophy of government organized by FEE. At that time I met Leonard Read, Henry Hazlitt, and Hans Sennholz, whose lessons taught me the way. I also had the chance to study under Ludwig von Mises, whom I had met nine years earlier when he was invited by my father to lecture at the University of Buenos Aires.

ESEADE is a private institution where we conduct four Masters Programs; we have a research department and publish a journal 'Libertas.' ESEADE is based on FEE's freedom philosophy for an open society. The example set by FEE's staff has been imitated also by other institutions throughout the world."

*— Alberto Benegas Lynch, Jr.
Dean, ESEADE
Buenos Aires*

"Leonard Read liked repeating that when you disseminate ideas at random you cannot predict where they will find fertile soil. In Latin America FEE's strongest initial influence was in Argentina, Mexico, and Guatemala, where small think-tanks were formed in the image of FEE.

Eventually, in Guatemala the number of freedom-loving friends was sufficient to start the Universidad Francisco Marroquin, a liberal arts school with close to 5,000 students, all of whom must attain a basic background in the philosophy and economics of the free society. Graduates of our university have started their own influential institution, write in newspapers and magazines, and by our example, friends in other Latin countries have been encouraged and helped to do likewise. It all started at FEE."

*— Manuel F. Ayau
President Emeritus
Universidad Francisco Marroquin*

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"The writings of Leonard Read, and of countless others whose insights are recorded on the pages of The Freeman, were profoundly helpful in clarifying my own thinking about the importance of advocating a politics of principle.

FEE's 'libertarianism' has had particular appeal to me because, thanks to Edmund Opitz and others, it was rooted implicitly in acknowledgment of God's sovereignty and the authority of His law-word as its presuppositional basis."

— Howard Phillips
 President, The Conservative Caucus
 Research, Analysis & Education Foundation

"For fifty years FEE has contributed to the development of the libertarian movement worldwide. Its handful of staff members and numerous friends have been remarkably successful in helping to turn the tide away from the supposedly inevitable trend toward socialism and into the swift stream of capitalism.

After World War II, I returned home from China with grave doubts about economic controls but with little real understanding of the problem. I had witnessed unforgettable hyper-inflation in Shanghai caused intentionally by two officers in charge of issuing banknotes. When I first read The Freeman and Mises' Human Action, I felt as though the scales had fallen from my eyes. Soon I started propagating FEE's ideas in Kochi, my native town.

In 1959-60, I had the privilege of staying at FEE while studying under Mises at NYU. I then met Dr. Hans Sennholz for the first time at a FEE meeting.

When I became Dean of Yokohama College of Commerce, I admitted a Chinese student from Beijing to our institution. In doing this I was reciprocating what FEE had done for me. No other colleges or universities in Yokohama had foreign students then. Today, we have nearly fifty such students from various parts of Asia.

Over the years, more than ten thousand students have attended my classes. I translated Human Action into Japanese, along with other books by Mises and various essays from The Freeman. I have written many articles on free-market economics.

I introduced FEE to Dr. Byung-Ho Park of Hankuk University of Foreign Studies in Korea, and he organized an institute for studies in liberty. I also introduced FEE to the late Dr. Takashi Urata, who organized a seminar in freedom. After his death, he was succeeded by Motofumi Kuze. The Urata-Kuze Seminar has held meetings in Tokyo every month for more than fifteen years using FEE materials as texts.

My joy is doubled this year, because I am celebrating not only the fiftieth anniversary of FEE but also the fiftieth anniversary of my own marriage to my wife, Meiko. She joins me in sending congratulations."

— Tashio Murata

President, Yokohama College of Commerce

"Getting acquainted with FEE – liberty's Gibraltar for the past half-century – was a turning point in my life. It was in 1952, give or take a year, that George Reisman, my buddy at the Bronx High School of Science, and I were invited to meet the staff in Irvington.

When we arrived, no one could have been kinder and more gracious to this pair of callow youths – we were welcomed into the fraternity by Baldy Harper, Paul Poirot, Ivan Bierly, Bettina Bien (as she was then), Leonard Read, Henry Hazlitt (who happened to be present), and all the others.

The vision that FEE conveyed to me then and ever after – of a world founded on private property, free markets, and peace, a world well worth devoting a lifetime to fighting for – became my lodestar.

On FEE's fiftieth anniversary, a heartfelt thanks for what you have meant for me and for lovers of freedom everywhere."

*– Ralph Raico
Professor, State University of
New York College at Buffalo*

"FEE has played an enormously important and positive role in my life. When I was fifteen years old, I thought that hardly anyone in the world had the same view of individual rights and freedom that I did. I learned differently after being invited to come up to FEE for a visit. As a direct result of that visit, a few months later I obtained an introduction to the great Ludwig von Mises and then, from him, an invitation to attend his seminar at NYU. I hope that FEE will continue to serve as a major beacon of freedom, inspiring new generations of young men and women through its publications and seminars on liberty."

*– George Reisman
Professor, School of
Business and Management
Pepperdine University*

The Literature of Liberty

by Edmund A. Opitz and Robert Batemarco

Part I

Words were the tools of Leonard Read's trade—spoken words, and words written. He was a gifted platform man, and starting in the mid-1930s became much in demand as a speaker before all kinds of audiences, large and small, in all parts of the nation. The Chamber of Commerce was his primary base of operation until he established the Foundation for Economic Education in 1946. Lecture engagements multiplied, and he continued to speak at FEE functions until shortly before his death, four months before his 85th birthday.

Despite Leonard's facility with words and his knack for establishing an empathic bond with audiences, he would often say that "public speaking is just about the most useless activity I know of." He put a speech in the same category as an advertising pitch or the spiel of the barker outside the side-show—an inducement to buy a product or a ticket. Or it's a morale booster or a locker room pep talk.

Leonard's point was that a speech is little more than entertainment unless it persuades listeners to head for the library and hit the books. The main tool of the spoken word

The Reverend Mr. Opitz, a contributing editor of The Freeman, was a senior staff member of the Foundation for Economic Education until his retirement in 1992. He was book review editor of The Freeman for many years.

In addition to editing the book review section of The Freeman, Dr. Batemarco is a marketing research manager in New York City and teaches economics at Marymount College in Tarrytown, New York.

is rhetoric, which engages the imagination, the emotions, and the will. The written word, when seriously employed, also does this and much, much more. A good book aims at the intellect, relying mainly on reason and logic, using rhetorical devices only to buttress the argument, and employing examples from history and common experience to drive a point home.

An ordinary speech, after thirty or forty minutes, vanishes into thin air, except for the fragments which linger in the memory. And memory is fallible, as every speaker is painfully aware when reading the reconstruction of his remarks by a reporter, even by a reporter who is both trained and sympathetic. Once the speech is ended, a listener cannot easily refresh his memory of a specific point or a marvelous illustration that faded in an over-extended attention span.

The written word is different. A book may become a permanent possession which you can turn to again and again to better grasp the argument used by the writer to reach his conclusion—which so impressed you at the time, but which you now cannot recall! Find the right page, the matter becomes clear and the author's point clicks into the right slot in your memory bank.

Thus did Leonard, in the course of a very successful career as a public speaker, reach the conclusion that The Book is the most successful tool of genuine education. He decided to found an institution whose major purpose would be the publishing of books expounding the freedom philosophy in the contemporary American idiom.

Some of the great classics of liberty were

available in the mid-1940s: *The Wealth of Nations* by Adam Smith, *The Federalist Papers*, and some of the writings of Thomas Jefferson and James Madison—all in eighteenth-century prose, which differs somewhat from twentieth-century American! John Stuart Mill's *On Liberty* was available, but Herbert Spencer's *Man versus the State* was almost impossible to obtain in the 1930s in this country. Late in that decade Jim Gipson, the dedicated publisher in Idaho, read Albert Jay Nock's essay on Spencer and persuaded Nock to re-edit *Man versus the State* and provide a new introduction. The book got one appreciative review in a nationally syndicated column, but sales were meager. And then came an order for 500 copies from the Los Angeles Chamber! Thenceforth, as Leonard relates, he took cartons of the book to every meeting of the Chamber members and laid them under heavy persuasion to buy a copy of Spencer's classic collection of essays.

In 1943 three dauntless women, friends of Leonard, wrote challenging books on their own, opposing collectivism and upholding the ideal of individual liberty. In alphabetical order they were Rose Wilder Lane's *The Discovery of Freedom*; Isabel Paterson's *The God of the Machine*; and Ayn Rand's *The Fountainhead*. This last, a novel, has attracted a large following and—together with Ms. Rand's later writings—constitutes the cement binding together a significant movement of our time. *The God of the Machine* was remaindered in 1946, but is now back in print with an excellent and comprehensive new introduction. *The Discovery of Freedom* was reincarnated by Henry Grady Weaver, and self-published as *Mainspring*. FEE bought the rights to this book, expanded the title to *The Mainspring of Human Progress*, and has sold about a million copies. Lane turns first to the ancient Israelites, the people of the Old Testament, who planted the first seeds of freedom. Her final section explores our own sector of the planet where those early seeds came to fullest expression in America's founding documents and the political institutions they projected. These two sections

of Lane's book cover ground fairly familiar to most readers, but chapter ten on the Saracens is an eye-opener. Islam is one of the three great monotheistic religions; it is world-wide, and has made contributions to western art, philosophy, literature, and science, especially during the Middle Ages. The Holy Qu'ran offers spiritual guidance for all Muslims, and it also deals with the laws, morals, and customary practice incumbent in every Islamic society. It has much to teach members of other faiths as well.

The Foundation "opened for business" in mid-1946; its first publication followed shortly. This was a book on wage theory by the head of the economics department at Yale, Fred Fairchild, a founding trustee of FEE. Fairchild's name is well remembered as one of the authors of the most widely used economic texts of the 1920s and early 1930s, *Principles of Economics*, in two fat blue volumes, by Fairchild, Furness, and Buck.

A series of pamphlets began to roll off FEE's presses, on economic topics of importance: tariffs, inflation, price controls, and the like. These were staff-written, in excellent prose, timely, and attractively printed. Nothing quite like them was available and the after-market orders came in by the tens of thousands.

Leonard had accumulated a small mailing list of friends and acquaintances from his years with the Chamber, and people who had been impressed with one or more of his speeches and left a card. They responded to his *modus operandi*: FEE would be a small group of scholars doing independent research and writing which, after surviving peer criticism, would be issued as a pamphlet. Each publication would be sent to those on the mailing list, and to others on request. Leonard had faith that if FEE's work was worthy, it would arouse interest, which would lead to financial support (a neat bit of symbiosis), and it worked. Leonard wrote a pamphlet with an intriguing title, "Students of Liberty." It was part confession, along the lines of: We of the FEE staff set out to be teachers, but the more deeply we delved into the complex issues of human freedom the more we realized that we were

only learners—at best! We will do our best to learn, and we invite anyone interested in this learning process to look over our shoulders and share our results. At the first indication of your interest your name will be added to our mailing list without cost or obligation. . . .

Leonard abhorred fund-raising, but he did have a low key way of informing the FEE readership that FEE depends on voluntary contributions. For example, he'd enclose a reply envelope with this typical colloquy: "How's The Foundation doing financially, Leonard? . . . We're doing as well as you want us to do; if you want us to do better, tuck your check in the attached reply envelope!" This seemed to work well for the first thirty or so years of FEE's operation; but time, and the mores, change.

FEE got into the book business early on. Henry Hazlitt, a founding trustee, had written *Economics in One Lesson*, which was published by Harper and has been one of the best-selling economics texts ever—well over a million copies world-wide, in twelve languages, with about a third of these sold by the Foundation.

Frederic Bastiat (1801–1850) was a French politician and economic journalist. Leonard came under Bastiat's spell, especially his essay on *The Law*, which carefully elucidates the proper role of government in society. The mid-nineteenth-century British translation was unsatisfactory, so a FEE staffer was asked to put *The Law* into modern American idiom. Dean Russell's lively prose transformed the book into a best seller, with sales of more than half a million copies.

In the early 1950s FEE published four books: F.A. Harper's *Liberty: A Path to Its Recovery*; W. M. Curtiss's *The Tariff Idea*; Dean Russell's *The TVA Idea*; and Read's *Government: An Ideal Concept*. During this same period, FEE began to anthologize material previously published as pamphlets, (and, later included selections from *The Freeman*). Thus began the series of volumes, of about 400 pages each, called *Essays on Liberty*, volumes I through XII, published from 1952 to 1965.

Dr. Paul Poirot assumed editorship of *The Freeman* with the January 1956 issue. Every month for thirty years Paul Poirot sifted through a pile of manuscripts, published the essays and reviews consistent with FEE's purpose, and wrote graciously to those whose manuscripts he rejected. Bound volumes of *The Freeman* have appeared annually since 1965, each carefully indexed: a veritable encyclopedia.

The literature produced by the Foundation—pamphlets, books, its journal—plus its hundreds of seminars and summer schools began to affect public opinion. Here and there a professor, or a clergyman, began to feel a kinship with our "freedom philosophy." More and more young people began to question the collectivist consensus. The Intercollegiate Studies Institute (then called the Intercollegiate Society of Individualists) began its operation from an office on FEE's third floor, circulating FEE's literature to college students. The word continued to spread; new journals appeared, thinkers of our persuasion began to teach and write; and the intellectual climate began to change, to the point where even some mainstream publishers produced an occasional book "of our kind." Now FEE's book catalogue stocks more than 400 titles! Under President Sennholz's energetic publishing program, FEE continues to expand its own releases.

A sampling, herewith, of the current FEE catalogue:

Ludwig von Mises is acknowledged by many as the greatest economic thinker of our time; perhaps of all time. Before coming to the United States in 1940, Mises had made a name for himself with his *Theory of Money and Credit*, *Socialism*, and other volumes of like stature. After arriving on these shores he contacted Henry Hazlitt, who had reviewed *Socialism* in the *New York Times*, and with whom he had corresponded. Hazlitt introduced Mises to Leonard Read, who later enlisted Mises as an adviser for the Foundation.

Mises' masterpiece, *Human Action*, was in gestation at this point, and in 1949 it was published by Yale University Press, but only after FEE had agreed to buy a sufficient

number of copies to cover publication costs. The FEE catalogue lists fourteen Mises titles in addition to *Human Action*.

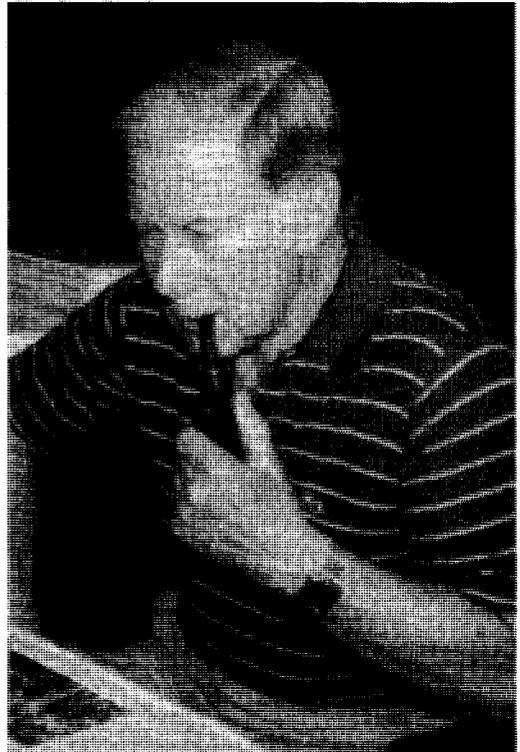
Hans Sennholz earned his doctorate under Mises at New York University, as did FEE Trustee Israel Kirzner, who is now a professor at that university. Selections from both appear in the catalogue.

Adam Smith's 1776 *The Wealth of Nations* is also listed, along with two seminal eighteenth-century works of political philosophy: Edmund Burke's *Reflections on the Revolution in France*, and our own classic, *The Federalist Papers*. During the latter part of the nineteenth century there appeared two books which, taken together, represent the fountainhead of the Austrian School: Carl Menger's *The Principles of Economics*, and Böhm-Bawerk's three-volume *Capital and Interest* (English translation by Sennholz).

Nobel Prize Laureate Hayek studied with Mises in Vienna, and is represented in the catalogue with *The Road to Serfdom*, *The Constitution of Liberty*, and eight other titles. Hazlitt's *Economics in One Lesson* is there, along with eight other titles and a 350-page anthology of his writings. And there's the late Murray Rothbard's comprehensive *Man, Economy and State* in two hefty volumes.

When a revived *Freeman* was launched in New York in 1950, John Chamberlain was one of its three editors, and was writing most of the book reviews. The Foundation took over the journal in 1955 and moved its offices to Irvington. Chamberlain, one of the nation's finest book critics, continued his brilliant *Freeman* reviews until his death in 1995. Four of his books are in the catalogue.

George Roche left the FEE staff to become President of Hillsdale College. His *Legacy of Freedom* was written while he was at FEE. It is carried by FEE along with eight other titles. Veteran FEE staffer Bettina Bien Greaves has spent a lot of time with her typewriter (now computer), and in research. She spelled out basic Austrian economics in two folio volumes: one, a book of theory, listing activities for classroom or personal instruction, and the second,



Edmund Opitz was FEE's resident theologian and *Freeman* book review editor until his retirement in 1992.

a collection of readings. She spent years of research in completing *Mises: An Annotated Bibliography*. I myself, a long-time FEE staffer, am represented in the catalogue with two books dealing with those sectors of society where economics, political theory, and theology interact.

In the early days of FEE some words of Albert Schweitzer were at work in the hinterland of Leonard's mind: "Civilization can only revive when there shall come into being in a number of individuals a new tone of mind independent of the one prevalent among the crowd and in opposition to it. . . . A new public opinion must be created privately and unobtrusively." This was the tactic of liberty as Leonard expounded it. Behold how it works!

Leonard Read's dream of a library of books expounding the literature of liberty has been fulfilled . . . and more. His own contribution to that library began in 1937 with his first book, *The Romance of Reality*. Twenty-seven more books followed, books

of essays in the Emersonian vein, distilling the wisdom he had gained in a lifetime of work in the vineyard. Leonard left the body in 1983, but his inspiration lingers on in the thousands of people who live now at higher levels of achievement because of their encounters with him.

—EAO

Part II

My initial encounter with *The Freeman* took place in the fall of 1974 when I saw an issue in the magazine display case at Georgetown University's Lauinger Library. It was a memorable time for partisans of liberty. For us, 1974 was that darkest part of the night which comes before the dawn. The year in which Richard Nixon was forced from office for the least of his misdeeds marked the end of a decade in which government made stepping beyond its proper bounds into an art form.

The most conspicuous encroachments of that era included the welfare state programs of the so-called Great Society, the sending of half a million conscripts to fight a war having no direct bearing on our national security, spoiling the achievement of eliminating government-sanctioned constraints based on race (Jim Crow) by establishing others (affirmative action), creating government agencies like OSHA and the EPA to micromanage the affairs of private businesses, the explicit adoption of Keynesianism as a guide for management of the economy, abandonment of the last vestiges of the gold standard, and the imposition of wage and price controls.

By 1974, the effects of these policies were starting to manifest themselves: the emergence of an underclass typified by welfare dependency and unprecedented rates of illegitimacy, rising unemployment, high inflation, a plummeting dollar, and long waiting lines for gasoline. The one bright note in this rhapsody of ruination was that more fingers were pointing at government as the culprit than at any time since the reign of George III.

At this same time, Austrian Economics was starting to re-emerge after three de-

acades of undeserved obscurity. A conference on Austrian Economics held in South Royalton, Vermont, in June 1974 was a major event in the formation of a new generation of Austrian economists. Later that year, F.A. Hayek was awarded the Nobel Prize in economics, reviving interest within the economics profession at large.

Conferences and prizes are all well and good, but neither compares with books in terms of laying the groundwork for a deep understanding of what is meant by a free society, how far we have strayed from that ideal, and how to return to it. Certainly books were what did it for me. Let me share with you some of the books that were instrumental in shaping my development as an economist and an adherent of FEE's freedom philosophy. Although my initiation into the literature of liberty is a mere sampling of an exhaustive body, I hope other developing expositors of freedom will find this list helpful.

The first steps of my transformation from a college graduate who had but an inchoate feeling that something was wrong with the Keynesian economics he had recently learned to a full-fledged Austrian were taken under the guidance of Henry Hazlitt. I read his *The Failure of the "New Economics"* side-by-side and chapter-by-chapter with Keynes's *The General Theory of Employment, Interest and Money*, which Hazlitt's work so brilliantly took to task. Not only did Hazlitt make clear to me what a powerful engine of analysis Austrian economics was, he even permitted me to understand Keynes more clearly than the English inflationist's own murky prose was capable of doing.

Another book which not only deepened my economic understanding, but also channeled it in directions far afield of anything I had heard in a university classroom was *The Foundations of Modern Austrian Economics*, edited by Edwin G. Dolan. This book contained the papers presented by Murray Rothbard, Israel Kirzner, and Ludwig Lachmann at the aforementioned South Royalton conference. I was already aware, through Hazlitt, that the Austrians had their own theory of business cycle. This book,

with its many discussions of methodology and the role of values in economic science, set me to thinking about a whole new set of issues distinguishing the Austrian approach from the standard fare served up in most universities' economics departments.

The case for the free market does not rest on economics alone. The moral case for capitalism is even more important, especially in a century where interventionists and socialists of every stripe have had so much success in usurping the moral high ground. Ayn Rand's greatest appeal to me is that she refused to let them get away with it. Never much drawn to novels, I made my acquaintance with her powerful ideas through two of her books of essays: *The New Left: The Anti-Industrial Revolution and Capitalism: The Unknown Ideal*. Her smiting of collectivism root and branch and her defense of reason versus the adulation of emotion, which so dominates our culture, made an immediate and lasting impression. She and her other contributors, especially Robert Hessen and Alan Greenspan, put a revisionist spin on such issues as antitrust legislation, the gold standard, and American economic history. I was fortunate to have read her works, and doubly fortunate to have done so when I was old enough not to have been infected by her hostility to religion and personal charity, as were many who first read her in their impressionable teen years.

Indeed, the more I understood about free market capitalism, the more I realized that it ultimately rested on the biblical injunction "Thou shalt not steal." One author who hammered this point home to me most effectively was Frederic Bastiat. His *Selected Essays on Political Economy* contains such classic essays as "The Law," "What Is Seen and What Is Not Seen," "The State," and "Property and Plunder." With ineluctable logic, he strips away the pretensions which delude people into believing that pillage is "less criminal because it is carried out legally and in an orderly manner," by the state, of course.

While the religious basis of Bastiat's moral case for capitalism was implicit, Ed-

mund Opitz spelled out the relationship between revealed religion and economics in *Religion and Capitalism: Allies, Not Enemies* (1970). The confusion of Christian charity with the welfare state has not only caused too many Christians to reject free-market economics, but has also caused too many free-market economists to reject Christianity. By spelling out the unbridgeable nature of the chasm between Christian charity and the welfare state, Opitz helped to reduce both types of rejections. He also showed the inadequacy of purely materialistic conceptions of the production process, citing Mises' claim that, "[p]roduction is a spiritual, intellectual, and ideological phenomenon."

The spiritual side of production was also emphasized by George Gilder in his influential paean to the supply side, *Wealth and Poverty*. While somewhat flawed in its macroeconomics, this book put the future-oriented, risk-taking behavior of the entrepreneur in its rightful place as the key to economic prosperity. The sheer creativity of entrepreneurs precludes either modeling and describing an economy accurately with the contents of the econometrician's toolbox or of running it from the command post of the central planners. With a plethora of irresistible examples to flesh out the sources of wealth and poverty, Gilder brings to life the entrepreneurs who make prosperity possible.

I already mentioned that even in my undergraduate days, I knew that *something* was wrong with the Keynesian macroeconomics I was taught, even if I could not quite put my finger on precisely what. It was not until a few years later, when I was on the other side of the desk as a college professor, that I could no longer sidestep the inadequacies of standard *microeconomic* theory. The book which most clearly elucidated the nature of the problem to me was Friedrich Hayek's *Individualism and Economic Order*. It was here that I read the clearest explanation I've seen to date of how the standard model of pure competition actually justifies the suppression of competition in the name of competition. His incisive treat-

ment of the nature and role of knowledge in economic activity permitted me to understand the workings of the economy in a totally different way. His chapters on the socialist calculation debate provided a classic application of his theoretical insights.

Clearly, if these books are right, a great portion of the economics profession is wrong. And if those trained in economics can't get it right, one might expect non-economists to be totally at a loss. But not in the case of Paul Johnson. That journalist's monumental history of the twentieth century, *Modern Times*, explains much of the tragedy that has befallen those years as the inevitable consequences of moral relativism. It is one of the few histories I have ever read which embraces sound economics. Finding his chapter on the depression of the 1930s to lean heavily on Murray Rothbard's *America's Great Depression* was a pleasant surprise. In laying bare the ties that link socialism and fascism, in showing how Third World despots ravaged their homelands while pinning blame on a West only too eager to plead guilty, and even in rehabilitating the tattered image of President Warren G. Harding, who with seventy years of hindsight turns out to have been a surprisingly tough act to follow, Johnson is at once informative, entertaining, and iconoclastic.

While Johnson looks at some of the root causes of this century's worldwide plunge into statism, Robert Higgs takes a different approach. He wields public choice theory with consummate skill to show the opportunistic nature of the state in *Crisis and Leviathan*. His theme of government growth feeding upon crisis helps us to understand not only how government arrogates ever more power to itself, but also why it seldom relinquishes that power once the precipitating crisis is over. The historical record he thus analyzes illustrates this process occurring regardless of the party in power. In so doing, it makes clear how much more important are the similarities which bind such presidential pairs as Hoover and Roosevelt and Johnson and Nixon than the differences which distinguish them.

Of course, saying that there are tendencies for the government to grow is not the same as saying that such growth is automatic. Government cannot grow without many people choosing for it to grow. The recent demise of various socialist regimes around the world indicates more and more people choosing for it not to grow. In this country, the headlong rush to grant ever more power to the state has been, if not stopped, at least slowed. Perhaps the ideas in the aforementioned books have had some consequences which were not unintended. More people, including some in positions of power, seem to possess sound economic ideas, strong convictions regarding the sheer immorality of the redistributive apparatus of the state, and the ability to foresee the inevitable results of the state extending its tentacles into myriad activities where it does not belong than was the case in that pivotal year of 1974. All of the books whose influence I have cited have helped contribute to that outcome.

And the Foundation for Economic Education has helped by disseminating these books and others. Henry Hazlitt was a founding trustee of FEE, which published the most recent edition of his *Failure of the "New Economics."* *The Foundations of Austrian Economics* features contributions by Israel Kirzner and Murray Rothbard. Kirzner long served as a trustee of the Foundation and has contributed many articles to *The Freeman* over the years, while Rothbard has also had a number of pieces grace the pages of FEE's monthly. The translation of Bastiat's *Selected Essays in Political Economy* that I read was published by FEE. Edmund Opitz, author of *Religion and Capitalism: Allies, Not Enemies*, served many years on the Foundation's staff; and Robert Higgs, *Crisis and Leviathan's* author, is a contributing editor of *The Freeman*. While neither Gilder, Hayek, Johnson, nor Rand had any official relationship with FEE, those works of theirs which I mentioned are currently carried in the FEE book catalogue.

May FEE's next fifty years build upon the framework it has laid in its first fifty. —RB

"We at Liberty Fund are pleased to join the many other organizations in recognizing your accomplishments over the years.

Liberty Fund's founder, Pierre F. Goodrich, was in on the very beginning of FEE, and Liberty Fund has enjoyed a close relationship with Leonard Read, his successors, and the faithful FEE staff ever since.

Best wishes for another successful fifty years. There is much work to be done."

*— J. Charles King
President, Liberty Fund, Inc.*

"It was the Fall of 1964, and I had been a subscriber to The Freeman for several years including my undergraduate days at Regis University in Denver. By then, however, I had moved to Philadelphia where I was pursuing an MBA at The Wharton School of the University of Pennsylvania. I noted in an issue of The Freeman that FEE had weekend seminars. I checked with Don Lipsett and my other good friends at the Intercollegiate Studies Institute about the program. They were enthusiastic about my participation in it, and it was just a case of arranging to cover the expenses for this impecunious graduate student who was dependent on two part-time jobs for all discretionary income.

My weekend with FEE was one of the most challenging and stimulating weekends in my life. The notion that a fundamental philosophy of freedom and free markets for free men was eye-opening to me.

Since then, I have been a regular reader of The Freeman, and wish all of you at the Foundation for Economic Education another fifty years of glorious success in promoting limited government and individual freedom."

*— Edwin J. Feulner, Jr.
President, The Heritage Foundation*

A REVIEWER'S
NOTEBOOK

reprinted from *The Freeman*, November 1964

The Case for the Free Market

by John Chamberlain



John Chamberlain's monthly "Notebook" graced our pages for more than three decades.

Every fourth year we get involved in the frenzied madness of a presidential election. Watching the quadrennial show, Leonard E. Read correctly estimates that politicians are powerless of themselves to change things. The politico, when he is running for office, is a mere resultant of forces. The way to move society on its axis is not to play politics. It is to persuade teachable people to think as you do. And the best way to do this is to be a good personal living example of the philosophy you hope to spread.

Leonard Read is not running for office, so he can freely say what some people would describe as the damndest things. His book, *Anything That's Peaceful: the Case for the Free Market* wouldn't get him through the New Hampshire primary. He believes that government should be limited to such things as keeping the peace, preventing fraud, dispensing justice, and fending off attacks by foreign powers. He says it is violent coercion to force Social Security on anybody. He thinks that Robin Hood, who advocated taking money from one set of people to give it to another, should properly be called Robin Hoodlum. He argues that any type of government economic intervention forces human energy into shapes that

*Mr. Chamberlain (1903–1995) wrote the lead book review for *The Freeman* for more than thirty-five years.*

are marketable only at the end of the police club. He doesn't consider that people think well in committee. He refuses to vote when the choice is between two trimmers. He challenges the idea that the government is peculiarly fitted to run the post office, or to maintain schools, or to plan the coming of either a good or great society. In short, his opinions are such that he couldn't be elected to the office of dog catcher, let alone win a state primary.

Nevertheless, Mr. Read, by insisting that the state should not intervene to keep people from doing anything at all that's peaceful, is beginning to shake up American society as no political figure has ever managed to do. I know this because I have witnessed the come-back of the freedom philosophy over the past twenty years. Mr. Read began in the nineteen forties as a still, small voice. He had a few accomplices then. There were a couple of emigrant economists of the Vienna neo-liberal school taking issue with the dominant Keynesian hosts. Three women—Ayn Rand, Isabel Paterson, and Rose Wilder Lane—were wondering what had gotten into men to make them think that the way to release energy was to deliver everybody to the dictates of a public planning authority. The columnists, radio commentators, and magazine writers who believed in economic freedom could be counted on a couple of hands. When the writer of this

review teamed up with Henry Hazlitt and Suzanne La Follette to start *The Freeman*, he was told by an old friend, his first night city editor, that he had better consult a psychiatrist, for surely he was sick, sick, sick.

All of this was scarcely a generation ago. Mr. Read still sounds extreme to the conventional way of thinking when he says that education would be improved if there were no tax-supported public schools. But private schools throughout America have started to come back in recent years with a rush.

Mr. Read doesn't think you necessarily have to forbid socialistic enterprise by law to restore freedom. Take this matter of the federal monopoly of mail delivery, for instance. Mr. Read is satisfied that if the law were changed to permit private corporations to undertake the delivery of mail, and if an unsubsidized Post Office were to be put on an accounting basis comparable to that forced on private industry, some ingenious free enterprisers would soon compete the government out of the mail business. For what, so Mr. Read asks, is so difficult about delivering mail? The telephone company, in transporting the human voice three thousand miles from New York to San Francisco, does something that takes much more ingenuity. And, so Mr. Read adds, the American Telephone and Telegraph Company showed a profit of \$22 billion when the Post Office was losing \$10 billion.

That the climate has changed since Mr. Read, with a handful of confederates, started to preach the freedom philosophy is proved by the lip service that is now being paid to libertarian generalities. A candidate for vice president resigns as co-chairman of the socialistic Americans for Democratic Action and makes a sudden appearance before a number of important businessmen to assure them that he isn't anti-business. An occupant of the White House invites a prominent publisher to Washington to assure him he is all for self-made men. The TVA may still be regarded as sacrosanct, even when it burns coal to add to the electricity that is made by use of water

power, but it is getting tougher to sell huge river development schemes to the public.

During the twenty years I've known him, Mr. Read has not, to the extent of my knowledge, ever argued for or against any specific Congressional bill as such. He has not attacked or supported specific men for specific public office. This is not because he values tax exemption for his foundation, for it is part of his fundamental creed. He can't have voted very often in his lifetime, for he believes that it is just as wrong to vote for a small-scale trimmer as it is to vote for a big one. As this country reckons things, he is the completely nonpolitical man. He even argues that we might do better if we were to choose our Congressmen for non-recurring terms by lot, for by such a method we would get representatives who would have no stake in buying voters with their own money. Such obliviousness to the emotions that are unleashed in most breasts in a campaign year is a marvel to behold.

Yet I do not doubt that Mr. Read will one day be a chief architect of a change in this country that will have a profound effect on our philosophy of government. He is a positive force, and, being such, he shapes the adaptation of other people without buttonholing them, or demanding that they vote for this or that bill or this or that man.

I say this with profound admiration, even though I have often, in my lifetime, voted for the man whom I have regarded as the "lesser evil." I have always been hopeful that a "lesser evil" might, in office, be more likely than a "greater evil" to see the light on the Road to Damascus. Almost invariably I have been disappointed, yet I persist in coming back for more. But contact with Mr. Read has done much to make me serene in the face of continual disappointment in the electoral process. Even "greater evils" can be forced, by changes in the intellectual climate, to slow the pace toward socialist goals. And when the natural listeners and followers in the middle begin to listen to the intellectuals of the right instead of the intellectuals of the left, even the greatest of "evils" will begin a new career of trimming in the right direction. □

Bastiat, Liberty, and *The Law*

by Sheldon Richman

“The state is that great fiction by which everyone tries to live at the expense of everyone else.”

—Frederic Bastiat

Frederic Bastiat (1801–1850) holds a special place in the hearts and minds of the friends of liberty. There is no mystery here to be solved. The key to Bastiat’s appeal is the integrity and elegance of his message. His writing exhibits a purity and a reasoned passion that are rare in the modern world. He always wrote to be understood, to persuade, not to impress or to obfuscate. Bastiat, like his spiritual descendant, Henry Hazlitt, is usually referred to as an economic journalist. If that is meant as derision, Bastiat’s admirers may take comfort in the fact that the obscurants who talk to themselves in ever more arcane academic journals are never called economic journalists.¹

Through the device of the fable, Bastiat deftly shattered the misconceptions about economics for his French contemporaries. When today, in modern America, we continue to be told, by intellectuals as well as by politicians, that the free entry of foreign-made products impoverishes us or that destructive earthquakes and hurricanes create prosperity by creating demand for rebuilding, we are seeing the results of a culture ignorant of Frederic Bastiat.²

But to think of Bastiat as just an econo-

mist is to insufficiently appreciate him. Bastiat was a legal philosopher of the first rank. What made him so is a slim volume that has undoubtedly turned more than a few young American “conservatives” into full-fledged libertarians. That book is *The Law* (1850).³ Writing as France was being seduced by the false promises of socialism, Bastiat was concerned with law in the classical sense; he directs his reason to the discovery of the principles of social organization best suited to human beings.

He begins by recognizing that individuals must act to maintain their lives. They do so by applying their faculties to the natural world and transforming its components into useful products. “Life, faculties, production—in other words, individuality, liberty, property—this is man,” Bastiat writes.⁴ And since they are at the very core of human nature, they “precede all human legislation, and are superior to it.” Too few people understand that point. Legal positivism, the notion that there is no right and wrong prior to the enactment of legislation, sadly afflicts even some advocates of individual liberty (the utilitarian descendants of Bentham, for example). But, Bastiat reminds us, “Life, liberty, and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty, and property existed beforehand that caused men to make laws in the first place.”

For Bastiat, *law* is a negative. He agreed with a friend who pointed out that it is imprecise to say that law should *create* justice. In truth, the law should prevent

Mr. Richman is the author of *Separating School and State: How to Liberate America’s Families* (Fairfax, Va.: The Future of Freedom Foundation, 1994).

injustice. "Justice is achieved only when injustice is absent." That may strike some readers as dubious. But on reflection, one can see that a free and just society is what results when forcible intervention against individuals does not occur; when they are left alone.

Defending Life, Liberty, and Property

The purpose of law is the defense of life, liberty, and property. It is, says Bastiat, "the collective organization of the individual right of lawful defense." Each individual has the right to defend his life, liberty, and property. A group of individuals, therefore, may be said to have "collective right" to pool their resources to defend themselves. "Thus the principle of collective right—its reason for existing, its lawfulness—is based on individual right. And this common force that protects this collective right cannot logically have any other purpose or any other mission than that for which it acts as a substitute." If the very purpose of law is the protection of individual rights, then law may not be used—without contradiction—to accomplish what individuals have no right to do. "Such a perversion of force would be . . . contrary to our premise." The result would be unlawful law.⁵

A society based on a proper conception of law would be orderly and prosperous. But unfortunately, some will choose plunder over production if the former requires less effort than the latter. A grave danger arises when the class of people who make the law (legislation) turns to plunder.⁶ The result, Bastiat writes, is "lawful plunder." At first, only the small group of lawmakers practices legal plunder. But that may set in motion a process in which the plundered classes, rather than seeking to abolish the perversion of law, instead strive to get in on it. "It is as if it were necessary, before a reign of justice appears, for everyone to suffer a cruel retribution—some for their evilness, and some for their lack of understanding."

The result of generalized legal plunder is moral chaos precisely because law and mo-

rality have been set at odds. "When law and morality contradict each other, the citizen has the cruel alternative of either losing his moral sense or losing his respect for the law." Bastiat points out that for many people, what is legal is legitimate. So they are plunged into confusion. And conflict.

As long as it is admitted that the law may be diverted from its true purpose—that it may violate property instead of protecting it—then everyone will want to participate in making the law, either to protect himself against plunder or to use it for plunder. Political questions will always be prejudicial, dominant, and all-absorbing. There will be fighting at the door of the Legislative Palace, and the struggle within will be no less furious.

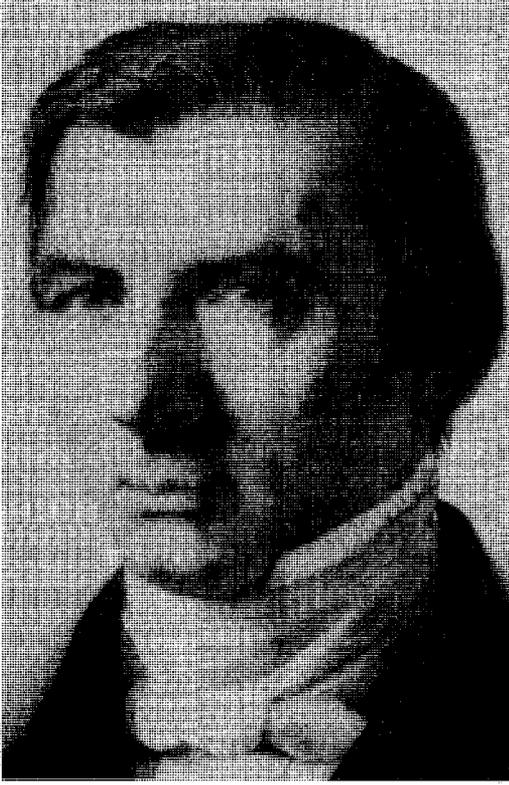
Sound familiar?⁷

Bastiat finds another motive—besides the desire for booty—behind legal plunder, or socialism: "false philanthropy." Again, he sees a contradiction. If philanthropy is not voluntary, it destroys liberty and justice. The law can give nothing that has not first been taken from its owner. He applies that analysis to all forms of government intervention, from tariffs to so-called public education.

Should the law be used to provide education? Bastiat replies:

But the law is not, in itself, a torch of learning which shines its light abroad. The law extends over a society where some persons have knowledge and others do not; where some citizens need to learn, and others can teach. In this matter of education, the law only has two alternatives: It can permit this transaction of teaching-and-learning to operate freely and without the use of force, or it can force human wills in this matter by taking from some of them enough to pay the teachers who are appointed by government to instruct others, without charge. But in this second case, the law commits legal plunder by violating liberty and property.

Bastiat's words are as fresh as if they were written today. He explains that one can identify legal plunder by looking for laws that authorize that one person's property be given to someone else. Such laws should be abolished "without delay." But, he warns,



Frederic Bastiat, author of *The Law*.

“the person who profits from such law will complain bitterly, defending his *acquired rights*,” his entitlements. Bastiat’s advice is direct: “Do not listen to this sophistry by vested interests. The acceptance of these arguments will build legal plunder into a whole system. In fact, this has already occurred. The present-day delusion is an attempt to enrich everyone at the expense of everyone else.”

The world view that underlies the distortion of law, Bastiat writes, holds man as a passive entity, lacking a motor of his own and awaiting the hand and plan of the wise legislator. He quotes Rousseau: “The legislator is the mechanic who invents the machine.” Saint-Just: “The legislator commands the future. It is for him to *will* the good of mankind. It is for him to make men what *he wills* them to be.” And the razor-sharp Robespierre: “The function of government is to direct the physical and moral powers of the nation toward the end for

which the commonwealth has come into being.”

Bastiat echoes Adam Smith’s condemnation of the “man of system,” who sees people as mere pieces to be moved about a chessboard. To accomplish his objectives, the legislator must stamp out human differences, for they impede the plan. Forced conformity (is there any other kind?) is the order of the day. Bastiat quotes several writers in this vein, then replies:

Oh, sublime writers! Please remember sometimes that this clay, this sand, and this manure which you so arbitrarily dispose of, are men! They are your equals! They are intelligent and free human beings like yourselves! As you have, they too have received from God the faculty to observe, to plan ahead, to think, and to judge for themselves!

After quoting several of those writers who are so willing to devote themselves to re-inventing people, Bastiat can no longer control his outrage: “Ah, you miserable creatures! You think you are so great! You who judge humanity to be so small! You who wish to reform everything! Why don’t you reform yourselves? That would be sufficient enough.”

Nor does Bastiat allow unrestrained democracy to escape his grasp. With his usual elegance, he goes right to the core of the issue. The democrat hails the people’s wisdom. In what does that wisdom consist? The ability to pick all-powerful legislators—and that is all. “The people who, during the election, were so wise, so moral, so perfect, now have no tendencies whatever; or if they have any, they are tendencies that lead downward to degradation. . . . If people are as incapable, as immoral, and as ignorant as the politicians indicate, then why is the right of these same people to vote defended with such passionate insistence?” And “if the natural tendencies of mankind are so bad that it is not safe to permit people to be free, how is it that the tendencies of these organizers are always good?”

Bastiat closes his volume with a clarion call for freedom and a rejection of all proposals to impose unnatural social arrange-

ments on people. He implores all “legislators and do-gooders [to] reject all systems, and try liberty.”

In the years since *The Law* was first published, little has been written in the classical liberal tradition that can approach its purity, its power, its nearly poetic quality. Alas, the world is far from having learned the lessons of *The Law*. Bastiat would be saddened by what America has become. He warned us. He identified the principles indispensable for proper human society and made them accessible to all. In the struggle to end the legalized plunder of statism and to defend individual liberty, how much more could be asked of one man? □

1. Those who think that Bastiat's work lacks depth are referred to James Dorn, “Law and Liberty: A Comparison of Hayek and Bastiat,” *The Journal of Libertarian Studies* 5 (Fall 1981):375-97 (in which Bastiat comes out the better), and Murray N. Rothbard, *Classical Economics: An Austrian Perspective on the History of Economic Thought*, vol. 2 (Brookfield, Vt.: Edward Elgar, 1995), pp. 444-48. Rothbard called Bastiat the “central figure” of the French *laissez-faire* school; he hailed Bastiat's rejection of the classical distinction between the productive creation of material goods and the unproductive creation of immaterial services, and his emphasis on the consumer, as “great steps forward toward Austrian theory.” (*Ibid.*, p. 501.) See also Dean Russell, *Frédéric Bastiat: Ideas*

and Influence (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1965). We can be grateful that the Foundation for Economic Education has seen that Bastiat's work remains available.

2. Among Bastiat's immortal works, see his pre-Keynes refutation of Keynesianism, “What Is Seen and What Is Not Seen” in *Selected Essays on Political Economy*, trans. Seymour Cain, ed., George B. deHuszar (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1964).

3. Trans. Dean Russell (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1990 reprint). (All quotations are from that edition.) FEE first published the book in 1950, 100 years after the first publication.

4. The gap between the maintenance of life and issues of morality and rights was bridged about a century after Bastiat by Ayn Rand. See “The Objectivist Ethics” in *The Virtue of Selfishness* (New York: New American Library, 1964), pp. 13-35, in which she writes, “It is the concept of ‘Life’ that makes the concept of ‘Value’ possible. It is only to a living entity that things can be good or evil” (p. 16).

5. Hayek's distinction between law and legislation is valuable in this context. See F. A. Hayek, *Law, Legislation, and Liberty*, vol. 1, *Rules and Order* (Chicago: University of Chicago Press, 1973). See also Bruno Leoni, *Freedom and the Law*, expanded 3d ed. (Indianapolis, Ind.: Liberty Press, 1991), showing the connection between judge-found law and the free market, on the one hand, and legislation and central planning, on the other.

6. “When a portion of wealth is transferred from the person who owns it—without his consent and without compensation, and whether by force or by fraud—to anyone who does not own it, then I say that property is violated; that an act of plunder is committed” (p. 26). Note the conjunction and between consent and compensation, indicating that forced but compensated transfers also qualify as plunder.

7. Bastiat pointed to the United States as exemplary in confining the law to its objective purpose, except for two glaring lapses: slavery and tariffs.

“Years ago, when I went to work for Randy Richardson at the Smith Richardson Foundation, he introduced me to FEE's activities and publications. I have benefited enormously from them ever since. Indeed, I regularly bring your publications home for my own children. In our household, they are the equivalent of Dr. Spock – and much better for health and development as well.

Congratulations to all concerned on this important milestone. I hope FEE remains a vibrant part of our intellectual culture for many years to come.”

— Leslie Lenkowsky
President, Hudson Institute

Classics Reconsidered

We asked several *Freeman* writers and book reviewers to select a significant book, or a personal favorite, published or reprinted within the last fifty years. Their choices are revealing and, in some cases, unexpected. All are worth sharing.

John Attarian:

Democracy and Leadership

by Irving Babbitt

Liberty Fund, 1979 (1924)

First published in 1924, Irving Babbitt's *Democracy and Leadership* remains one of this century's greatest works of political philosophy. Combining philosophy of history, a philosophy of civilization, deep reflection on human nature, and keen insights into the psychology of belief, it diagnoses modernity with matchless prescience.

For Babbitt, man's noblest characteristic is "a will to refrain." Like Burke, he recognized that social existence requires checks on desire and impulse, and that true liberty therefore rests on self-control. Unfortunately, since the Renaissance the West has seen ever-increasing indulgence in desires and emancipation from authority, culminating in Rousseau's advocacy of man's natural goodness and yielding to one's desires.

Rousseau's expansive egoism gained dominion because, Babbitt divined, man's main need is "to keep in good conceit with himself." Unwilling to discipline himself to standards, preferring to "expand freely along the lines of his dominant desire," man accepted Rousseau's view "not because it is true, but because it is flattering." Babbitt foresaw in consequence increasing self-indulgence and lawlessness; the advent of political adventurers; substitution of "compassionate" feelings for self-control as the index of virtue; and the rise of prophets of social service ravaging for power and curtailing freedom.

Babbitt's analysis rings truer daily. Skirting the pervasive errors of philosophical materialism, economic determinism, and preoccupation

with politics, Babbitt fingers the true source of our woes: man's infinite appetites and moral indolence. Hence his peerless explanatory power. Many observers now lament our decadence. None matches Babbitt's profundity. Who would understand modernity must read this book. □

Dr. Attarian is a free-lance writer in Ann Arbor, Michigan.

Leonard P. Liggio:

The Servile State

by Hilaire Belloc

Liberty Fund, 1977 (1913)

Hilaire Belloc (1870–1953) was indeed an Edwardian Radical as described in John McCarthy's biography (also published by Liberty Press). *The Servile State* represented Belloc's disgust with politics after serving in the House of Commons. He found politicians in control of organizing any new industries; cabinet officers determining which businessmen would control new industries. If capitalism were absolutely recognized, according to Belloc, government-created monopolies could not continue. But, from inside parliament, he saw "executive statesmen" determining which group of businessmen would operate that sphere of industry.

The system described by Belloc in 1913 emerged most fully as the corporatism of the 1930s; it extended from Berlin to Washington. F. A. Hayek in *The Road to Serfdom* saw Belloc as a prophet; and Robert Nisbet, in his introduction to this edition, notes "just as Belloc predicted, we find the real liberties of individuals diminished and constricted by the Leviathan we have built in the name of equality."

Belloc's attempt to place *The Servile State* in a historical causation does not succeed, any more than his foray into economic theory. But, he saw clearly what was happening around him, that business leaders were the ones who wished to replace private institutions with state systems of social security and unemployment insurance—to replace liberty and free markets with

The Servile State. Thus, he showed that the socialist, the reformer, the politician, and the state-connected industrialist, whatever their philosophies, all are channeled into legislating *The Servile State*. □

Dr. Liggio is Distinguished Senior Scholar of the Institute for Humane Studies, George Mason University.

Raymond J. Keating:

Wealth and Poverty

by George Gilder

ICS Press, 1993 (1981)

Throughout much of the twentieth century, economists seemed destined to make themselves irrelevant. Emphasis on aggregate demand management and input-output economic models came to dominate the discipline, truly making it a dismal science. Though many outstanding economists fought nobly against this trend, by the 1970s the Keynesian victory of macroeconomics over microeconomics seemed almost complete.

It is against this backdrop that George Gilder's *Wealth and Poverty* was published. One should not underestimate what Gilder accomplished in this volume. He helped smash the Keynesian demand management model of the economy and replace it with a supply-side model centered on individual actions. Government as the lifeblood of the economy gave way to the entrepreneur as the true source of economic dynamism and growth.

Gilder even put to rest the idea that economics had to be dull, plodding, and increasingly narrow in focus. In *Wealth and Poverty*, Gilder managed to spark the reader's imagination. *Wealth and Poverty* called for the economist to understand much more than mere mathematics and GDP numbers; he must be willing to examine the entire human condition—history, psychology, technology, business, and faith—as Adam Smith had done.

Much of the moribund economics discipline still fails to acknowledge the merits of Gilder's *Wealth and Poverty*—to the detriment of both themselves and, unfortunately, their students. In contrast, I have come to view *Wealth and Poverty* as a vehicle of redemption—saving the soul of economics, if you will. □

Mr. Keating is chief economist with the Small Business Survival Foundation.

Murray Weidenbaum:

The Constitution of Liberty

by Friedrich A. Hayek

The University of Chicago, 1962

Friedrich Hayek's *Constitution of Liberty* surely merits front rank in any list of outstanding books on liberty, free market economics, history, and political philosophy. What is especially remarkable about the work is that it makes important contributions in each of these areas.

Personally, I have always been taken by the broad-minded view that Professor Hayek brought to his writings. Surely, this classic work strengthens the case for the free market. Yet, as a fine scholar, Hayek volunteers the notion that the marketplace can adjust to a substantial amount of government intervention.

Not that he advocates a large role for government, but he brings to bear a special wisdom in examining such controversial questions from a truly scholarly viewpoint. That rare trait is especially helpful in reaching those who now hold different viewpoints. □

Dr. Weidenbaum is chairman of the Center for the Study of American Business, Washington University, St. Louis.

Dwight R. Lee:

"The Use of Knowledge in Society"

by Friedrich A. Hayek

(reprinted in *Individualism and Economic Order*, Routledge and Kegan Paul, 1949)

If you want to learn as much as possible about economics from just one article, read Friedrich A. Hayek's "The Use of Knowledge in Society," published in the September 1945 issue of *The American Economic Review*. First, no other article explains the economic problem as clearly. Second, none provides a better understanding of the superiority of market economies. Third, it exposes one of the most deplorable fallacies in the standard approach to teaching economics. Finally, it throws a spotlight on the dangerous ignorance of economic planning.

Hayek points out that sensibly allocating scarce resources requires knowledge dispersed among many people, with no individual or group of experts capable of acquiring it all. Informed economic decision-making requires allowing people to act on the information of "time and place" that only they have, while providing a

system of communication that motivates us and informs us on how best to do it. Market exchange and prices generate the information and motivation. Yet economics students are invariably taught that the market works properly only if all participants have perfect knowledge. This is nonsense, as Hayek explains. If everyone had perfect knowledge, the case for the market would largely disappear. The market is essential precisely because it allows people to benefit from widely dispersed knowledge when no one has more than the smallest fragment of that knowledge, not even government planners. Every time a government plan restricts market exchange, ignorance is substituted for knowledge.

Read Hayek's article and you will approach your future reading with a more informed perspective on what economics is about. □

Dr. Lee is Ramsey Professor of Economics at the University of Georgia, Athens.

William H. Peterson:

The Failure of the "New Economics"

by Henry Hazlitt

Van Nostrand, 1959; The Foundation for Economic Education, 1995

In the beginning was Say's Law—supply creates demand. But that was the "old economics." Now, glory be, we're blessed with the "New Economics"—demand creates supply—thanks to the "new" dazzling 1936 paradigm of *The General Theory of Employment, Interest and Money* by John Maynard Keynes. Lord Keynes stood Say's Law on its head, and so the business cycle has been mercifully repealed once and for all, of course.

Imagine, jobs for virtually everybody all the time. All central governments everywhere have to do is maintain "national income" at the level of "full employment." No big deal. Fine-tuners merely have to apply Keynes' equation ($Y = C + I + G$) and make sure macrodemand sustains adequate macrosupply through the magical "G" in the formula. G stands for government outlays, for economic—and political—paradise. So as Marx was a god in the nineteenth century, Keynes became a god in the twentieth.

Hazlitt devastates the "New Economics." G, says Hazlitt in a backcast and forecast of persistent inflation and recurrent recessions, leads but to "a constant race between the money supply and the demands of the trade unions—but it does not lead to long-run full employment."

Hazlitt warns the Keynesians against their forgetting that everybody's income is somebody else's cost, against their cavalier downplaying of excessive wage rates as a key cause of unemployment, against their temptation of deploying cheap money and deficit spending to even out the business cycle. But do the Keynesians and their friends in high places listen, even at this late date? □

Dr. Peterson is Distinguished Lundy Professor of Business Philosophy Emeritus at Campbell University, North Carolina.

James L. Payne:

The Right and Wrong of Compulsion by the State and Other Essays

by Auberon Herbert

Liberty Fund, 1978

The Right suffers from an awkward presentation of its vision. It declares itself for "liberty," a word that for most people means "the power to do as one pleases." So a great deal of effort is spent repudiating this meaning and asserting that liberty means "not under physical compulsion." Couldn't a more effective case against government be made if we set the term "liberty" to one side and declared that avoiding the use of force is our aim?

Auberon Herbert proves that it can. This late nineteenth-century English "voluntaryist" countered the emerging socialist movement by questioning its foundations in coercion. "In the long dark history of the world," he asks, "what real, what permanent good has ever come from the force which men have never hesitated to use against each other?" He explains how the governmental approach breeds anger and conflict: "As long as we believe in force there can be no abiding peace or friendship among us all; a half-disguised civil war will forever smolder in our midst." Coercive approaches typically hide problems, instead of solving them: "An evil suppressed by force is only driven out of sight under the surface—there to fester in safety and to take new and more dangerous forms."

In his moving defense of the voluntary principle, Herbert exhibits a remarkable patience and humility—a model to those of us sometimes too short-tempered for our own good. □

Dr. Payne is Bradley Fellow at the Heritage Foundation in Washington, D.C.

Matthew Carolan:**Modern Times**

by Paul Johnson

HarperCollins, 1983

“By the 1980s, state action had been responsible for the violent or unnatural deaths of over 100 million people, more perhaps than it had hitherto succeeded in destroying during the whole of human history up to 1900.”

This one statement has remained with me, and has influenced me more than any other statement I have ever read. It is from Paul Johnson’s *Modern Times*, a history of the twentieth century—a book which I received as a Christmas gift some years ago. It helped me then, as a young college student, to understand with chilling clarity the world into which I was born.

With a masterful combination of fact and anecdote, Johnson chronicles the century of “social engineering,” which turned both ideas and persons into mere clay for the political class. He shows us the awful hubris of men like Stalin, and Hitler, and Mao, among others, and explains their kind of thought, which is unfortunately still with us. Johnson offers no bright vision of the future, but does us a service nevertheless by reminding us of the errors, and evils of the past. □

Mr. Carolan is Executive Editor of National Review.

William C. Dennis:**In Defense of Freedom and Related Essays**

by Frank S. Meyer

Liberty Fund, Inc., 1996 (1962)

In 1962, Frank S. Meyer, then Senior Editor at *National Review*, published his small, but controversial tract, *In Defense of Freedom: A Conservative Credo* (Henry Regnery). Here Meyer argued that what American conservatives had to conserve was largely an Anglo-American tradition of liberty. The purpose of the political order was to preserve individual liberty, Meyer maintained. Questions of virtue were to be left to the institutions of the great civil society. But only individually free-willed acts could produce virtue; so freedom and virtue were necessarily allies not enemies.

In this day of continued conservative factionalism, it would still profit people of good will on the right, particularly the younger conserva-

tive, to consider the implications of Meyer’s thesis. □

Dr. Dennis is Senior Program Officer at Liberty Fund, Inc., in Indianapolis.

Jane S. Shaw:**Knowledge and Decisions**

by Thomas Sowell

Basic Books, 1980

Physicists tell us that a solid rock is mostly empty space interspersed with occasional dense specks of matter. “In much the same way,” says Thomas Sowell, “specks of knowledge are scattered through a vast emptiness of ignorance, and everything depends upon how solid the individual specks of knowledge are, and on how powerfully linked and coordinated they are with one another.”

Knowledge and Decisions takes us on a tour through the vast emptiness of ignorance to show how dispersed knowledge forms the architecture of human institutions. Building on F.A. Hayek’s insights in “The Use of Knowledge in Society,” Sowell analyzes economic, political, and legal decisions in terms of their use or neglect of this knowledge. The book includes page after page of lapidary examples, from discussions of rent control, affirmative action, and intelligence tests to the reasons that people dislike “middlemen.”

Sowell also addresses American history over the past century. Because the United States is now a nation of employees (rather than self-employed farmers), many people do not bear the consequences of their decisions directly. With feedback from their decisions weakened, they tend to demand political changes that reduce others’ freedom and ultimately their own. And “experts,” who have incentives to ignore dispersed knowledge, “solve” problems by over-turning alternatives that people have found to be more valuable.

Sowell addresses other aspects of decision-making, such as constraints, trade-offs, and incentives. But knowledge is paramount, partly because few understand its importance. As this book achieves greater recognition, that understanding should grow. □

Ms. Shaw is a senior associate at PERC in Bozeman, Montana.

Peter J. Boettke:

Human Action: A Treatise on Economics
by Ludwig von Mises

Yale University Press, 1949; Contemporary Books, 1966; The Foundation for Economic Education, 1996

The most important work published since FEE's founding in 1946, in my opinion, is Ludwig von Mises' *Human Action: A Treatise on Economics*, published in 1949. *Human Action* is the English rewrite (not just translation) of Mises' 1940 German work *Nationalökonomie: Theorie des Handelns und Wirtschaftens*. This is Mises' magnum opus—combining the great contributions to economic science he made in *The Theory of Money and Credit* (1912), *Socialism* (1922), and *Epistemological Problems* (1933) into an integrated treatise on economics and social theory. F.A. Hayek described *Nationalökonomie* as having such “width of view and intellectual spaciousness” that it reminds one of the great works of the eighteenth-century philosophers rather than those of the modern specialists.

The publication of *Human Action* led to several important intellectual movements in the second half of this century—all of which possess an important claim to our attention. First, Mises' book brought Austrian economics to America more than any other work. The book directly influenced the research path of Murray Rothbard and Israel Kirzner—the leading scholars of modern Austrian economics—but it also brought the public policy wisdom of the Austrian version of neoclassical economics to American audiences as represented in the essays of Henry Hazlitt, Hans Sennholz, Percy Greaves, and others. Mises' great intellectual system more than any other became the inspiring vision behind the work of free-market intellectuals and scholars.

Second, Mises' book rallied the anti-Communist

conservative intellectual and political movement in the United States around a book that represented a direct challenge to Marx's works on a technical, philosophical, and polemical level. If the left had Marx, the right had—and has—Mises.

Third, Mises was one of the main intellectual inspirations behind the rebirth of classical political economy, and the unification of related disciplines through a common means of analysis—methodological individualism. This movement—seen in the work of James Buchanan and Gordon Tullock in political science, as well as James Coleman in sociology—is still developing better insights not only into the operation of economies, but to the social world in general. Mises' *Human Action* was the first systematic treatise to push the economic approach beyond market exchange into all realms of human action.

Future historians of the resurgence of classical liberalism in the later half of the twentieth century will have to accord Mises' great book its rightful place as the visionary treatise around which a movement rallied and grew and boldly faced off against Communism at a time when it was assumed that Communism had not only grabbed the higher moral ground but also the economic ground as well. Mises exposed the fallacies of Communism and socialism, as well as the contradictions of statism in general.

Mises' great work still inspires legions of young minds, and its finer points of analysis provide fodder for more mature minds to wrestle with and mull over again and again. It is a rare work. Many great books have been written by scholars and intellectuals since 1946, but none approaches the breadth, depth, and boldness of Mises' *Human Action*. □

Dr. Boettke teaches economics at New York University.

“I wish to express my congratulations, appreciation, and particularly my gratitude for FEE and its steadfast adherence to principles of freedom and individual responsibility. My father gave me a subscription to The Freeman in the 1950s and I have received it ever since.

May FEE long continue to exist and may all of its activities bear abundant fruit!”

*—Hermona C. Beardstee
Pipe Creek, Texas*

The Freeman, Honor Roll of Authors, 1956-1996

(Authors of historical importance whose works have been reprinted are listed in italics.)

A

Sidney Abelson
Paul L. Adams
Rodney Adams
Michael Adamson
Jonathan H. Adler
Victor Aguilar
James C. W. Ahiaokpor
Mark Ahlseen
Bjorn Ahlstrom
John Ahrens
Armen A. Alchian
Susan Alder
Samuel R. Aldrich
Holmes Alexander
Scott Alexander
Howard D. Alely
Ruth B. Alford
Alfred K. Allan
Candace Allen
William R. Allen
Alvaro C. Alsogaray
Wilfred Altman
Jorge E. Amador
Bruce N. Ames
Beverly K. Anderson
C. W. Anderson
Dagmar M. Anderson
Gary M. Anderson
Gordon T. Anderson
Henry Anderson
Martin Anderson
Maxwell Anderson
Paul Anderson
Robert G. Anderson
Sarah Anderson
Terry L. Anderson
William L. Anderson
Donald H. Andrews
Paul M. Angle
D. T. Armentano
Larry Arnhart
E. Barry Asmus
Francis H. Aspinwall
Jonathan Athens
John Attarian
Robert Awenius
Manuel F. Ayau
Ronald M. Ayers

B

Robert A. Baade
David L. Babson
Frederic S. Bacon, Jr.
John A. Baden
Neera Badhwar
Howard Baetjer Jr.
Dale G. Bails
Charles W. Baird
Jean L. Baker

Richard C. Baker
William L. Baker
Jayne B. Ball
Doug Bandow
Eric-Charles Banfield
Dean Banks
Richard Barbarick
Mitchell Bard
Melvin D. Barger
Ben Barker
Harry Elmer Barnes
Andrew E. Barniskis
Stephen G. Barone
Patrick Barrington
Bruce Bartlett
Jacques Barzun
Diane Carol Bast
Joseph Bast
Frederic Bastiat
Dupuy Bateman, Jr.
Robert Batemarco
Charles R. Batten
Peter T. Bauer
James R. Bauknecht
Thomas F. Bayard
William W. Bayes
Daniel A. Bazikian
Robert G. Bearce
Jes Beard
M. Robert Beasley
Dennis Bechara
Michael Becker
Dick Beeler
David Beers
E. Calvin Beisner
David T. Beito
Henry E. Belden
Montgomery Belgian
Bernard Iddings Bell
Albert R. Bellerue
Alberto Benegas Lynch, Jr.
Daniel Benjamin
Sir Ernest Benn
Bruce Benson
Ezra Taft Benson
Herbert Berger
Ronald J. Berkhimer
David Bernstein
Arnold Berwick
Ralph M. Besse
Margaret Bidinotto
Robert James Bidinotto
Ivan R. Bierly
W. Watts Biggers
Donald B. Billings
K. L. Billingsley
John G. Bills, Jr.
Charles Bilodeau
Herbert S. Bird
Edgar Bissantz
Kenneth A. Bisson
Scott W. Bixler
William Blackstone
James E. Blair
Robert Blake
Ernesto E. Blanco
Gordon B. Bleil
Walter Block
Roger M. Blough
Walter J. Blum
Patrick M. Boarman
David Boaz
Victor Bobb
Alan W. Bock
R. W. Boehm
Phil Boerner

Peter J. Boettke
Charles Boewe
Cecil E. Bohanon
Ben W. Bolch
Clint Bolick
Arch Booth
Michael Bordelon
Christy Borth
Grace Bosworth
Karoline Bota
Donald J. Boudreaux
Karol Boudreaux
Lemuel R. Boulware
James Bovard
Philip J. Bowers
William B. Boyd
Shawn A. Bozarth
Spruille Braden
Marceline Bradford
M. E. Bradford
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Berton Braley
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THE FREEMAN

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A Powerful Case for Free Trade

While Adam Smith presented the best-known practical case for free trade, the most powerful rhetorical case came from Henry George in his book Protection or Free Trade (1886). Here are some of the most memorable passages:

Protective tariffs are as much applications of force as are blockading squadrons, and their object is the same—to prevent trade. The difference between the two is that blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to prevent their own people from trading. What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war.

Can there be any greater misuse of language than to apply to commerce terms suggesting strife, and to talk of one nation invading, deluging, overwhelming or inundating another with goods? Goods! What are they but good things—things we are all glad to get?

It may be to the interest of a shopkeeper that the people of his neighborhood should be prohibited from buying from anyone but him, so that they must take such goods as he chooses to keep, at such prices as he chooses to charge, but who would contend this was to the general advantage? Broken limbs bring fees to surgeons, but would it profit a municipality to prohibit the removal of ice from sidewalks in order to encourage surgery? Yet it is in such ways that protective tariffs act. Economically, what is the difference between restricting the importation of iron to benefit iron-producers and restricting sanitary improvements to benefit undertakers?

Every tax that raises prices for the encouragement of one industry must operate

to discourage all other industries into which the products of that industry enter. Thus a duty that raises the price of lumber necessarily discourages the industries which make use of lumber, from those connected with the building of houses and ships to those engaged in the making of matches and wooden toothpicks; a duty that raises the price of iron discourages the innumerable industries into which iron enters; a duty that raises the price of salt discourages the dairyman and the fisherman; a duty that raises the price of sugar discourages the fruit-preserver, the maker of syrups and cordials, and so on. Thus it is evident that every additional industry protected lessens the encouragement of those already protected.

It is sometimes said that protection does not increase prices. It is sufficient answer to ask, how then can it encourage? To say that a protective duty encourages the home producer without raising prices, is to say that it encourages him without doing anything for him.

Men of different nations trade with each other for the same reason that men of the same nation do—because they find it profitable; because they thus obtain what they want with less labor than they otherwise could.

Trade is not invasion. It does not involve aggression on one side and resistance on the other, but mutual consent and gratification. There cannot be trade unless the parties to it agree, any more than there can be a quarrel unless the parties to it differ.

Trade, by permitting us to obtain each of

the things we need from the locality best fitted to its production, enables us to utilize the highest powers of nature in the production of them all.

If to prevent trade were to stimulate industry and promote prosperity, then the localities where he was most isolated would show the first advances of man. The natural protection to home industry afforded by rugged mountain-chains, by burning deserts, or by seas too wide and tempestuous for the frail bark of the early mariner, would have given us the first glimmerings of civilization and shown its most rapid growth. But, in fact, it is where trade could be best carried on that we find wealth first accumulating and civilization beginning. It is on accessible harbors, by navigable rivers and much traveled highways that we find cities arising and the arts and sciences developing.

Trade has ever been the extinguisher of war, the eradicator of prejudice, the diffuser of knowledge. It is by trade that useful seeds and animals, useful arts and inventions, have been carried over the world, and that men in one place have been enabled not only to obtain the products, but to profit by the observations, discoveries and inventions of men in other places. Wits are sharpened, languages enriched, habits and customs brought to the test of comparison and new ideas enkindled.

The most progressive peoples . . . have always been the peoples who came most in contact with and learned most from others.

—HENRY GEORGE
Protection or Free Trade

An Exclusive *Freeman* Interview:

Historian Paul Johnson on American Liberty

For friends of freedom, Paul Johnson is perhaps today's most beloved historian. He tells a dramatic story with moral passion. He gives readers tremendous pleasure as he celebrates liberty and denounces tyranny. "Paul Johnson," declared *Wall Street Journal* editor Robert Bartley, "is one of the premier wordsmiths of the English language." *The New Yorker* called him "a good writer and clear thinker." Even *Foreign Affairs*, pillar of the establishment, acknowledged his achievements: "A latter-day Mencken, Johnson is witty, gritty and compulsively readable."

Johnson's 28 books, including *The History of Christianity* (1976), *The History of the Jews* (1987), *The Intellectuals* (1988), and *The Birth of the Modern* (1991), have covered some of the biggest stories of all time.

Johnson is most famous for *Modern Times* (1983), the breath-taking epic of twentieth-century tyranny. Before that book, intellectuals commonly distinguished between bad "right-wing" totalitarianism (fascism and Nazism) and justifiable "left-wing" totalitarianism (socialism and Communism), whose crimes were overlooked. Johnson dared to denounce them all as evil. While he wasn't the first to do this, he had the greatest impact as he made one tyrant after another accountable for their savage killings.

Modern Times never sold fast enough to

hit a bestseller list, but word-of-mouth was fantastic. For example, *American Spectator*: "Modern Times is an extraordinary book." *Los Angeles Times*: "Johnson's insights are often brilliant and of value in their startling freshness." *Times Literary Supplement* (London): "powerful, lively, compelling and provocative." Translated into 20 languages, *Modern Times* went on to sell an astounding six million copies. Johnson issued a revised edition in 1991.

For decades, history has been the province of academics, but Johnson came up through journalism. Born in Barton, Lancashire, Johnson was educated at Stonyhurst, England's oldest Catholic boarding school, and at Magdalen College, Oxford. He worked as assistant editor of Paris-based *Realités* (1952-1955) and then the weekly *New Statesman* (1955-1970). He was editor during his last six years there.

Johnson emerged as a herald of liberty in the 1970s. "I had once thought liberty was divisible, that you could have very great personal liberty within a framework of substantial state control of the economy," he reflects, "but I don't mind saying I was quite wrong. The thing that finally convinced me was the issue of compulsory unionism." He made his conversion clear in *Enemies of Society* (1977), an extended attack on what he called the "fascist left."

It's easy to see why readers eagerly await Johnson's next book, a history of the Amer-



Paul Johnson

ican people. In October 1994 he provided a glimpse with three stirring lectures at Manhattan's elegant J. Pierpont Morgan Library. The place was packed. Among the celebrities present were financial wizard Theodore Forstmann and best-selling author Tom Wolfe. Johnson focused on the role of religion in America. Recordings of his lectures were snapped up around the world.

Johnson has quite a presence. He's 6 feet 1 inch tall, has a ruddy complexion, and a mane of champagne hair. He speaks with a commanding voice.

Johnson lives with his wife of nearly 40 years, Marigold Hunt, in Bayswater, London. They have three sons, a daughter, and five grandchildren.

There are some 10,000 volumes in his personal library. When researching a subject, he fills hundreds of notebooks with material. Then to help concentrate as much as possible, he writes in a ground-floor study about the size of a closet, surrounded by

reference books which are all within reach of his chair. He composes on an Olympia electric typewriter and logs his sources on an adjacent typewriter. "I write in the morning, because that's when my brain seems to work best," he says.

His study window overlooks a garden where he's building a studio for his painting. He avidly paints watercolors of landscapes, cathedrals, and castles—he has had two one-man shows in London. Once the studio is finished, he will turn to oils.

Recently *The Freeman* talked with Johnson about his latest work. He generously shared insights on American liberty and individualism.

The Freeman: The pages of a Manhattan phone book could easily pass for a phone book of Buenos Aires or a lot of other cities with English names, German names, Italian names, Jewish names, Spanish names, and so on. Yet breakthroughs for liberty occurred mainly in America.

Johnson: The majority of people who came to America in the seventeenth and eighteenth centuries were from the British Isles. They shared a common language, a common political tradition, and the common law. America benefited from a debate about liberty, which had gone on in England for some 150 years.

The Freeman: In your Morgan lectures, you talked about how religion contributed to American liberty.

Johnson: The ethical basis of the United States was a broad-based Protestantism.

This was the case even though not all the colonies were Protestant. Maryland was Catholic for a long time. Rhode Island was a non-denominational state, formed by people who broke away from the restrictive Protestantism of New England.

This Protestantism didn't base itself on narrow points of religious doctrine. The stress was on morals rather than doctrine. There was general agreement on how people ought to behave, subscribed to by Catholics and Jews who came to America.

The Freeman: How did religious freedom develop in America?

Johnson: The clergy had much less power than in Europe. This was true from the very beginning. American ministers could determine church membership, but that was about it. American churches were always managed by laymen. They didn't have the special privileges which were traditional in Europe. This is why European anti-clericalism never took root in America.

Religion became a series of voluntary movements, or awakenings as they were called, which had a profound impact on America's constitutional and social development. The first Great Awakening began in 1719 and continued for about a quarter-century. It created a ecumenical, American-type religious practice which affected all religious groups.

The Great Awakening was characterized by evangelical vigor. There was a tendency to downgrade the clergy. Little interest in liturgical correctness. Above all, an emphasis on individual spiritual experience. The key text was Revelations 21:5: "Behold, I make all things new."

The most famous of the Great Awakeners was Jonathan Edwards, who stressed reason and natural law as a guide for Christian conduct. He remarked that he read John Locke's *Essay Concerning Human Understanding* "with more pleasure than the most greedy miser finds when gathering up handfuls of silver and gold."

The Great Awakening was a necessary prelude to the American Revolution. Remember John Adams's famous lines that "The Revolution was effected before the War commenced. The Revolution was in the minds and hearts of the people and changed their religious sentiments of their duties and obligations."

The triumph of voluntarism in American religion led almost everybody to link Christian enthusiasm with political liberty.

The Freeman: How about the role of religion in abolishing slavery?

Johnson: There was a theology of abolition which was primarily a moral theology. In 1845, Edward Beecher published a series of articles on what he called the nation's

"organic sin" of slavery. These articles invested the abolitionist movement with a whole series of evangelical insights.

Uncle Tom's Cabin itself had a background in religion, especially moral theology. It was a self-improvement tract as well as a political tract.

Organized religions, however, remained largely silent on the slavery issue before the Civil War. Catholics, Episcopalians, and Lutherans avoided public debate which would split their ranks. Presbyterian, Wesleyan, and Baptist church leaders tried but were less successful in avoiding debate about slavery.

After the outbreak of the Civil War, religious leaders quoted Scripture to support their respective sides. Northern clergymen portrayed the conflict as a holy war. Southern clergymen did as much as they could to prolong the futile struggle.

The Freeman: What was the impact of immigration on liberty?

Johnson: The more people came to America, the greater the diversity of views, including religious views.

Catholics, Jews, and myriad Protestant sects wanted their views tolerated, free from persecution.

It became harder for zealots to impose their views on a burgeoning, diverse population.

Roger Williams easily broke away from Puritan orthodoxy and founded his own free colony—Rhode Island.

By about 1700, the Puritans had lost their religious monopoly on New England.

So the increasing number and diversity of people helped protect against the possibility that any one group would gain political control over others.

The Freeman: Would you say immigration generally limited the power of elites?

Johnson: Yes, large numbers of immigrants started businesses and grew rich. They challenged dominant firms. They gained political influence. Both markets and politics became more competitive.

In the process, immigrants helped America gain the economic means and foreign connections which helped achieve Independen-

dence. It's hard to imagine America winning the Revolutionary War if it had been a poor, unsophisticated backwater.

***The Freeman:* How has immigration affected American culture?**

Johnson: Immigrants contributed tremendous dynamism.

People were transformed by leaving a settled society where they had a place. They were energized as they entered a new world. Anything was possible. The immigration experience stimulated Protestants and Catholics alike in America. I think one reason Jews have been dynamic is that they were always on the move, having to establish themselves in new places. I see the same stimulus at work today on Asians in Britain and America.

Many visitors commented on the dynamism of American society, and I think a great deal of it has to do with the number of new people struggling upward.

***The Freeman:* Why were our Founding Fathers so successful in securing a reasonably free society when similar efforts elsewhere failed?**

Johnson: A major reason was that proposed political changes were subject to public debate and discussion.

During the 1770s and 1780s, America wasn't yet a democracy. Male suffrage was limited. Still, a lot of males could vote.

Equally important, the Founding Fathers were imbued with the democratic spirit. They believed every man had a right to voice his views. Debate took place in public meetings, legislatures and in the growing media.

There was a proliferation of daily and weekly newspapers. When a new town was founded, often the first building erected was for printing presses. Newspapers circulated throughout the colonies.

America was fortunate that there was an outstanding group of people who shaped the debate and the Constitution itself. One would have to go a long way in history to find a group as competent, cosmopolitan, and skillful with the language.

The most important documents were framed in eloquent language which could be grasped by ordinary people. Both the

Declaration of Independence and the Constitution were beautifully written. Generations of schoolchildren learned them. As a literary document, the U.S. Constitution is infinitely superior to any of the 12 constitutions France has had since then.

Because most people could appreciate the Constitution, it became theirs. They supported it, worked with it, and it has endured, contributing to remarkable political stability. In other countries, there was a lack of support for constitutions which were a tangle of bureaucratic jargon.

***The Freeman:* Why was a separation of powers successfully established in the United States but not in France where the Revolution turned into the Reign of Terror?**

Johnson: Americans didn't try to create something out of nothing.

The U.S. Constitution evolved from the experience of 13 colonies. This, experience, in turn, evolved from British experience going back to Magna Carta (1215). The Founding Fathers, especially James Madison, analyzed many other constitutional arrangements as well. A separation of powers was present in the most successful previous constitutions, and the Founding Fathers were not only determined that it would be present in their constitution, but they would push the principle farther than it had ever gone before.

Moreover, the Founding Fathers were loyal to their respective states, and they weren't about to embrace a constitution which made the states mere precincts of the federal government. That's why the resulting Constitution divided power between states and federal government as well as among branches of the federal government.

By contrast, during their Revolution the French cut themselves off from past experience. They changed the names of the months. They changed reckoning of years. They threw out religion. In their hurry to push political change, they established even more centralization than there had been under the monarchy. Political change occurred not through open debate, as in America, but through violence. It escalated into the Terror, followed by Napoleon's

authoritarian regime and more than a decade of war which led to even more centralization.

The Freeman: Some observers have remarked that a major accomplishment of the Constitution was to establish perhaps the world's largest free trade area. What do you think?

Johnson: No question about it, establishing a free trade area was an enormously important stimulus for prosperity in America. This began decades before the high-tariff era following the Civil War.

Europe was a lot of little markets separated by border barriers. People who travelled across France had to stop and pay local taxes frequently. The situation was even worse in Germany and Italy which consisted of many small states. There were toll collectors all along major roads as well as rivers like the Rhine. These taxes were a major obstacle to enterprise.

One reason the Industrial Revolution began in Britain was that it formed a relatively large free trade area—England, Wales, Scotland, and Ireland.

Since America was a larger territory, the potential was much greater, but it took a while to develop. Initially, the colonies traded mainly with Britain. Then came immigrants who helped settle remote regions. Roads and canals helped connect commercial centers. The economy really began to grow as people traded with each other, and America became a vast free market.

The Freeman: Why did individualism develop more in America than anywhere else?

Johnson: Probably because the way America created and sustained the spirit of entrepreneurial initiative. I don't think you can separate the politics from the economics of this.

America is unique in being a large country where anyone who has an idea can try it out and encounter the fewest obstacles from government and society. This is still true despite the explosion of government regulations during the twentieth century. Entrepreneurs from overseas recognize the comparatively favorable business climate right away.

Individualism is expressed through the political system, too. America is among the few countries where the chief executive is directly elected by everyone.

I believe people elsewhere value individualism, but they don't get much opportunity to express it. For instance, in Britain, we have a Parliamentary system and cabinet government. You vote for a party, and if it gets the support of a majority, it picks the Prime Minister and cabinet.

The Freeman: Many people imagined that government power could be made to serve the general interest, yet again and again we've seen government power captured by politically connected special interests who are better off than most of us. Any comment?

Johnson: Yes, every imaginable point of view has a lobbying presence in Washington, D.C. You have traditional pressure groups like big airlines, fruit growers, or agricultural workers. In addition, there's been a proliferation of lobbyists representing those interested in child care, single mothers, mental health, and so forth.

Many laws—like tax increases—are enacted although polls might suggest most people are against them. Conversely, Congress kills measures, such as term limits, despite strong popular support.

All this has had an alarming impact on government finances. In the past, following a crisis like a war or depression, Washington gradually paid down its debt. President Andrew Jackson actually wiped it out. But around 1975, the national debt began to rise even though there wasn't a war, depression, or other emergency. It rose because powerful lobbyists generated irresistible pressures to spend more money. The spending and debt continue to spin out of control.

The Freeman: Why does American individualism seem to have survived despite the enormous growth of government power during the twentieth century?

Johnson: Well, that is quite remarkable. Under Herbert Hoover, who had overseen some dramatic expansion of government during World War I, Washington responded

to the Great Depression by again expanding its power. This, of course, accelerated under Franklin Roosevelt. It was fashionable for New Dealers to talk about Soviet-type economic planning. Government power expanded even more dramatically during the Second World War.

Yet America never went for statism as much as other countries. Maybe because the spirit of individualism somehow endured, you didn't have the nationalizations which swept through Britain, Europe, and Asia after the war. On the contrary, many wartime bureaucracies were dismantled. There was some breathing room for entrepreneurs, and they created the postwar boom which opened new markets, developed new technologies, and in many ways helped renew the spirit of individualism.

Adam Smith remarked that there is a lot of ruin in a nation. People can absorb frightening abuse from government and bounce back if they're able to preserve at least a little freedom.

The Freeman: What do you think it takes to bring government under control?

Johnson: Enormous strength of political will.

Often this develops only in a severe economic crisis which marks the dead end of statist policies. For example, an economic crisis made cuts in government spending, privatization of government operations, and the repeal of suffocating regulations politically possible in Argentina, Australia, Chile, Mexico, Spain, Turkey, and other countries during the 1980s. An economic crisis set the

stage for Margaret Thatcher in Britain and Ronald Reagan in America.

A model of freedom is tremendously important. Reagan drew inspiration from Thatcher who had become Prime Minister about a year before he was elected President, and she, in turn, could point to his successes as she charted the liberalization of Britain.

Although Hong Kong is tiny, its phenomenal success has had an electrifying impact throughout Asia. People could get on an airplane and see for themselves how well free markets work.

New Zealand has swept away its welfare state—taxes, subsidies, everything—and embraced American-style individualism. Now they have one of the world's fastest growing economies.

The Freeman: Are you pessimistic or optimistic about the prospects for liberty in America?

Johnson: During the past couple decades, more people have become aware of the government problem. There's a sense of danger throughout society. Both main parties are aware of it—to the extent that President Clinton, in his last State of the Union address, found it politically expedient to declare that the era of big government was over. The media seem to be more skeptical about government. It's a heartening advance that people are no longer shutting their eyes to the problem. I expect people will begin to tackle it in the early years of the twenty-first century.

The Freeman: Thanks very much. □



How Walter Turnbull Inspires Self-Help at the Boys Choir of Harlem

by Marisa Manley

The Boys Choir of Harlem helps renew the American dream. The boys are poor. They're menaced by gangs and tempted by drugs. Three-quarters come from broken homes. Reportedly over 70 percent of neighborhood teenagers drop out of high school, yet 98 percent of Boys Choir of Harlem members graduate from college. The more than 1,000 alumni have gone on to successful careers as entrepreneurs, ministers, teachers, and, naturally, musicians.

This seeming miracle began as the vision of Walter Turnbull, 51, a burly, bespectacled man who founded the Boys Choir of Harlem more than a quarter-century ago and remains its guiding spirit today. "I simply wanted to share the joy of music with African-American children," he explains. "It has the kind of power to lift people above any particular circumstance and inspire the heart. Music is very magical, able to transform children with no more than lint in their pockets and honey in their throats into grand performers on the world stage."

Marisa Manley is president of Commercial Tenant Real Estate Representation Ltd., Manhattan. Her articles have appeared in Harvard Business Review, Inc., and the Wall Street Journal.

Turnbull's boys delight audiences with a cosmopolitan repertoire ranging from songs by such classical composers as Bach, Brahms, Handel, Haydn, and Mozart to works of modern classicists like Britten, jazz immortals like Joplin, Gershwin, and Ellington, plus pop tunes and spirituals. The Boys Choir of Harlem gives about 100 concerts every year.

They have performed in concert halls around the world—some 20 countries all together. They appeared on Broadway, in the White House, at London's Albert Hall, and Tokyo's Bukodan. They performed on soundtracks for popular movies like *Glory* (1989), and they heralded the grand opening of the Disney movie *Pocahontas* (1995). They have performed as background vocalists and featured artists on a variety of albums, including *Pavarotti in Central Park* and *Michael Crawford Performs Andrew Lloyd Webber*, among others. Last year, the Boys Choir of Harlem produced their first solo album, *A Song of Hope*.

As CBS-TV's *60 Minutes* filmed a segment on the Boys Choir of Harlem, correspondent Morley Safer asked Turnbull, "What makes your kids different from the other kids that we read about, the ones that go out and assault people and use drugs?"

Turnbull's reply: "My kids come from the same kinds of families. The difference is that there is somebody willing to do something for them, and they are willing to do something. There is an opportunity."

Turnbull added later, "We instill in these kids the belief that they can be the best at any thing they choose. Music lifts every voice, not just children who can sing and dance well but also those who are not blessed with natural talent yet still have a dream of becoming somebody." In 1986, President Ronald Reagan honored the Boys Choir of Harlem with the Presidential Volunteer Action Award.

Turnbull grew up in Greenville, Mississippi, back when blacks were discouraged from making much of themselves. He credits his mother, Lena Green, for spurring him on. He loved music and took piano lessons for 25 cents apiece. He joined the local high school choir which was led by Herticene Jones, a demanding taskmaster. She insisted that everyone show up on time, concentrate, and put in as much practice as needed to achieve perfection. Turnbull remembers that her choirs topped the state competitions for years.

At Tougaloo College, near Jackson, Mississippi, Turnbull joined the choir directed by an elegant man named Ariel Lovelace who inspired students to fulfill their potential. Lovelace had a master's degree in music and experience as music director at many institutions, so he helped his singers develop polish. He provided instruction in everything required for a good presentation, including table manners. "He taught me how to be a man of substance, a man of character, and yet be a man capable of showing his vulnerabilities," Turnbull recalls in his recent book, *Lift Every Voice*.

Turnbull set his sights on becoming an operatic tenor, and after graduation he won a scholarship at the Manhattan School of Music. To prepare for opera, he took diction classes in English, French, German, Italian, and Russian. He performed with the New York Philharmonic, the Philadelphia Symphony Orchestra, the Houston Grand Opera, and the Alvin Ailey Dance



Walter Turnbull

Theatre. His credits include Bizet's *Carmen*, Mozart's *Die Zauberflöte*, Puccini's *Turandot*, Verdi's *La Traviata*, and the Broadway production of Joplin's *Treemonisha*.

He earned money from various singing jobs, and at the Southport, Connecticut, Trinity Episcopal Church, he heard the sweet sounds of a boys choir. This got him thinking about the possibility of starting one where he worshiped, Ephesus Seventh-Day Adventist Church in Harlem.

He began recruiting among families at that church and held the first rehearsal one Saturday afternoon in 1968. Gradually the choir expanded and handled more challenging classical music. He researched boys choirs around the world to discover all the possibilities. Meanwhile, he finished his master's degree at the Manhattan School of Music (a doctorate came later) and earned money as a non-union music teacher at Harlem Junior High School 99.

But soon he found he couldn't continue expanding the choir from talent available at Ephesus, and church members resisted the idea of drawing choir members from elsewhere. Turnbull asked around for advice on how to form a nonprofit organization, and by November 1974 the Boys Choir of Harlem was incorporated. He was off on his own.

A friend let him rehearse at the Garvey Center. "The piano was out of tune, and

many of the keys didn't work," Turnbull says in *Lift Every Voice*. "The building was cold, and we often rehearsed bundled in our coats and scarves. Even though we didn't have much, our ambitions were high. We never canceled a rehearsal."

A Magnificent Obsession

The Boys Choir of Harlem became a magnificent obsession. Sometimes Turnbull drove a taxicab to pay bills. He did errands in his beat-up Chevy Nova whose front seat was propped up with a two-by-four. His brother Horace helped by leaving groceries in his refrigerator. Turnbull emphasizes he wasn't a one-man band. "The staff has sometimes gone without a paycheck. The choir exists because many people made sacrifices."

Somehow Turnbull raised money, recruited members, endlessly rehearsed, and booked performances. Like his unforgettable teachers Heticene Jones and Ariel Lovelace, Turnbull recognized that to succeed he must do far more than cultivate voices. He had to help his singers grow up right.

"The problem is acute in many African-American communities," he notes, "where the staggering statistics of teenage pregnancies, black-on-black violence, and incarceration rates demonstrate all too clearly the need for children to know the meaning of words such as respect, honesty, integrity, discipline, hard work, and love."

The first lessons involve punctuality. Turnbull requires that those who don't show up on time present their excuses to everyone else, which often provokes snickers. "Public humiliation is a great motivator," he observes, "and nothing is too small to launch into a larger lesson on life. If a child asks to be excused to use the bathroom only ten minutes after rehearsal had begun, I tell the boy and the class about the word 'preparation' and how they have to plan things in their lives."

Turnbull insists that children be honest. "We are honest with them and expect them to be honest with us," he says. "If we see

them doing something wrong or antisocial, we stop and talk with them about their behavior. It's more than telling them that they were doing something unacceptable. We tell them why their behavior was wrong and what the consequences would be if they continued with that behavior."

Turnbull teaches self-discipline. He works hard to increase their attention spans while they stand erect. "Almost immediately," he explains, "we are socializing the children, helping them eliminate their youthful tendencies to slouch and lean. That's part of the choir's magical abilities: it's as if they're learning to sing and hold their heads proudly upright at the same time."

Turnbull believes that if a child is lagging despite sincere effort, the teacher's approach must be wrong. "Instead of simply saying our children have short attention spans, our philosophy is to make their attention spans longer. They can't cope in mainstream society otherwise. By its very nature, music helps ease the work of being disciplined."

Turnbull shows how to resolve conflicts amicably. "Fighting is not tolerated here," he says. "It represents a failure to solve conflicts without violence, one of the principal reasons black males are murdered on the streets in phenomenal numbers. Conflict resolution and learning how to deal with disappointment are key elements to socialization."

Turnbull encourages everyone to develop personal goals. Starting in the fourth grade, he talks about the value of a college education. He has choir alumni—people from Harlem neighborhoods—return and show why it's better to cultivate their minds rather than hang out with hoodlums.

Encouraging Success

Turnbull covers practical skills like how to dress. "The importance of dress is not to be underestimated," he says. "I recognize children's need to be fashionably hip, but I want them to understand they can't go out and get jobs wearing those types of fashions.



PHOTO: PETER CUNNINGHAM, COURTESY MENDOLA, LTD.

The Boys Choir of Harlem

The modern-style imitation of inmates is popular on the streets but not here. We don't allow our students to wear hats inside the building. We require coats and ties. Personal grooming is important. We're encouraging success."

At one time or another, it seems Turnbull and his staff have done just about everything to help keep children in the program. They have had to provide family counseling, buy them groceries, new shoes, and winter coats. The Reverend Sherwin Callwood recalled one occasion when

"Mr. Turnbull took the boys down to the basement and sat them down with a knife, spoon, and fork and taught how to use these properly."

Singer Rodney Wiggins added that "When we went to France, Mr. Turnbull told us people wouldn't look at our singing as much as our behavior. They think all black kids from Harlem are hoodlums."

Apparently their hard work paid off. For example, the reviewer of *Classique Paris* raved about their "extraordinary music."

Turnbull sees again and again how clas-

sical music can help change people's lives. "For many of these children, classical music is new and exciting. Most of the children do not come here with a fear of learning this music, widely considered to be the domain of the elite. They become more interested when they see me and our conductors perform and talk enthusiastically about the great works of Western civilization. It's not that these children can't appreciate the music: they have not been exposed to the works of the masters, composers such as Haydn, Schubert, and Bruckner, many of whom were boy choristers themselves. Enthusiasm is infectious.

"Our children gain a certain sophistication as a result of their learning about different languages, different countries, different types of people and cultures," Turnbull continues. "As the boys get older and master the basic techniques, we spend time explaining the meanings of different works to further prepare them for performances.

"Music is for the soul, nurturing the heart and challenging the brain. We have used it as a vehicle to provide children with a classical education in what is truly important: developing the character. That is not to downplay our primary goal of becoming a world-class performing arts organization. Both work hand-in-hand here, one integral to the other."

The Choir Academy of Harlem

As for other subjects, Turnbull found that his staff had to spend considerable time tutoring the children, because they weren't learning at government schools. In 1987, he decided he had to do something. He started the Choir Academy of Harlem. It concentrates on the much-neglected fundamentals

of English, science, math, history, literature, and foreign languages. There are now some 3,000 applications every year for 418 places—so much for the notion that inner-city parents don't care about good education. The Academy, which admits 118 girls as well as 300 boys, occupies a part of a former government school on Madison Avenue at 127th Street. Girls compete for about 100 positions in the girls choir and 35 positions in their performing choir which travels throughout the region. Similarly, boys compete for the roughly 100 positions in the boys choir, of which around 35 are in the famous performing choir.

Making all this happen is tough. "People see the Boys Choir of Harlem on TV all the time, which sort of implies that everything is okay," says Turnbull. "But in fact, we struggle financially from day to day."

What do the kids say about their experience? Take Allen Pinkney: "I saw how the staff tried to help us better ourselves. I never really understood why Dr. Turnbull would scream and yell at us. At times I thought he hated us, but as time went on I began to see he cared, because if he didn't care he wouldn't stay on us."

Alex Ortiz: "The choir taught me life is what you make it."

Keron Nixon: "If it wasn't for the choir I just might be some little hardheaded kid running the streets. The choir has taught me that in order to be a real man, you have to have discipline, manners."

Tyree Marcus: "The choir has taught me about honesty and courage, meaning that you stand up for doing the right things instead of the wrong ones."

Perhaps Jimmie Kimbrough put it best: "Turnbull is always talking about reaching the next level, even when you feel like you can't get any better." □

Why Our Company Needs Immigrants

by Michael C. Maibach

There's more and more talk about restricting legal immigration, but this could be a disaster for America. No one country has a monopoly on brains. If we are to remain competitive, we must be free to choose among the best people available, wherever they might come from.

Our industry, microelectronics, is astonishingly competitive. Product performance doubles about every 18 months, while product prices decline as much as 30 percent annually. If the auto industry developed like microelectronics, you'd soon see a Mercedes that could go 50,000 miles per hour and cost 25 cents!

Our industry is competitive because customers demand more computing power for less money. As they discover more ways to increase productivity and expand their capabilities with microelectronics technology, they shop around for the best performance. A company either supplies it or sees customers go to others who can better serve their needs.

Let me give you an idea of the astonishing complexity such technology involves. Our first transistor, the Intel 4004, which became available in 1971, had 2,300 transistors. That was mind-boggling when you consider that simple transistor radios were a recent development. Today, our Pentium Pro chip

has five million transistors—the equivalent of five million vacuum tubes. Creating it was like designing New York City from scratch so that millions of people get to work within minutes, and no one bumps into anyone else. And such a product in terms of computing power—millions of instructions per second (MIPs)—must be delivered for less money. Back in 1979, the cost of a MIP of computing power was \$1,080, but now it's just \$5.

Our company is on the leading edge of computer technology thanks in no small measure to immigrant talent. Our most famous immigrant is Andrew S. Grove who arrived at the Brooklyn Naval Yard in 1957 after escaping from Communist Hungary. He didn't seem very promising, with just the clothes on his back and about \$20. Relatives took him in. He enrolled as a second-year engineering student at City College of New York. Six years later, he earned a Ph.D. in chemical engineering at the University of California and got a job with Fairchild Semiconductor. Eleven years after arriving as a poor immigrant, Dr. Grove joined Dr. Robert Noyce of Iowa and Dr. Gordon Moore of California to start Intel. Today Dr. Grove is Intel's President and Chief Executive Officer.

Immigrants worked hand-in-hand with American-born people to achieve one technological breakthrough after another at Intel. Jean Hourni, from Switzerland, de-

Mr. Maibach is a vice president of Intel Corporation.



Immigrants made key contributions to the development of this thumbnail-size Pentium Pro microprocessor, which contains an incredible five million transistors. It gives personal computers the power of a high-priced office work station—for perhaps two-thirds less money.

veloped the planar process. This put transistors on a flat surface, the first step toward miniaturization. Dov Frohman, from Israel, invented the electronic programmable read-only memory. Frederico Faggin, from Italy, was co-inventor of silicon gate technology and the first microprocessor. Mayotoshi Shima, from Japan, designed the 8086 microprocessor which launched our super-fast Pentium technology. Recently, Ryan Manepally of India co-developed our new Pro Share product which handles inexpensive teleconferencing over your personal computer.

Intel needs immigrants despite spending a lot of money on education and training, most of which goes to native-born people. The Intel Foundation contributes \$23 million annually for scholarships, grants, teacher training, curriculum development, and programs from kindergarten through

university which focus on math, science, and engineering. Moreover, Intel spends \$4.5 million annually on tuition reimbursement and \$120 million annually on internal training for employees.

Today, over half of Intel's sales occur outside the United States. We're a major manufacturer with 75 percent of our plants in the United States—only Boeing exports a higher percentage of world-wide production from our shores. Intel's microprocessor architecture is used by 80 percent of the world's computers.

Intel performs 90 percent of its research and development in America. But if immigration were curtailed, we would either have to transfer more of our operations overseas or see talented people and business go to overseas competitors. In this competitive industry, a six-month delay introducing a new product can easily cost us \$1 billion.

A Vital Part of the Technological Labor Force

Immigrants are vital for many other companies besides Intel. Immigrants started or currently lead Apple, AST, Atmel, Borland, Compaq, Computer Associates, LSI Logic, Sun Microsystems, 3Com, Wyse Technology, and Xicor, among others. The designer of the "hot" Internet software called Java is Canadian James Gosling. About one-third of Silicon Valley engineers are foreign-born. About one-third of the engineers at IBM's Yorktown Heights Lab and at AT&T's Bell Labs are foreign-born. Microsoft depends on foreign-born individuals to translate its software into 30 languages for sale in over 100 countries.

Immigrants play a key role at high technology centers throughout America—including the "Silicon Desert" in Arizona, the "Rio Grande High-Tech Corridor" in New Mexico, the "Silicon Prairie" in Texas, the "Silicon Forest" in Oregon, and Route 128 in Massachusetts.

Today's immigrants might not come here with much money, they might look different and speak strange languages, but their entrepreneurial spirit and desire to achieve is 100 percent American. Foreign-born college undergraduates are twice as likely to go on to earn a Ph.D. as native-born undergraduates. Over 40 percent of engineering and physics graduate students at American universities are foreign-born. About a third of America's Nobel Prize winners have been, too.

None of this is new. American industry has long thrived on immigrant talent.

Frenchman E.I. DuPont helped develop the American chemical industry. Scotsman Andrew Carnegie introduced new technologies to dramatically cut the cost of making steel. The Italian A.P. Giannini started Bank of America. Jewish immigrants created great Hollywood studios like Metro-Goldwyn-Mayer. German immigrants introduced all kinds of technology as they built companies like Bausch and Lomb, Weyerhaeuser, Chrysler, Steinway, Wurlitzer, Hershey, Heinz, and Anheuser-Busch. Unskilled Chinese and Japanese immigrants performed the difficult, dangerous work of building American railroads. Hispanic immigrants have started tens of thousands of small business enterprises. Immigrants helped develop American nuclear and missile technology. Immigrants helped land an American on the moon.

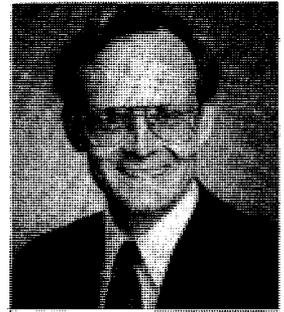
Far from being a sign of weakness, as some opponents of immigration claim, the presence of so many immigrants affirms America's enduring strength. For thousands of years, people have migrated to places where they could be free. A locale doesn't need to have natural resources, money, or a large population to prosper; as long as it offers freedom, it will attract everything. Witness the freedom which turned the ocean bottom into Holland, mudflats into Venice, and barren islands into booming Singapore and Hong Kong.

Our company is better, our industry is more competitive, and our nation is more prosperous because of immigrants. America remains a special place where all kinds of people are free to prosper peacefully together. □

Promoting Free Trade

"It appears to me that a moral and even a religious spirit may be infused into the topic [free trade], and if agitated in the same manner that the question of slavery has been, it will be irresistible."

Richard Cobden, October 5, 1838



Lessons for Welfare Reformers

Government welfare programs are on the intellectual chopping block, as well they should be. Reams of evidence, reflecting the destruction of the real lives of real people, point to a decisive verdict: the welfare state is a costly failure.

Moreover, reformers are right to call for a revival of *private* social welfare initiatives. When private individuals resolve to help the needy, recipients get something different from a government welfare check and the demoralizing dependency that comes with it. They get the one-on-one mentoring, spiritual guidance, character training, or other forms of personal attention so necessary to turn most troubled lives around. Ridding ourselves of the harmful pathologies spawned by the welfare state means trusting once again to people to help people from the goodness of their caring hearts.

Getting to a situation of privatized welfare is not going to be easy or riskless. "Society owes me a living" is a hardened sentiment in many corners of America, requiring a fundamental change in thinking and behavior. New private organizations are needed to help clean up the mess that government welfare programs have created, but many overtaxed Americans feel they have already given all they can afford.

In the national discussion about ending

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government welfare, one danger looms large but isn't getting the attention it deserves—the danger that private groups may themselves become "welfare recipients" at the expense of their freedom and effectiveness. Some reformers are actually calling for local, state, and federal governments to "end" welfare by directly subsidizing or contracting with private groups.

Some charities are already on the dole and the experience teaches important lessons for today's debate. The United Cerebral Palsy Association gets 80 percent of its funding from the federal government. Sixty-five percent of the budget of Catholic Charities is appropriated in Congress. Not surprisingly, these groups lobby for the status quo, spend money more wastefully than if they raised it themselves, and are buffeted by the winds of political pressure.

Kimberly Dennis, executive director of the Philanthropy Roundtable, makes this point when she says, "Government support changes charities' incentives, giving them reasons to keep caseloads up instead of getting them down by turning people's lives around. It distorts their missions. It turns lean, cost-effective organizations into bloated bureaucracies and dilutes their spiritual or religious message." Those charities that become dependent upon government, says Dennis, "no longer represent a way out of welfare." (See "Why Charities Can't Replace Government," *USA Today*, March 5, 1996.)

Two cases from Detroit dramatize the

danger of dependence upon government funding. One involves the work of Cass Community United Methodist Church and the other involves the nation's best known charity, the Salvation Army.

Cass Community serves one of the most blighted neighborhoods in the country, full of drug addicts, prostitutes, thieves, and homeless drifters. The church runs emergency food and clothing distribution programs, a senior center, a homeless shelter, a medical clinic, and programs for the disabled. But because it receives a large amount of funding from government agencies, it spends a tidy sum on bureaucratic functions.

For instance, the church is compelled to keep the public money in 14 separate checkbooks. Each program that receives public funds has a different reporting schedule with a myriad of forms to fill out. "We are subjected to a total of 40 audits each year," says the frustrated pastor.

For its noble efforts to house the homeless, the Salvation Army recently was rewarded with a new gaggle of guidelines from the Detroit city council. The council felt it had the authority in part because the Army is collecting \$10 per shelter resident per day from the taxpayers of Michigan. Among other things, the city now requires that

- all staffers at the shelters be trained in resident complaint and grievance procedures and the special needs of the homeless;

- ages of the homeless must be ascertained, with special requirements for minors, including the requirement that homeless shelter staff ensure that all school-age minor residents are enrolled in, and have the opportunity to attend school. Operators of homeless shelters must also "make every effort" to provide minor residents with recreational activities.

- all meal menus must be approved by a dietitian registered with the American Dietetic Association.

For any violation of these rules, the ordinance prescribes fines of up to \$500 and up to 90 days in jail. According to the Army's Len Krugel, some shelters in the city have already closed because they couldn't afford the added expense, which means that some homeless people are now spending nights in abandoned and unheated buildings instead of on warm beds. "All these requirements cost money, and our budget is \$10 a day per person," says Krugel. The lesson here? You take the money, you take your chances.

Under founder William Booth in the last century, and for most of this century as well, the Salvation Army was concerned with giving aid solely to present a spiritual message to the urban poor. Its funding was entirely private. Can the organization's founding purpose and core mission continue untainted as public funds are, figuratively speaking, tossed into those red kettles?

Kimberly Dennis reports that nationally 15 percent of the Salvation Army's revenues now come from government sources. Should it be a surprise, then, that in those areas where the Army uses public funds, it no longer requires church attendance as a condition of its assistance? For many of those the programs are supposed to help, this means *mission compromised, not accomplished*.

True welfare reform would make wards of the state of neither individuals nor charitable organizations. In the drive to rid society of destructive government programs, let us not be blind to the painful lessons that dependence upon government has already taught us. □

A Speculator Talks About Free Markets

by Victor Niederhoffer

French Finance Minister Michel Sapin recalled that during the French Revolution, speculators were beheaded. He spoke approvingly, since he blamed his government's recent financial troubles on speculators.

He was talking about me, among others, although like most politicians he didn't seem to know what speculators actually do. Specializing in stocks, bonds, and currencies, I help balance supply and demand by selling when prices are too high and buying when prices are too low. I help users and suppliers of goods discover the right price, given all the relevant factors present, past, and future that are likely to affect it. The price provides a key signal telling market participants how urgently a product is desired, how scarce it is, which resources should be dedicated to its production.

I don't offer these vital services out of benevolence. I speculate because markets enable me to enjoy the dignity of productive achievement within a venue of respectability, compared with a casino or racetrack.

Many people used to think free markets led to monopolies which could only be

curbed with antitrust laws, but the truth is that free markets humble the mightiest among us. History is littered with great names who tried and failed to dominate markets.

Look what happened to Metallgesellschaft (MG), a pillar of corporate Germany. It was a conglomerate which had over 250 metallurgical, mining, trading, and engineering firms. It employed around 65,000 workers. It was the 14th largest firm in Germany, among the 30 prestigious blue-chip stocks on the DAX, Germany's equivalent of the Dow Jones Industrials.

In 1991, MG's New York oil-trading operation implemented a strategy developed by theoreticians at the financially astute House of Rothschild. The strategy, which was supposed to make \$10 million a month, involved covering long-term commitments for delivering oil with supposedly cheaper short-term futures contracts. The contracts represented about 150 million barrels of crude oil—\$2.8 billion worth—purchased primarily on the New York Mercantile Exchange. Nobody seemed particularly worried about the risk that the price MG would pay for short-term futures contracts might rise above the price MG would receive from making long-term deliveries.

Well, MG didn't trade in a vacuum. Other market participants adapted their trading to MG's practice of routinely rolling over all those short-term futures contracts, and

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short-term prices rose above the price of the company's long-term commitments. It lost money on every delivery. Instead of making \$10 million a month as predicted by the theoretical model, MG wound up losing a reported \$50 million a month. In 1993, these losses hit \$1.3 billion, and 120 banks had to work out a \$1.95 billion rescue package. Top executives were fired. The company started selling businesses as fast as it could to raise cash, and thousands of people around the world lost their jobs.

Big Central Banks, Bigger Free Markets

Central banks are the biggest players in world financial markets, and they certainly have an impact while they're trading, but they can't trade all the time. As soon as they finish a transaction, underlying market trends tend to continue.

Again and again, central banks lose tremendous sums trying to buck free markets. Look what happened at Bank Negara, the Central Bank of Malaysia. They had a huge trading facility with direct phone lines to at least 30 major currency dealers around the world. Reportedly Negara traders, acting with military precision, called dealers simultaneously and hit each with perhaps a \$20 million trade. Negara injected something like \$1 billion into the market by the time they were through. News of what they were doing went out over the financial news wires.

Big though Negara was, free markets were bigger. The bank lost \$4 billion in 1992, mainly by betting that the British pound would rise. They lost another \$5 billion in 1993, first by betting that the Japanese yen would go down (it went up), and then by betting it would go up (it went down).

Markets are efficient. They respond to news incredibly fast. For example, on Wednesday, January 9, 1991, I had a long position in Treasury bond and Standard & Poors 500 futures contracts, a short position in crude oil futures. Each position was up 50 percent on my margin. Secretary of State James Baker had scheduled a meeting with

Iraqi foreign minister Tariq Aziz. The meeting had already lasted eight hours. I figured they must be finalizing an agreement. After all, considerable progress had already been made on the terms of Iraq's withdrawal from Kuwait. Surely neither party would want a showdown.

At 2:30 P.M., Secretary of State Baker called a press conference. "Regrettably," he began—and that one word set off a stampede of reporters for the telephones. No settlement had been reached. Within two minutes, stocks plummeted 80 points, bonds were down 1½ points, and oil was up \$3.00 a barrel. That one word from Baker was good for a \$3 million swing in my equity.

Ahead of the News

Frequently, markets signal something important is happening well before reporters get the story. For instance, on Thursday, February 10, 1983, I established a short position in gold because it tended to decline about \$3.00 per ounce between Fridays and Mondays.

Suddenly, around 1:00 P.M. on Friday, gold jumped \$5.00 per ounce. No one could explain what was going on. Then a day and a half later, around 4:00 A.M. Sunday, came news that U.S. Navy fighters had shot down a Libyan jet over the Mediterranean. This caused tremendous tension, always good for higher gold prices.

Apparently, the Pentagon had put out the word that an incident should be provoked to show the Mideast powers who was boss. Knowing that U.S. planes had been flying near Libya for several weeks, Mediterranean traders bought gold, and this led to higher prices, alerting people around the world. The U.S. gold market, in its wisdom, had anticipated the move.

Or take this example from Japan: on October 11, 1993, Columbus Day, financial markets were quiet. Most banks were closed. I was long on the dollar. About noon, the dollar rose from 110.25 yen to 100.45 yen. I sold the dollar at 100.45, and 15 minutes later it fell to 100.15 yen. I bought it back for a 20-pip profit.



IN THE PITS: AN ORIGINAL OIL BY HARRY PINCUS, NEW YORK

What happened? At 11:55 P.M., news came over the wires that an earthquake registering 7.2 on the Richter scale had hit Tokyo. The potential damage to the Japanese economy was enormous, causing a run-up in the dollar. But it turned out that the earthquake had actually struck offshore, with no significant damage to Japan. The dollar went right back down. Then there was reassuring news that the earthquake wouldn't be followed by *tsunami* (tidal wave). This time I was golden.

Market action reflects not just facts affecting supply and demand but sheer dumb luck, which is part of life, too. For instance, one summer day in 1992, I had a short bond position that I intended to buy back at the close. But there was a freak accident. Workmen sinking pilings on the floor of the Chicago River caused a crack in the containing wall where the river flowed through the Loop. Billions of gallons of water flooded the surrounding financial district. Probably for the first time in history, the Chicago Board of Trade was closed at 11:00 A.M. rather than at 2:00 P.M. By the time I could get out, the bonds rallied 1½ points, and I had a loss.

The Fascination of Markets

On another occasion, I established a long copper position at 76 cents a pound. In those days, the Chicago Mercantile Exchange closed copper futures trading at 1:55 P.M. I thought I had a winner at 1:50 P.M., as the price stood at 76.60. But then an exchange clerk entered the wrong price into their system, 7066, rather than 7660. This erroneous price set off sell stops at 71 cents and below from all the trend followers, whose computers were activated by on-line price feeds. Copper closed at 68 cents. In just two minutes, I lost 200 percent on my margin, all because of a clerical error.

I have been fascinated with markets for more than 30 years. They are global phenomena which evolve spontaneously, beyond the control of any individual or institution. They reflect the choices of all participants, and not even government central bankers have an inside track on which way prices will go for very long. There's always conflicting information about market trends. And markets are so competitive that they require all the discipline, persistence, and stamina you've got. □

A Roundup:

The Punitive Welfare State

by Anna Sokolin

Laws are typically passed with the promise that they will make life better. Whether or not they succeed, they hit those who disobey with fines, imprisonment, or other penalties.

Few penalties are for actions like murder or fraud which everyone agrees are criminal—because only an estimated one percent of laws deal with these fundamental issues. The great majority of penalties apply to actions most people would probably say aren't crimes.

The welfare state has expanded in the name of compassion, but it multiplied the number of actions for which people can be punished. A substantial number of people have endured heavy fines or are in prison today, though they harmed no one. The following examples of penalties suggest the harsh, hidden face of the welfare state:

- Up to five years in prison for altering, defacing, or mutilating a coin minted at the U.S. Mint. (18 United States Code, section 331)
- Up to ten years in prison for importing a book or article that a U.S. court considers obscene. (18 United States Code, section 552)
- Up to six months in prison for commercial use of the characters "Smokey the Bear" or "Woodsy Owl" without authorization by the Secretary of Agriculture. (18 United States Code, sections 711, 711A)
- Up to \$10,000 per day if the owner of a

New York City building with over nine units fails to maintain an adequate designated area or receptacle for recycling. (New York City Administrative Code, section 16-324)

- Up to \$500 or 30 days in prison or both for selling shoes on Sunday in North Dakota. (North Dakota Cent. Code 12.1-32-01)
- Up to three years in prison for possessing a lobster caught by any method other than a conventional trap. (Maine Revised Statutes Annotated, title 123, section 6431)
- Up to \$5,000 for failure to post a permit authorizing the use of a building air-conditioning and ventilating system. (New York City Administrative Code, section 27-194)
- Up to one year in prison for littering on government rangeland. (43 Code of Federal Regulations, section 4170.2-2)
- Up to two years in prison for bringing lottery tickets into the United States with the aim of selling them. (18 United States Code, section 1301)
- Up to \$5,000 for failure to identify an elevator bank with a letter of the alphabet. Example: "N" for "North Wing." (New York City Administrative Code, section 27-393)
- Up to \$1,000 or one year in prison or both for transporting dentures made by someone without a dentistry license. (18 United States Code, section 1821)
- Up to six months in prison for hunting, trapping, capturing, or willfully disturbing any bird, fish, or wild animal in a wildlife refuge. (18 United States Code, section 41)
- Up to \$1,000 or 30 days in prison or both for possessing feathers of a rare bird. (Okla-

Ms. Sokolin is a student at Georgetown University Law School.

homa Statutes Annotated, title. 29, section 7-504)

- Up to \$2,500 or six months in prison or both for selling by telephone without registering with the Attorney General. (California Code Annotated, section 17511.8)

- Up to \$2,500 for the first time and up to \$5,000 for each subsequent time that someone moves any goods for pay without a license. (New Jersey Statutes Annotated, section 45:140)

- Up to \$1,000 or up to one year in prison or both for labeling a product as made by blind workers if less than 75 percent of total direct labor was actually performed by blind workers. (California Codes Annotated, section 17522)

- Up to \$500 or three months in prison for repairing a radio or television receiver without a license. (Massachusetts General Laws Annotated, chapter 112, section 87VVV)

- Up to \$100 or 30 days in prison or both for giving a haircut (even a free haircut) without a license. (Connecticut General Statute Annotated, sections 20-234 and 20-236)

- Up to 60 days in prison for selling liquor between midnight and 7 A.M. (Florida Statutes Annotated, section 562.14)

- Up to \$500 for refusing to leave a government school after insulting a government school teacher, bus driver, or school bureaucrat in the presence of minor children. (Georgia Code Annotated, section 20-2-1182)

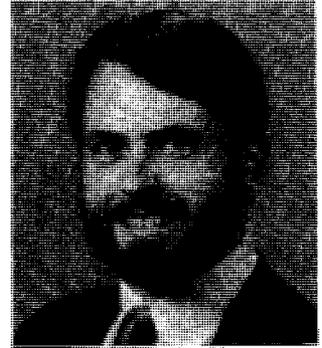
- Up to \$1,000 fine or one year in prison or both for bringing honeybee semen into the United States. (7 United States Code, section 281)

As these examples suggest, there isn't really much compassion in the welfare state. □



Exclusive! FEE Gold Anniversary Coin

A special one-ounce gold coin has been issued to commemorate FEE's fiftieth anniversary and to honor Margaret Thatcher, speaker at the April 11 Golden Jubilee celebration. The obverse features a beautiful image of Lady Thatcher; the reverse bears the FEE logo and the legend "one troy ounce .999 fine gold." The issue price is \$555.00 per coin. Please call FEE for further information, or to place your order.



Sports Welfare

When America was founded there was much debate over the proper role of government. Today that debate continues every time someone proposes a new program.

Proposals to subsidize business emanate not only from Washington, D.C., but also its nearby environs. For instance, Maryland Governor Parris Glendening wants to spend nearly \$300 million (construction and other related costs) to construct a football stadium for Art Modell's former Cleveland Browns. Modell's team—to be named later—would not only get free use of the stadium. It would also earn an estimated \$32 million annually from concessions, tickets, parking, and a split in revenues from concerts and other stadium events.

There's nothing new about sports moguls supping at the public trough. The District, Maryland, and Virginia have all offered Jack Kent Cooke a variety of deals to keep or move the Washington Redskins. Now he plans on building his own stadium in Maryland, though the state is supposed to kick in \$73 million for local "improvements."

And team owners in cities across the country have routinely received generous payoffs from the taxpayers. For instance, Cleveland offered to spend \$154 million to renovate Cleveland Stadium for the Browns,

Doug Bandow is a senior fellow at the Cato Institute and a nationally syndicated columnist. He is the author and editor of several books, including The Politics of Envy: Statism as Theology (Transaction).

before Modell received a better deal from Baltimore. Cincinnati plans to build two facilities, one for the Bengals and one for the Reds, costing some \$540 million. Wisconsin recently chipped in for a new stadium for the Milwaukee Brewers. Washington state did the same for the Seattle Mariners, even after local voters rejected a tax hike to subsidize the team. The Chicago Bears recently rejected an offer of a \$475 million facility because the team would have had to cover about one-third of the cost.

But the fact that sports subsidies are ubiquitous does not make them a proper function of government. Of course, stadium proponents argue that new facilities increase economic activity and government revenues. Jack Kent Cooke organized a rally backing his project; one participant lauded the "potential \$250 million investment in our neighborhood." Governor Glendening has similarly optimistic projections for his proposed stadium in Baltimore: \$110.6 million in new economic activity and \$9.3 million more in annual tax revenue.

Alas, these sorts of estimates typically assume that all of the spending on a new sports team will be new. But even the nicest stadium cannot create dollars out of nothing. People who go to games are likely to divert their expenditures from other forms of entertainment: restaurants, movies, and other sporting events. "The money they are counting on being spent at the stadium, much of it is already being spent on other forms of recreation in the area," explains

Indiana University Professor Mark Rosen-
traub.

Another argument is that stadiums bring prestige to a city, and hence new business. Contends the Glendening administration, "more corporate headquarters will be attracted to Baltimore." Yet most companies are more likely to worry about the tax burden—which would be adversely affected by the stadium project—than the presence of a football team. Connie Kone, a member of the City Council of St. Petersburg, Florida, warns that "The tax increases we had to pass to support [the Suncoast Dome] actually drove some residents and businesses out of the city."

In fact, in 1987 Robert Baade of Illinois' Lake Forest College surveyed nine cities that renovated an old or built a new stadium. In seven of those cases the city's share of regional income actually fell. Two years later Dean Baim of Pepperdine reviewed the experience of 14 stadiums and found that only one—*private* Dodger Stadium—generated net income. His sobering assessment: "massive capital costs of modern facilities make it very unlikely that modern stadiums will earn enough to cover debt service expenditures regularly enough to earn a profit." Baade then studied the experience of 48 cities between 1958 and 1987. His conclusion: "Professional sports teams generally have no significant impact on a metropolitan economy." Participants at a 1995 conference organized by the Federal Reserve Bank of Atlanta also generally concluded that stadium construction rearranged existing leisure revenues rather than created new wealth.

Even the Maryland legislature's Department of Fiscal Services warns that Governor Glendening greatly overstated the likely economic impact of his project. Most of the jobs that would result from construction of a new stadium "either are temporary or seasonal, low-wage employment," concluded the Department, which further warned that the state might not collect enough in taxes to cover debt service payments. The loss over 30 years could run as much as \$75 million.

About the only argument left is essentially municipal ego. Moon Landrieu, formerly mayor of New Orleans, admitted: "The Superdome is an exercise in optimism, a statement of faith. It is the very building of it that is important, not how much of it is used or its economics." Such sentiments would be unobjectionable if the money spent to build the facility was his own. But it was not.

Which means that, in the end, government-funded stadiums in the Washington area and around the country are little more than corporate welfare. Yet so common have become these sorts of deals that businessmen think public subsidies are their due. For instance, when the Maryland legislature first suggested that Modell chip in a modest \$24 million, less than a tenth of the state's estimated cost, he pled poverty. Modell did, however, offer to help pay for the governor's PR campaign on behalf of the stadium.

A Simple Alternative

The obvious alternative, obvious at least to people outside of government, is simple. Save the taxpayers' money and tell team owners to raise the financing themselves. That is hardly an insurmountable obstacle; Jack Kent Cooke is committed to spending \$160 million or so on a new stadium for the Redskins. Jerry Richardson financed a \$164 million stadium for the Carolina Panthers. William Davidson, owner of the Detroit Pistons basketball team, paid for the \$70 million Palace project. And Miami Dolphins owner Joe Robbie built a \$100 million facility after local voters told him no to public aid. Roughly one-third of existing stadiums have been privately financed.

In fact, this option is usually supported by the people who are otherwise stuck with the tax bill. Polls demonstrate that the vast majority of Maryland residents oppose government construction of a new football stadium. Ten years ago Cleveland voters said no to a similar measure; so did the electorate in Oklahoma City. Miami residents thrice rejected proposals to renovate the Orange Bowl. Initiatives for state-financed stadiums in San Francisco and nearby Santa Clara

County for the San Francisco Giants failed. Allegheny County, Pennsylvania, voters ousted two county commissioners in a revolt against plans for a \$200 million stadium for the Pittsburgh Pirates. Washington's King County voters said no to the Seattle Mariners; explained one skeptical citizen, "There are too many private investors' hands in public pockets."

But popular opposition only seems to make sports boosters work harder. It's not enough to spend \$300 million of the tax-

payers' money on a stadium. In the case of Maryland, the governor spent millions more in an attempt to win legislative approval.

At a time of tight public budgets, a serious debate over the role of government is long overdue. Although entertaining the masses might have been an accepted role for government in ancient Rome, surely Americans today are capable of amusing themselves without government subsidies for the modern equivalent of gladiatorial games. □

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Most Outrageous Government Waste

by Thomas A. Schatz

Since my job is to be a watchdog on government waste, I'm often asked about the most outrageous cases.

That's a tough call because government bureaucrats never take care of your money as carefully as you would take care of it yourself. More important, bureaucrats spend money on what government wants, not what you want—which is the whole point of taxing away your money.

Without authorization, for instance, the feds spent \$19.6 million annually on the International Fund for Ireland. Sounds like a noble cause, but the money went for projects like pony-trekking centers and golf videos.

Congressional budget-cutters spared the \$440,000 spent annually to have attendants push buttons on the fully automated Capitol Hill elevators used by Representatives and Senators.

Last year, the National Endowment for the Humanities spent \$4.2 million to conduct a nebulous "National Conversation on Pluralism and Identity." Obviously, talk radio wasn't considered good enough.

The Pentagon and Central Intelligence Agency channeled some \$11 million to psychics who might provide special insights about various foreign threats. This was the disappointing "Stargate" program.

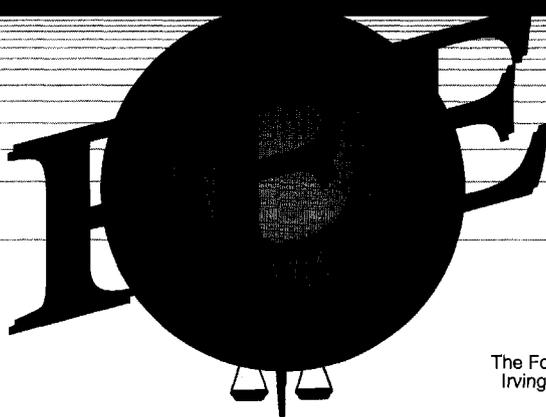
The Department of Education spent \$34 million supposedly helping Americans become better shoppers and homemakers. Wasn't it about time?

The federal government proposed spending \$14 million for a new Army Museum, although there already were 47 Army Museums around the country. We helped stop that idea.

Dubious government spending schemes abound since bureaucrats play with other people's money. For example, the National Institutes of Mental Health (NIMH) spent \$70,029 to see if the degu, a diurnal South American rodent, can help us better understand jet lag . . . they spent \$77,826 to study "Coping with Change in Czechoslovakia" . . . \$100,271 to see if volunteering is good for older people . . . \$124,910 to reduce "School Phobia" in children . . . \$161,913 to study "Israeli reactions to SCUD Attacks during the Gulf War" . . . and \$187,042 to study the quality of life in Hawaii.

Over the years, political wrangling twists the most noble-sounding government programs beyond recognition. For example, the Social Security Administration's \$25 billion a year Supplemental Security Income (SSI) program. Almost 250,000 children qualify for SSI checks because they can't participate in "age appropriate activities." Worse, thousands of prisoners get SSI checks relating to their alleged disabilities—costing taxpayers about \$20 million a year.

Mr. Schatz is president of Citizens Against Government Waste.



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Inscrutable Freedom

In every age and in every country, there are two kinds of people — the lovers of freedom and the devotees of power. The former like to pursue their own good in their own way without infringing on the equal freedom of others. The devotees of power love to exercise control over others, and especially to command over the body politic. Both kinds wax eloquent about freedom which, to them, has very different meanings and connotations.

The lovers of individual freedom carefully delineate the scope of personal autonomy and absence of institutional restraint. They are concerned about their religious, political, and economic freedoms. Their most fundamental freedom of all is the personal freedom to move about, to come and go as they please without restraint. Most Americans are accustomed to this basic freedom; to them, it is a great writ of liberty, anchored in the Constitution: "The Privilege of Habeas Corpus shall not be suspended, unless when in cases of rebellion or invasion the public safety may require it" (Article 1, Section 9).

Religious freedom, that is, the freedom to believe in a divine power as the creator and ruler of the universe and the right to worship with people of one's own choosing, was nonexistent during the Middle Ages. Before the great powers of Europe were willing to grant it, they waged

numerous bloody wars — eight in France alone (1562–1598) and the bloodiest of all European wars, the Thirty Years War (1618–1648). Exhausted, ravished, and depopulated, the countries gradually learned to tolerate their religious differences. In the United States, the First Amendment to the Constitution expressly affirms the freedom of religion: "Congress shall make no law respecting an establishment of religion, or prohibit the free exercise thereof." Yet, in recent years, in the name of separation of church and state, American courts have sought to purge religion from all aspects of public life. And public education seeks to replace religion with "statism" which elevates government to the center of human concerns and makes it the source of economic care and bounty.

Political freedom, that is, the right to vote and hold public office for all members of society was virtually unknown before the nineteenth century. The Fifteenth Amendment to the Constitution guaranteed "political freedom to all citizens regardless of race, color, or previous condition of servitude." The Nineteenth Amendment extended the right to vote to all citizens regardless of gender. Despite these Constitutional assurances many Americans were denied basic political rights until the Civil Rights legislation of the 1960s and 70s.

Economic freedom, which is the individual right to pursue one's own economic goals and objectives as long as no harm comes to others, is severely limited in most parts of the world. It is always ringed about by envy and covetousness which invite breaches of the peace and denial of economic freedom by people in power. Economic freedom is an easy prey to political force. It is the first thing that is lost when tyranny advances.

When the **devotees of power** speak of freedom they usually mean the freedom of the body politic, especially of its leaders holding the reins of government. Their concept of freedom is holistic and collectivistic. Hitler used to discourse about the freedom of the German people, Stalin about the freedom of the Soviet society, and Castro about the freedom of Cuba from imperialistic U.S.A. All forms of tyranny build on some collectivistic notion of freedom.

The concept of freedom most popular in the United States connotes the *freedom from want and poverty*, from poor housing, ill health, and poor education. It is an income concept based on entitlement and redistribution of income and wealth by government force. President Franklin D. Roosevelt elevated the "freedom from want" to a basic right of all Americans. Every president thereafter added a particular want to his freedom program. President Truman fought for higher minimum wages, increased Social Security benefits, and more aid for housing. President Eisenhower confirmed the entitlement programs begun by his Democratic predecessors. President Kennedy launched the New Frontier of federal aid to education, medical care for the aged under Social Security, and aid to depressed areas. President Johnson declared "war on poverty." President Nixon imposed wage and price controls in order to alleviate poverty; Presidents Ford and Carter continued the Nixon controls. President

Reagan consented to "catastrophic care" to Medicare and President Bush added a "kinder face" to the entitlement system. President Clinton is now laboring to extend and reorganize the healthcare system.

All these "freedoms" rest on the power of democratic majorities to exact income and wealth from the productive members of society. After all, government is no *deus ex machina*, no *manna ex politia*. Whether it is freedom from poor housing, inferior education, or pitiful healthcare, every political demand for improvement is a call for seizure of property from hapless taxpayers. Every entitlement is a legal right to lay hands on someone else's income, every new call for more benefits a call for more appropriations.

In a speech to the Virginia Convention, James Madison, the fourth president of the United States, wisely observed: "I believe there are more instances of the abridgment of the freedom of the people by gradual and silent encroachments of those in power than by violent and sudden usurpation." Having observed the gradual and silent encroachments in recent years, we may understand how they manage to proceed so successfully. No matter what we may think of public opinion, it carries all before it. The men in power who may have no opinion of their own appeal to it, proclaim it, and run with it. If public opinion longs for entitlements, they flatter the people and demand as a means for the procurement of the benefits a gradual surrender of their freedoms. Many people gladly submit; few withstand the temptations. If they resist, they are crushed.

The evils of tyranny are seen and felt only by those who resist it.



Hans F. Sennholz

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That's not all. In Denver, the government reportedly sent \$160,000 to recipients at their "official address"—a tavern. A San Francisco addict used his SSI check to buy drugs, which he subsequently sold on the street for a profit. A Van Nuys, California, alcoholic received a \$26,000 SSI check, then spent the money on a van and two cars which he subsequently wrecked while driving drunk. Los Angeles SSI recipients reportedly faked mental illness and had a doctor concoct false medical records, so they could pocket \$45,000 worth of checks. An estimated 79,000 alcoholics and drug addicts are believed to spend SSI checks—some \$360 million annually—on their habits.

Again and again, programs aimed at the poor are captured by well-heeled interest groups. For example, the Commerce Department's U.S. Travel and Tourism Administration (USTTA) gave away \$440,000 in so-called "disaster relief" to Western ski resort operators when there wasn't much snow.

The Economic Development Administration spent "anti-poverty" funds to help build a \$1.2 million football stadium in spiffy Spartanburg, South Carolina. During the summer, it will serve as a practice facility for the National Football League Carolina Panthers, and the rest of the year it will be used by Wofford College, which has a \$50 million endowment.

Look at one of the most enduring legacies of Lyndon Johnson's "War on Poverty": the Appalachian Regional Commission. It was billed as help for an impoverished region. During the past three decades, this bureaucracy you've probably never heard of has spent \$6.2 billion, yet the region remains impoverished.

Where did the money go? Two-thirds was spent building 26 highways connecting well-to-do urban centers. The money went to construction workers whose wages are definitely above-average. Despite revolutionary talk in Washington, the Appalachian Regional Commission goes on and on.

Or take the plight of the family farmer. I know you've been regaled about wasteful spending on agricultural subsidies, so I'll

just cite a single intriguing example: 1.6 million farm subsidy checks for \$1.3 billion, mailed to urban zip codes during the past decade. New York City "farmers" pocketed \$7 million during the past decade, Washington, D.C., "farmers" \$10 million, Los Angeles "farmers" \$10.7 million, Minneapolis "farmers" \$48 million, Miami "farmers" \$54.5 million, and Phoenix "farmers" \$71.5 million. Among those on the take, to the tune of \$1.3 million: 47 "farmers" in Beverly Hills, California—one of America's wealthiest cities.

A lot of government spending is justified as necessary for national security. For instance, maritime subsidies supposedly help maintain a fleet for an emergency. Laws require government agencies to use U.S.-flag vessels which are U.S.-built, U.S.-owned, and U.S.-crewed, costing two to four times the world market price of comparable vessels available elsewhere. When the U.S. Department of Agriculture and Agency for International Development give away surplus grain, they must use U.S.-flag vessels for at least 75 percent of shipments, adding \$233 million to the taxpayer burden. The U.S.-flag requirement adds \$1.75 billion to the defense budget. Subsidy per maritime job: over \$100,000.

The defense budget is larded with waste not because it's run by bad guys but because it's big, and bureaucrats are, as always, spending other people's money. The Pentagon has an "operational support airlift" consisting of some 500 airplanes and 100 helicopters for flying military brass and civilian bureaucrats on 1,800 trips a month—costing taxpayers \$380 million a year. Many of the destinations are served by commercial airlines.

Last year, the Pentagon announced it would spend \$5.1 million to build a new 18-hole golf course at Andrews Air Force Base in suburban Maryland, which already has two. *Golf Digest* reported there are 19 military golf courses around Washington, D.C. Why a new golf course? One Pentagon official was quoted as saying "a lot of golf gets played out there. On Saturday mornings, people are standing on top of each other."

Can It Continue?

How can such outrageous waste go on year after year? Simple: bureaucrats aren't doling out their money, so they have little incentive to be responsible. Politically connected special interests, who are usually better off than the average taxpayer, seem to get most of the loot.

The most powerful special interest is government itself. In fiscal year 1993, the federal government owned 569,556 vehicles—one for every six full-time employees. Included were 117 limousines. The government's fleet expanded more than 130,000 vehicles since the Grace Commission called for it to be cut in half more than a decade ago.

Government officials multiply the number of regulations regardless of the waste they cause. For example, the Defense Department has 1,357 pages of regulations about how officials travel. Complying with these regulations adds about 30 percent to travel costs. If the Pentagon adopted the best practices of private companies, it could save an estimated \$650 million to \$840 million every year. Of course, government regulations cause enormous waste in the private sector—tax compliance costs alone run into the billions—but that's a vast subject unto itself.

The federal government wastes money through grants to the most politically powerful environmental lobbyists. For example, between 1990 and 1994, the Natural Resources Defense Council got \$246,622; Defenders of Wildlife, \$1,285,658; Environmental Defense Fund, \$1,493,976; and the World Wildlife Fund, \$26,584,335. All together, environmental lobbyists collected \$156,644,352 during this period. Every one pushes the federal government to enact more regulations.

Whenever you hear a politician propose

that government take over some private business, like New York's troubled Long Island Lighting Company, there should be red flags all over the place, because government operation means high costs. At the U.S. Government Printing Office, for instance, costs are estimated to be 50 percent higher than in the private printing industry. If the U.S. air traffic control system were transferred to private companies and the services paid by user fees, taxpayer savings would probably be around \$18 billion over the next five years.

With a \$1.5 trillion annual budget, the feds take so much of your money that they can't possibly keep track of it even if they wanted to. For example, a contractor sold \$27 electronic relays to the government's Strategic Petroleum Reserve for between \$484 and \$521 apiece. The Department of Energy paid some of its employees \$5,000 a year to lose weight—the outlays totaled \$10 million a year. The owner of a California apartment building got Department of Housing and Urban Development subsidies, then illicitly diverted \$610,000 into his own accounts. One "farmer" collected \$1.6 million in government insurance payments for non-existent crops. Forty-three people in New York City pocketed over \$40 million in phony food stamp claims. Five Floridians stole \$20 million from Medicare—part of the estimated \$17 billion of annual Medicare fraud.

What to do about such waste? The government is crawling with auditors, and there have been a zillion investigations, yet waste goes on. Citizens Against Government Waste will continue to be a watchdog. The only long-term solution, though, is to somehow cut big government down to size. Only when it's much smaller will you be able to keep more of your hard-earned money, which, after all, is yours. □

Today's Fight for Property Rights

by Nancie G. Marzulla

Bob and Mary McMackin bought property in Pennsylvania's Pocono mountains and obtained all the necessary permits to build a retirement home. But four years after they moved in, the U.S. Army Corps of Engineers decreed that their property was a "wetland"—even though it was dry.

Result: they were ordered to destroy all landscaping outside a five-foot perimeter of their home and driveway and restore the land to the way it was before construction. Moreover, they were ordered to buy twice as much property as they had to provide land off-site for a new "wetland." In this case, there was a happy ending. Defenders of Property Rights, representing the McMackins, helped reach a settlement which rescinded the orders. The Corps issued new guidelines allowing small parcels to be exempted from "wetlands" regulations.

Others haven't been so lucky. Again and again, civil liberties are violated despite the Fifth Amendment to our Constitution, requiring that when government takes property for public use, it must pay the owners just compensation. While courts have long enforced just compensation when government takes title to private property through eminent domain, such as for building a road—courts generally fail to protect individuals who retain title but lose some or

all the value because of government regulations which supposedly benefit the public. These are the so-called regulatory takings.

Hardest hit are small property owners who usually cannot afford the time or money to mount a proper defense of their rights. In some cases, property owners surrender their rights rather than incur legal expenses. In other cases, small property owners fight the government without an attorney, risking ruinous fines and the possibility of imprisonment for acts they believed were perfectly lawful because they didn't harm anyone.

Litigation to defend property rights can drag on for a decade, wiping out the life savings of ordinary people. Only the rich can easily afford to defend their property rights against government regulators whose legal costs are financed out of the public treasury.

Government officials are not concerned about how their regulations hurt people, because they aren't telling themselves what to do. They are telling other people what to do. Officials do not suffer when their regulations make someone else's property worthless. They still get their pay, perks, and pensions.

The Takings Clause

In 1985, University of Chicago law professor Richard Epstein wrote *Takings*, the book reminding everybody that there's a

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takings clause in the Fifth Amendment. It has been there for more than 200 years, ever since the Bill of Rights was enacted, but as far as government officials were concerned, the takings clause did not exist. The only part of the Fifth Amendment officials seemed to care about was the part saying they couldn't be forced to testify against themselves if they are charged with a crime.

Now finally, large numbers of Americans are discovering that the Constitution provides a basis for defending their property. They want the Fifth Amendment enforced and strengthened. That is what the property rights movement is all about.

At the federal level, these are the principal ideas being discussed:

- Require a private property impact statement. This means determining whether a proposed regulation would involve taking private property for public use. If yes, the government agency involved must either avoid the taking or budget just compensation for property owners. This idea is based on President Ronald Reagan's Executive Order 12630, which requires government to minimize the "takings" potential of proposed regulations.

- Require government to provide just compensation when a regulation has devalued it by more than, say, 20 percent. The specific percentage is referred to as a "trigger point."

- Give owners the option of requiring government to buy property when a regulation has devalued it more than 50 percent.

The point here and everywhere else is to make government more accountable for its actions. When people go shopping, they are aware they must pay for what they take out of a store. If an individual takes something without paying, it's stealing, which in some places is still treated as a crime. Regulators who devalue private property without paying just compensation are just as guilty of stealing, as U.S. Appeals Court Judge Jay Plager ruled in *Hendler v. United States*: "The intruder who enters clothed in the robes of authority in broad daylight commits no less an invasion of these rights than if he sneaks in the night wearing a

burglar's mask. In some ways, entry by the authorities is more to be feared, since the citizen's right to defend against intrusion may seem less clear."

While Washington is discussing these ideas, much has already happened at the state level.

On March 16, 1995, Mississippi became the first state to enact a property rights law that compensates owners for the taking of their property. It says just compensation is due when a regulation devalues property 40 percent. Texas enacted an important property rights bill on June 12, 1995. It took effect September 1, 1995. It requires a property rights impact statement, mandates just compensation when a regulation has devalued private property more than 25 percent, and reforms the legal process so that it's easier for property owners to get their claims settled. On May 18, 1995, Florida enacted a property rights bill with no defined trigger point. This could mean just compensation is due whenever a regulation devalues property.

As you can imagine, Big Government opponents of protecting private property rights do everything they can to stop this trend. For example, they mount well-financed scare campaigns against property rights ballot initiatives. They claim that paying just compensation would cost a fortune and wipe out regulations protecting the environment. Such claims alarmed enough people that in Arizona (1994) and Washington (1995), voters rejected property rights initiatives by a margin of three to two.

The Environment

What about the environmental issue? Pollution means there's a public nuisance that a property owner must take care of. Just compensation applies only when a government regulation devalues property that is being reasonably used—not harming anyone.

Polls generally show that while people want a cleaner environment, they also want their freedom protected. They are worried when they hear how government officials

take people's property without just compensation.

Most people know little about the impact of government regulations and can change their views as they learn more. For example, a recent poll by American Viewpoint found the average citizen is not aware of the extent of some regulations. Take Superfund, the federal program which supposedly cleans up toxic waste: 35 percent of people initially polled thought it was successful while 33 percent didn't, although only 38 percent even claimed to know what Superfund did! Upon learning more about Superfund, 49 percent called it unsuccessful, and just 3 percent advocated no basic changes. Almost a third of those polled totally changed their opinion when they learned more.

Bearing the Cost

As for the cost issue, since when does protecting individual rights depend on costs? Imagine the uproar if government officials ruled that freedom of speech, for example, must be abandoned because it costs too much.

Just consider the hypocrisy in the cost objections. In one breath, environmental

extremists object to the alleged cost of protecting property rights, and in the next breath they say hang the costs when it comes to protecting an endangered rat.

The obligation to pay just compensation will probably make government officials think twice before enacting regulations which harm people's property rights. This is happening in Florida. Although the state's new property rights law hasn't been tested in court, it has had an impact on regulators there. For example, in West Palm Beach environmentalists promoted a city growth plan which would establish a five-story limit for new buildings around the waterfront. Instead, officials adopted a 15-story limit which compares with an average height now of 18 stories. West Palm Beach Mayor Nancy Graham remarked: "originally, I was opposed to more than five stories. But I could've done it for free back then . . . [now] you can say that and you can vote that, but you'll have to back it up with your pocketbooks."

Indications are that the property rights movement is in its early stages. It will go much farther as people learn more about what is at stake. This could result in major limits on the runaway welfare state.

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I Was a Victim of Union Violence

by Bill Hinote

They shot me as I opened the door of my pickup truck. They hit me five times. One bullet tore into my left knee. A bullet went into my right hand. A bullet went into my right side and exited next to my navel. Two bullets went into my thigh. I felt like I was being burned with a hot poker, and then I went into shock.

I dragged myself behind the truck, hoping to protect myself from further shooting. I dragged myself into the house so I could call for help. An ambulance took me to Mid-Jefferson Hospital, a few miles away in Nederland, Texas. I didn't see or hear anything.

I didn't have to see them to know they were militants from the local of the Oil, Chemical and Atomic Workers International Union. This was October 2, 1982, amidst a bitter strike at the American Petrofina oil refinery in Port Arthur, Texas, where I helped maintain boiler systems. I had been the first to defy union bosses and exercise my right to work.

About 25 years ago, a small group of men had taken over this local. Like union bosses elsewhere, they exploited the powers of compulsory unionism and forced dues, sanctioned by federal laws. The Wagner Act (1935) in particular made it easy for union bosses to gain control of a workplace and

extremely difficult for workers to get rid of the union bosses. They forced workers to join the union against their will. Membership was effectively a condition of employment. Union bosses spent members' dues in ways that would enhance their power, and there wasn't much anyone could do about it.

To flex their muscles they called a strike at the expiration of every two-year contract between 1972 and 1982. I'd say the strikes averaged about a month and a half. One strike lasted about three weeks, another about three months. Consequently, it was hard for anyone there to build up life savings. We saved to get through the next strike.

I was sick and tired of these pointless strikes. I reckon the best way of putting it is that you don't have bad companies or bad unions. What you have are bad leaders. If they would work with each other, things would be great.

But the union bosses were like kids who were never willing to back down for anything. Instead of negotiation, there was confrontation. The union hierarchy was having an ego trip. They enjoyed the power. If I had to quit the union, I was willing to do it.

Well, on January 7, 1982, the Petrofina contract expired again, and union bosses called another strike. The issue supposedly was work rule changes which the company

Mr. Hinote, now retired, lives in Texas.

wanted. Some 300 workers walked out. Peer pressure to do so was tremendous, as always.

Petrofina supervisors and non-union workers from other refineries kept our refinery going. Soon there was violence as militants shot a company vehicle. They shot a security post with three guards in it. Cars were vandalized. The road going into the refinery was littered with nails.

By 1982, my 18-year-old daughter, Wendy, was in college, so I faced big expenses. I decided that if the strike dragged on, I'd go back to work. Naturally, my wife, Barbara, was anxious, but she agreed I should do what I needed to do.

On September 22nd—I remember it was a Wednesday—I was working again. It was something of a milestone, because in the entire 45-year history of this refinery, no member of the Oil, Chemical and Atomic Workers International Union had gone against the bosses and crossed a picket line.

But the Texas constitution guaranteed one's right to work. On paper anyway, exercising one's right to work wasn't supposed to be a big deal.

Plenty of other Petrofina workers were worried about family finances. The union got many calls from workers anxious for the strike to be resolved soon. Union bosses feared that unless something were done about me, more members might return to work, and their power would collapse.

We got threatening phone calls. A caller warned Barbara: "Tell Bill we're going to get him—and you had better watch your little girl."

At the entrance to the Petrofina plant, union militants hanged a life-sized effigy of me from a tree. There was a sign saying "THIS IS WHAT WE DO TO SCABS."

One evening as we sat in our house, rocks crashed against the outside walls.

Then came the shooting that morning as I was about to head for work.

Threatening calls continued to come. One caller warned Barbara at the Wal-Mart where she worked: "We didn't do such a good job on your husband, but you'll be next!"

Other callers threatened to blow up the store if Barbara weren't fired.

I was still in the hospital when Roy Lynch, chaplain of the local, wrote a letter to the local newspaper saying, "Lots of us wished we would have done it [shot me] because of what he did by crossing." This was the union chaplain sanctioning violence! After the first trial, he told my wife he was sorry from the bottom of his heart.

A Small Minority

I'd guess there were fewer than ten militants in our local. It doesn't take many to intimidate a whole community. A person can be a wife beater or a murderer, and they're one of the boys, as long as they're loyal to the union bosses. The union takes the place of religion for some of them.

I got out of the hospital after about two weeks and returned to work. I limped, but I crossed that picket line. I remember telling Barbara: "I've never run from anyone, and I don't intend to start now."

I must say I didn't expect things would go as far as they did. I figured the militants would try to lump my head. Shooting seemed a bit much. I served in the Korean War, and I never got a scratch.

I knew those guys. I had worked at that refinery since 1958 when I was 26.

My job was to take care of steam, water, and air lines throughout the plant, so I saw all kinds of people. Everyone was nice. I thought I was well-liked. I learned that everything suddenly goes out the window if you defy the union bosses.

I have never been able to look at work the way the union bosses do. If a man hires me and pays me what he says he will, I don't care how much money he has. I work for so many hours, he pays me what he says, that suits me.

Such views are heretical, especially since we lived in a union town. Practically everyone worked at the oil refineries. Union bosses influenced local government, including the police. When there was union violence, militants were seldom ever caught. Witnesses, if any, didn't dare step forward.

The veneer of law wears pretty thin when people know they can get away with violence.

In my case, there weren't any witnesses. It was about 5:30 in the morning—no cars going by our residential street, no people out walking their dogs. It was dark, and I didn't look up as I walked out of the house.

As far as I knew, the police seemed to be doing their job, but there wasn't anything brought out, because no one was going to talk. Although a crab fisherman found a semiautomatic rifle whose identification number had been rubbed out, police couldn't prove anything. A grand jury called some union militants, but they took the Fifth Amendment, and that was that. Nobody was ever arrested.

If it hadn't been for the National Right to Work Legal Defense Foundation, nothing would have been done. They had plenty of experience fighting union violence. I talked to them about three weeks after I was shot, and their attorney Bob Gore visited me.

He began gathering strong circumstantial evidence for a civil case against the union. For example, the telephone company has records of all local calls placed to a number. These records aren't shown on your bill, but the phone company has them. If you give phone company people your number and the approximate time someone called you, they can find where the call came from. Barbara and I kept a journal of the threatening calls, all traced to known union militants. Some calls were traced to the vice chairman of the union local.

We filed suit against the local and four union bosses. The charge was conspiracy to violate my right to work under Texas law. The trial began in Beaumont, Texas, September 1986. Right-to-work attorneys called witnesses to many acts of violence which had occurred during the Petrofina strike. One of the union bosses was on record as warning members not to be violent in front of television cameras that

Petrofina had set up on its property. The attorneys presented evidence about my case. The jury, however—in this heavily unionized area—found the union bosses not guilty.

The attorneys subsequently learned that one of the jurors was the niece of a striker who was a former defendant in the case—and she was less than forthcoming when questioned by attorneys. Another juror confirmed that the union juror had intimidated the rest.

Judge Jack King ruled the case must be tried again, this time in an area less subject to union influence—about 95 miles away in Huntsville. In October 1987, the jury ordered the union to pay us \$1.2 million in damages. But a month later, the presiding judge invalidated the jury award.

National Right to Work Legal Defense Foundation attorneys brought the case before the Texas Court of Appeals. In July 1989, judges there decided that union leaders had sanctioned violence and failed to curb the militants. The jury verdict was upheld.

Then the union appealed to the Texas Supreme Court, but it declined to hear the case, which meant the jury decision stood. The union declared bankruptcy.

I'm still feeling the injuries I suffered. I've had my knee operated on three times, and I drag my left leg. I can't squat down or lift very well.

Barbara is a strong person, but this was the first time union violence hit home, and it was bad for her. I didn't realize it affected her as much as it did. She was so worried about me and our daughter. We have learned to live with it.

Incidentally, the strike ended about two months after I was shot. There hasn't been a strike at the Petrofina refinery since—more than a decade of peace and prosperity. Workers can now save for their families instead of always preparing for another strike. □

How Government Destroys Jobs for Poor Women

by Dorothea M. Eiler

California's Director of the State Department of Social Services, Eloise Anderson, created quite a stir when she insisted that welfare mothers would be better off working than collecting from the government. Surely there are very few who totally disagree with her, but the fact is that the government has made it very difficult, almost impossible, for women coming off of welfare to get a job.

Traditionally in Western civilization there have been two ways in which unmarried women, with or without educations, could support themselves. One, of course, was the world's oldest profession, but the respectable one, the one with even a slight hope for a decent future was domestic service, from laundress or cook to nanny. In recent years the government has made the second choice virtually unattainable. In fact, labor regulations have actually eliminated most of the market for casual domestic service.

Until a couple of decades ago, poor women did housework to put food on the tables for their families. Perhaps they didn't approach the job with much enthusiasm, but doing what must be done for themselves and their families must have produced more than a little satisfaction and self-esteem. Domestic workers were often employed

by five or six households per week, often at very low wages. But cash wages went directly into workers' pockets, and nobody reported the income to the government. In those days casual domestic labor was exempted from Social Security and other taxes. In effect those workers were probably at least as well off as most are on welfare today.

Of course they didn't have any "benefits," such as Social Security and health insurance. If a domestic worker was injured on the job, the employer often took her to the doctor for care, and though serious illnesses were a tragedy for all concerned, employers, family, and friends usually joined together and did what they could to assuage the difficulties.

Thus many women, who would have been otherwise forced to go on welfare, found a way to care for and support their children. Instead of relying on daycare, they often took care of each other's children. But, then again, babysitters were not licensed, so they could charge very little. Sometimes the babysitter simply picked up a little "pin money" to supplement her husband's salary. Or domestic workers might take their children to work with them, teaching the youngsters the skills of housework and the dignity of earning a living as they were growing up. These children were then available to help in times of health or financial problems.

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This freedom to work without interference from the government kept women off welfare. It also enabled many households of limited affluence, young mothers, and elderly people on fixed incomes to afford someone to help with the non-routine chores, thus making their lives a little easier. There was an extensive market for casual domestic labor.

But now to hire a woman for casual labor in a home the employer must report to the state and federal government any wages paid. Legal identification must be established. Payroll forms must be filled out every quarter, and in many cases checks must be sent for taxes withheld. The elderly couple or the busy young mother, who cannot afford *both* domestic help and accounting help, are often reluctant or even unable to handle the bookkeeping chores involved in the employment hassle. That simply eliminates all but the very affluent from becoming employers at all!

Some employers of domestic labor, those who can afford to pay more, now turn to cleaning services, but those businesses are burdened with workers' compensation insurance, liability insurance, minimum wage laws, health insurance, OSHA regulations (did you housewives know that window washing is considered a hazardous occupation?), and EEOC problems, thus pricing the service out of the market for a large segment of possible employers.

Such rules and regulations also make hiring domestic workers more difficult,

thereby further limiting the jobs available in the field. These sophisticated services are no substitute for the word-of-mouth, over-the-back-fence employment agency that used to operate. The informal word-of-mouth system of hiring and firing often made allowances for the good domestic worker who was no longer young or was not very bright or not very fast. Such a worker could be tolerated by many individual employers, but is not suitable for hiring by a cleaning service. I once had a household cleaner who worked for me for years before I found out she was totally illiterate!

The market remains for unskilled, uninsured, and unbenefited help. And there are still countless immigrants who are willing to slip in to work without benefits or government protection. They wouldn't have those advantages in their native lands, and they do not understand the laws and rules they are breaking. They fill the market niche that the government has made impossible for U.S. citizens to fill.

It's all very easy for the politicians to say they will set a limit of five years on welfare recipients. And it's very true that welfare mothers would be better off working for a living. But where are these women going to work? One of the lowest rungs on the wage-earning ladder has been largely removed from the grasp of the women who would reach out for it. In making domestic jobs so difficult to provide, the government has limited poor women's opportunities more than liberation has broadened them. □



Lord Acton—Political Power Corrupts

by Jim Powell

Few recognized the dangers of political power as clearly as Lord Acton. He understood that rulers put their own interests above all and will do just about anything to stay in power. They routinely lie. They smear their competitors. They seize private assets. They destroy property. Sometimes they assassinate people, even mark multitudes for slaughter. In his essays and lectures, Acton defied the collectivist trend of his time to declare that political power was a source of evil, not redemption. He called socialism “the worst enemy freedom has ever had to encounter.”

Acton sometimes rose to commanding eloquence when he affirmed that individual liberty is the moral standard by which governments must be judged. He believed “that liberty occupies the final summit . . . it is almost, if not altogether, the sign, and the prize, and the motive in the onward and upward advance of the race. . . . A people adverse to the institution of private property is without the first element of freedom. . . . Liberty is not a means to a higher political end. It is itself the highest political end.”

Although Acton increasingly stood alone, he was admired for his extraordinary knowl-

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edge of history. He transmitted to the English-speaking world the rigor of studying history as much as possible from original sources, pioneered by nineteenth-century German scholars. His estate at Cannes (France) had more than 3,000 books and manuscripts; his estate at Tegernsee (Bavaria), some 4,000; and Aldenham (Shropshire, England), almost 60,000. He marked thousands of passages he considered important. He was awarded an honorary Doctor of Philosophy from the University of Munich (1873), honorary Doctor of Laws from Cambridge University (1889) and honorary Doctor of Civil Law from Oxford University (1890)—yet he never earned an academic degree in his life, not even a high school diploma.

To be sure, Acton had some big blind spots. Science didn't interest him. Although he expressed concern for the poor, he spurned as materialistic the Manchester Liberals who cared about raising living standards. He knew little about economic history which tells how ordinary people fared. He imbibed the cliché that free markets enabled the rich to get richer while the poor get poorer, when in fact free markets—such as the Industrial Revolution of his time—saved millions from starvation.

What was Acton like? Published photographs generally show him with a long beard. He had piercing blue eyes and a high forehead. “He was of middle height and as

he grew older he developed a full figure," added biographer David Matthew. "He was renowned as a conversationalist, but his talk was on the German model, full of facts and references . . . he enjoyed walking, traversing the lower slopes of the Bavarian mountains or wandering on the lip of the Alpes Maritimes, where they fall towards the sea."

Acton conveyed tremendous passion. "There was a magnetic quality in the tones of his voice," recalled one student who heard his Cambridge lectures. "Never before had a young man come into the presence of such intensity of conviction as was shown by every word Lord Acton spoke. It took possession of the whole being, and seemed to enfold it in its own burning flame. And the fires below on which it fed were, at least for those present, immeasurable. More than all else, it was perhaps this conviction that gave to Lord Acton's Lectures their amazing force and vivacity. He pronounced each sentence as if he were feeling it, poisoning it lightly, and uttering it with measured deliberation. His feeling passed to the audience, which sat enthralled."

Family Background

John Emerich Edward Dalberg-Acton was born January 10, 1834, in Naples. His mother Marie Peline de Dalberg was from a Bavarian Catholic family with roots in the French aristocracy. His father Ferdinand Richard Edward Acton was an English aristocrat. Acton's father died when he was three years old, and by the time he was six his mother had remarried Lord Leveson, later to become the second Earl of Granville, an influential English Whig who served as foreign minister in the Liberal cabinets of John Russell and William Ewart Gladstone.

Acton was mainly educated as a Catholic—Saint Nicholas (France), St. Mary's, Oscott (England), the University of Edinburgh (Scotland), where he studied two years, and the University of Munich (Bavaria), where he went after being refused admission to Cambridge and Oxford because of his Catholicism.

Johann Ignaz von Dollinger, among Europe's most distinguished historians, was Acton's most important teacher. Soon after Acton arrived in Munich in June of 1850, he began his apprenticeship to become a historian. "I breakfast at 8," he wrote his stepfather, "then two hours of German—an hour of Plutarch and an hour of Tacitus. This proportion was recommended by the professor. We dine a little before 2—I see him then for the first time in the day. At 3 my German master comes. From 4 till 7 I am out—I read modern history for an hour—having had an hour's ancient history just before dinner. I have some tea at 8 and study English literature and composition till 10—when the curtain falls."

Acton and Dollinger traveled in Austria, England, Germany, Italy, and Switzerland, visiting libraries and bookstores. They analyzed manuscripts and met with poets, historians, scientists, and statesmen.

Acton's blind spots were apparent from his observations about the United States which he visited with his stepfather in June 1853. Ever the aristocrat, he was turned off by rude manners and by the emphasis on practical things. He missed the colossal energy of American commerce as he wrote off New York—"the city cannot be seen for it is very flat and quite surrounded by shipping."

At the same time, though, this American trip afforded some rare human glimpses into a 19-year-old who had skipped from youth to adulthood. "The ices," he recorded in his diary, "are skillfully made, not too sweet, in order not to excite thirst, and they give you as much as two London ices for less money. . . . In the evening we played at prisoner's base in a field close to the [Niagara] Falls. Here I lost my hat."

When Acton began to study with Dollinger, he had been captivated by Thomas Babington Macaulay, the eloquent Whig historian who championed liberty and human progress. Acton described himself as "a raw English schoolboy, primed to the brim with Whig politics." But Dollinger cured Acton of Macaulay, and the young man became a fan of the Edmund Burke who

early on opposed the French Revolution. While with Dollinger, Acton attended lectures by the great German historian Leopold von Ranke who stressed that the role of an historian was to explain the past, not to judge it.

An Early Conservatism

Those familiar with Acton's famous blasts against tyranny will be startled at his early conservatism. For instance, unlike Manchester Liberals such as Richard Cobden and John Bright, but along with most Englishmen, Acton sided with the South during the American Civil War. "It is as impossible to sympathize on religious grounds with the categorical prohibition of slavery as, on political grounds, with the opinions of the abolitionists," he wrote in his essay "The Political Causes of the American Revolution" (1861). Five years later, in a lecture about the Civil War, Acton remarked that slavery "has been a mighty instrument not for evil only, but for good in the providential order of the world . . . by awakening the spirit of sacrifice on the one hand, and the spirit of charity on the other." Acton told a friend: "I broke my heart over the surrender of Lee."

In "The Protestant Theory of Persecution" (1862), he refused to condemn persecution across the board. He seemed to defend Catholic rulers who claimed persecution was the only way of keeping society together. He suggested Protestants like John Calvin were worse because they persecuted people just to suppress dissident views. In private, Acton was more outspoken: "To say that persecution is wrong, nakedly, seems to me first of all untrue. . . ."

Yet Dollinger and Acton became outspoken critics of Catholic intolerance. Their contemporary targets were the Ultramon- tans who sought to suppress intellectual freedom. Dollinger and Acton took issue with Vatican policy, especially after Pope Pius IX issued his notorious Syllabus of Errors (1864), which condemned alleged heresies of classical liberalism, including the

scandalous idea that "The Roman Pontiff can and ought to reconcile himself to, and agree with, progress, liberalism and recent civilization."

Acton contributed to a succession of Catholic journals whose mission was to help liberalize the Church: the bimonthly *Rambler* (1858–1862), quarterly *Home and Foreign Review* (1862–1864), and weekly *Chronicle* (1867–1868). These efforts were defeated in 1870 when the Vatican Council declared that the Pope was an infallible authority on Church dogma. Because Dollinger was a priest, his refusal to submit resulted in excommunication. Acton, a layman, wasn't required to officially acknowledge the Vatican Council decrees, and he remained within the Church.

It was during this period that Acton wrote one of his most prophetic essays, "Nationality" (1862), which offered an early warning about totalitarianism: "Whenever a single definite object is made the supreme end of the State, be it the advantage of a class, the safety or the power of a country, the greatest happiness of the greatest number, or the support of any speculative idea, the State becomes for the time inevitably absolute. Liberty alone demands for its realisation the limitation of the public authority, for liberty is the only object which benefits all alike, and provokes no sincere opposition."

Meanwhile, in 1865, Acton at 31 had married a cousin, Countess Marie Anna Ludomilla Euphrosyne Arco-Valley. She was the 24-year-old daughter of Count Johann Maximilian Arco-Valley. The Count had introduced Dollinger to Acton, so he and the young Countess had known each other ever since he began his studies in Bavaria. She seems to have shared his interests in religion and history. They had six children, four of whom survived into adulthood. At meals, Acton spoke German with his wife, Italian with his mother-in-law, French with his sister-in-law, English with his children, and perhaps another European language with a visitor.

Religion was always on Acton's mind, and he became much more of a hardliner than Dollinger, declaring that historians

must denounce evil. In February 1879, he split with Dollinger after the professor had retreated to the view that a historian's role was only to explain events, even if this meant remaining silent about terrible crimes. Acton insisted that evil actions, like murder, were always evil. "The papacy contrived murder and massacred on the largest and also on the most cruel and inhuman scale," he wrote, referring to the Inquisition. "They were not only wholesale assassins, but they made the principle of assassination a law of the Christian Church and a condition of salvation."

Acton lamented that "I am absolutely alone in my essential ethical position." He confided to his friend Charlotte Blennerhasset: "Let me try as briefly as possible and without argument to tell you what is in fact a very simple, obvious, and not interesting story. It is the story of a man who started in life believing himself a sincere Catholic and a sincere Liberal; who therefore renounced everything in Catholicism which was not compatible with liberty, and everything in Politics which was not compatible with Catholicity. . . . Therefore I was among those who think less of what is than what ought to be, who sacrifice the real to the ideal, interest to duty, authority to morality."

Acton faced not only intellectual shocks but hard times during the 1870s. Much of his livelihood came from his inherited agricultural land, but farm income plunged amidst the prolonged agricultural depression of this period. He sold a number of properties in 1883. He sublet his Aldenham estate. He sought a respectable salaried position.

Acton and Gladstone

Thanks to his stepfather, Acton had served as a Member of Parliament for a half-dozen years starting in 1859, and there he met Gladstone, who was to become Prime Minister three times. In 1869, three years after Acton lost a bid for re-election, Gladstone named Acton a baron, and he sat in the House of Lords, but during all the years he was in Parliament, he never participated in a debate. He quietly supported

Gladstone, whom he viewed as a great moral leader. They shared a passion for discussing history and religion.

In critical reviews, Acton faulted Anglican priest Mandell Creighton, author of *History of the Papacy during the Period of the Reformation*, for not condemning the medieval Papacy—promoter of the Inquisition. But Acton and Creighton had a cordial correspondence which led to Acton's most unforgettable lines, written on April 5, 1887: "I cannot accept your canon that we are to judge Pope and King unlike other men, with a favourable presumption that they did no wrong. If there is any presumption it is the other way against holders of power, increasing as power increases. Historic responsibility has to make up for the want of legal responsibility. Power tends to corrupt and absolute power corrupts absolutely."

Acton, the devout Catholic, shifted his views so far that he reproached his friend Gladstone, who had written an unqualified defense of Christianity against attacks by popular novelists. Acton noted that unbelievers deserved credit for combating "that appalling edifice of intolerance, tyranny, cruelty" which the Christian Church had become.

What to do with his prodigious learning? Acton pursued one book idea after the other, only to drop it. He did research for a history of the Popes, a history of books banned by the Catholic Church, a history of England's King James II and a history of the U.S. Constitution. He contemplated some kind of universal history, the theme of which would be human liberty. This became his dream for a history of liberty.

Author James Bryce recalled, Acton "spoke like a man inspired, seeming as if, from some mountain summit high in the air, he saw beneath him the far winding path of human progress from dim Cimmerian shores of prehistoric shadow into the fuller yet broken and fitful light of the modern time. The eloquence was splendid, but greater than the eloquence was the penetrating vision which discerned through all events and in all ages the play of those moral forces, now creating, now destroying, always trans-

muting, which had moulded and remoulded institutions, and had given to the human spirit its ceaselessly-changing forms of energy. It was as if the whole landscape of history had been suddenly lit up by a burst of sunlight.”

The History of Freedom

Acton covered part of his beloved theme in two lectures, “The History of Freedom in Antiquity” (1877) and “The History of Freedom in Christianity” (1877), as well as his lengthy review of Sir Erskine May’s *Democracy in Europe* (1878). He traced liberty’s origins to the ancient Hebrew doctrine of a “higher law” which applies to everyone, even rulers. He explained how, uniquely in the West, competing religions created opportunities for individuals to break free. He told how democracy emerged from commercial towns. He talked about the radical doctrine that individuals may rebel when rulers usurp illegitimate power. He chronicled epic struggles against tyrants.

These essays abound with memorable observations. For example: “[Liberty] is the delicate fruit of a mature civilization. . . . In every age its progress has been beset by its natural enemies, by ignorance and superstition, by lust of conquest and by love of ease, by the strong man’s craving for power, and the poor man’s craving for food. . . . At all times sincere friends of freedom have been rare, and its triumphs have been due to minorities, that have prevailed by associating themselves with auxiliaries whose objects often differed from their own; and this association, which is always dangerous, has been sometimes disastrous. . . . The most certain test by which we judge whether a country is really free is the amount of security enjoyed by minorities. . . .”

Why did liberty become more secure in America than almost anywhere else? “Liberty,” wrote Acton to Gladstone’s daughter Mary, “depends on the division of power. Democracy tends to the unity of power. . . . federalism is the one possible check upon concentration and centralism.”

Acton, unfortunately, lacked the single-minded focus for a big project. His voluminous papers don’t even include an outline for a history of liberty. He never started it. All he left were some 500 black boxes and notebooks mainly filled with disorganized extracts from various works. Much of the material is about abstract ideas rather than historical events. Later historian E.L. Woodward remarked that Acton’s history of liberty was probably “the greatest book that never was written.”

In 1895, Cambridge historian John Seeley died, and it was Prime Minister Rosebery’s responsibility to name a new Regius Professor of Modern History. Although Acton hadn’t taught a class in his life, he was recommended because of his learning, his loyalty to the Liberal cause and his need for a salary. And so Acton, rejected when he tried to enter Cambridge as an undergraduate, got the prestigious appointment.

In his famous inaugural lecture, he insisted that politicians should be judged like ordinary people: “I exhort you never to debase the moral currency or to lower the standard of rectitude, but to try others by the final maxim that governs your own lives, and to suffer no man and no cause to escape the undying penalty which history has the power to inflict on wrong.”

“History,” he continued, “does teach that right and wrong are real distinctions. Opinions alter, manners change, creeds rise and fall, but the moral law is written on the tablets of eternity.”

“The principles of true politics are those of morality enlarged; and I neither now do, nor ever will admit of any other.”

During his last years at Cambridge, Acton delivered only two series of lectures—on modern history and on the French Revolution—but colleagues viewed him with awe. Recalled historian George Macaulay Trevelyan:

His knowledge, his experience and his outlook were European of the Continent, though English Liberalism was an important part of his philosophy. He at once created a deep impression in our somewhat provincial society. Dons of all subjects crowded to his oracular lectures,

which were sometimes puzzling but always impressive. He had the brow of Plato, and the bearing of a sage who was also a man of the great world. His ideas included many of our own, but were drawn from other sources and from wider experience. What he said was always interesting, but sometimes strange. I remember, for instance, his saying to me that States based on the unity of a single race, like modern Italy and Germany, would prove a danger to liberty; I did not see what he meant at the time, but I do now!

He accepted a Professorial Fellowship at Trinity, and at first lived in his rooms at Neville's Court. There he was to be found at all hours, accessible to any Cambridge historian from [Frederic] Maitland or [William] Cunningham to the humblest undergraduate, ready to help anyone from the profound stores of his knowledge. He sat at his desk, hidden away behind a labyrinth of tall shelves which he had put up to hold his history books, each volume with slips of paper sticking out from its pages to mark passages of importance.

He was very kind to me. I remember a walk we had together, and the place on the Madingley road where he told me never to believe people when they depreciated my great-uncle [Thomas Babington Macaulay], because for all his faults he was on the whole the greatest of all historians.

Since Acton came to recognize he would never write a history of liberty, he agreed to edit a series of books which would gather contributions from many respected authorities. Thus was born the *Cambridge Modern History*, a mundane series which squandered his last energies.

Acton suffered from high blood pressure, and in April 1901, after having edited the first two volumes, he had a paralytic stroke. He retired to his home in Tegernsee, Bavaria. A little over a year later, June 19, 1902, he died as a priest administered last rites. He was buried in a nearby churchyard.

The Acton Legacy

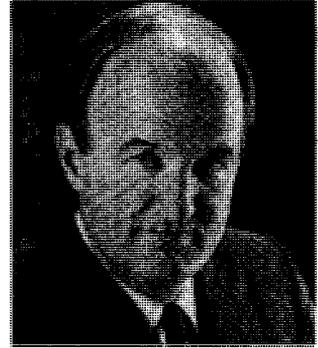
After Acton's death, his 60,000-volume Aldenham library—his principal collection on liberty—was purchased by American steel entrepreneur Andrew Carnegie and given to John Morley, among the last English classical liberals. Morley, in turn, presented the books to Cambridge, so they would always be kept together.

During the next several years, Cambridge lecturers John Neville Figgis and Reginald Vere Lawrence gathered Acton's most important works, and they appeared as *Lectures on Modern History* (1906), *The History of Freedom and Other Essays* (1907), *Historical Essays and Studies* (1908), and *Lectures on the French Revolution* (1910), followed by *Selections from the Correspondence of the First Lord Acton* (1917).

But he became a forgotten man as "Progressives," New Dealers, socialists, Communists, fascists, Nazis, and other collectivists amassed monstrous political power which sacrificed liberty in the name of doing good. Then came the death toll—nearly 10 million dead from World War I, another 50 million dead from World War II, plus tens of millions people killed by Russia's Stalin and China's Mao, just to name the biggest butchers. Hundreds of millions more are subject to powerful states whose tax collectors take 40 percent, 50 percent, 60 percent and more of their hard-earned money.

Amidst collectivist carnage, some people began to remember Acton's warnings about the evils of political power and his call to cherish human liberty. "It appears that we are privileged to understand him as his contemporaries never did," observed historian Gertrude Himmelfarb. "He is of this age, more than of his. He is one of our great contemporaries." □

Who Is Henry Spearman?



“So if there is a real model for Spearman, his identity remains a mystery, at least to me.”

—Herbert Stein, foreword,
Murder at the Margin

Over the past several weeks, I took a break from writing and decided to read three murder mystery novels, all authored by Marshall Jevons, a penname for William Breit and Kenneth G. Elzinga, professors of economics at Trinity University in San Antonio and the University of Virginia, respectively.

Elementary Economics, My Dear Watson

What makes these mysteries fascinating is the ingenious way the writers incorporate basic principles of economics to solve the murders. Marginal utility, the law of demand, consumer surplus, opportunity cost, profit maximization, game theory, and Adam Smith’s invisible hand all play a part in advancing the stories and ultimately catching the culprits. As Henry Spearman, the detective-hero, says to the local police

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All three Spearman mysteries are available from Laissez Faire Books, (800) 326-0996.

investigator in *Murder at the Margin*, “Elementary, my dear Vincent. Elementary economics, that is!”

Let me give you an example from each novel, without revealing the entire plot. In *Murder at the Margin* (Princeton University Press, 1978; paperback, 1993), Spearman is able to dismiss Mrs. Forte as a suspect in the killing of her husband because “a woman usually would be financially far better off by divorcing her husband than by killing him.” Mrs. Forte’s alimony payments over her expected lifetime would far exceed the death benefits from an insurance policy. Clearly, someone else must have killed Mr. Forte.

In the second novel, *Fatal Equilibrium* (MIT Press, 1985; Ballantine Books paperback, 1986), Spearman uncovers a fraud in the research of a fellow Harvard professor. In reviewing the professor’s book on prices of various commodities in a remote island, Spearman discovers a statistic that violates the law of utility maximization. The sleuth quickly concludes that his colleague made up the figures . . . and therefore engaged in murder to hide his fictitious research.

In the third novel, *A Deadly Indifference* (Carroll & Graf, 1995), Spearman is led to suspect an individual who purchases an automobile even though another car in better condition is available at the same price. Obviously, Spearman reasons, the suspect values something in the first car to justify the monetary difference. That something leads to the murderer.

Defending the Free Market

Another likeable feature is the free-market bias running through the mystery series. Henry Spearman consistently defends economic liberty and attacks socialist thinking. He supports free trade, economic inequality, imperfect competition, and private property rights. The economist takes on collectivists of all shades—anthropologists, sociologists, environmentalists, social democrats, Keynesians, and Marxoids.

Who Is This Free-Market Economist?

Who is Henry Spearman, this remarkable proponent of free markets? Spearman is described as a short, balding, stubborn, frowsy professor, former president of the American Economic Association, and a “child of impecunious Jewish immigrants.” Breit and Elzinga admit that they originally had Milton Friedman in mind, except that instead of the University of Chicago, Spearman comes from Harvard. “There is no such thing as a free lunch,” Spearman declares in *Murder on the Margin*. (p. 90) And like Friedman, Spearman is old-fashioned, using a pencil and paper, rather than a computer, to solve problems. Yet the focus of the amateur sleuth is decidedly microeconomic in nature, not monetary policy or macro-theorizing.

Austrian economists will be happy to find a great deal of Ludwig von Mises in Henry Spearman as well. (I thank Roger Garrison for this observation.) The detective-economist defends Say’s Law, the financial markets, advertising, competition, commodity money, even methodological dualism. “Economics is different from chemistry,” Spearman declares. “The methods are different. What goes on in one place doesn’t necessarily go in another.” (*Fatal Equilibrium*, p. 111) In *A Deadly Indifference*, the august professor delivers an unpopular speech before the Cambridge faculty in the mid-1960s, forecasting the

collapse of Communism because it “is inconsistent with all that we know about the motivations of human action.” (p. 36) Like Mises, who predicted the impossible of socialist economic calculation, Spearman is ridiculed for his extreme position.

More Like Becker?

However, having read all three novels, my feeling is that Henry Spearman is more like Gary Becker than anyone else. Becker, Chicago professor and Nobel laureate, applies economics to marriage, crime, and other non-traditional areas. (See, for example, his book, *The Economic Approach to Human Behavior*, University of Chicago Press, 1976.) So does Spearman, “pushing his economics into criminology.” He declares, “Love, hate, benevolence, malevolence or any emotion which involves others can be subject to economic analysis.” (*Murder at the Margin*, p. 61)

Spearman, like Becker, also favors Marshall’s definition of economics as the “study of man in the ordinary business of life.” “Spearman took this definition seriously even though it was considered a bit old-fashioned to some of his younger colleagues who saw economics as a solving of abstract puzzles unrelated to real events.” (*Murder at the Margin*, p. 113) The authors write that Spearman is trained in statistics and corroborates his “high logical standards” with “empirical evidence.” (*Fatal Equilibrium*, p. 103) Gary Becker’s faithful application of microeconomic principles to solving problems is consistent with Henry Spearman’s *modus operandi*. He may not look like Spearman, but he acts like him.

Breit and Elzinga are to be congratulated for developing a creative, clever way to expound the principles of free-market economics. The response has been gratifying. Many professors make *Murder at the Margin* and the other novels required reading in their classes. I recommend you put them on your summer reading list. □

How Much Do You Know About Liberty? (a quiz)

Try your hand at answering the following questions:

1. What method of resolving disputes did trial by jury replace?
2. Which great American patriot was called the “Prince of Smugglers”?
3. What bulwark of American liberty do we owe to the Antifederalists?
4. How many slaves were liberated by Lincoln’s Emancipation Proclamation?
5. After the Civil War, how did the federal and state governments oppress black people?
6. Why did states establish compulsory government schools?
7. What was the primary reason for the Sherman Antitrust Act?
8. When was the last time an American president responded to a depression by cutting government taxes and spending—and what were the results?
9. When and why did organized crime get started in the United States?
10. Which powerful U.S. government agency was established to assure monetary stability—but became a major factor responsible for the Great Depression?
11. Why did 61 nations raise their tariffs on American products after 1930?
12. How did government devastate farmers during the Great Depression?
13. Name three New Deal policies that destroyed American jobs.
14. What effect did the New Deal have on the Great Depression?
15. Which three twentieth-century presidents promised to keep America out of war—but maneuvered in?
16. About how many laws do U.S. legislative bodies, from city councils to Congress, enact each year: 10,000, 50,000, 100,000, 150,000?
17. About how many tariffs (import taxes) are there in the U.S. Tariff Code: 100, 500, 1,000, 5,000, 8,000?
18. Every year, Americans spend an estimated five billion hours unproductively wrestling with which U.S. regulations?
19. About how much do government regulations cost Americans each year: \$100 billion, \$200 billion, \$400 billion, \$600 billion?
20. What do these cherished pleasures of American life have in common: cowboys, hamburgers, movies, oranges, bowling, frankfurters, tomatoes, swimming, pizza, libraries, peas, onions, railroads, potatoes, salsa, picnics, symphony orchestras, and Christmas trees?

Answers appear on pages 470–472.

BOOKS

Do the Right Thing

by Walter E. Williams

Stanford: Hoover Institution Press • 1995 •
83 pages • \$15.95 paperback

Reviewed by John Robbins

Dr. Walter Williams, Chairman of the Department of Economics at George Mason University in Virginia, a syndicated columnist for the past 15 years, has collected his best newspaper columns from 1990 to 1994, sorted them into seven categories, and published them under the title *Do the Right Thing*.

Young Walter Williams grew up in a North Philadelphia housing project in the 1930s and '40s. He thanks his mother, who "having been abandoned by her husband, raised two children by herself through difficult times. She is the one who gave me a spirit of rebelliousness [and] taught me hard lessons about independence and discipline. . . ." He later went on to earn his doctorate in economics from UCLA. Dr. Williams also thanks Providence "that enabled him to have teachers in high school and professors in college who didn't give a damn about what color I was and held me accountable to high standards."

The title *Do the Right Thing* reflects Dr. Williams's political philosophy in two important respects: it is not enough to think the right thing—though all right action must start with right thinking—it is necessary to do, to act. Faith without works is mere lip service. Second, when one does act, one must do the *right* thing, the *moral* thing, not the expedient thing or the politic thing. Dr. Williams sees the source of American decline in the twentieth century as moral rot, in both our private lives and our public institutions.

In an age of philosophical and moral relativism and BOMFOG (the ubiquitous and false platitudes about unity in the broth-

erhood of man and fatherhood of God), Dr. Williams's honesty and analysis may be painful for some delicate souls. "Regardless of whose sensibilities are offended," he writes, "I do not hesitate to call things as I see them. Why? Because I care about our country and fear for its future as a free and prosperous nation." More importantly, Dr. Williams cares about truth.

Williams is controversial, but then anyone worth listening to is controversial. Long before William Safire thought of characterizing Hillary Clinton as a congenital liar, Williams recognized the political class, especially Congress, as "charlatans, either ignorant or contemptuous of the Constitution." Williams does not exaggerate. As one who worked on Capitol Hill for several years, I can attest to the accuracy of his observation. About the only thing sure to call forth more ridicule on the floor of Congress than a serious reference to the Constitution is a serious reference to the Bible as the Word of God. That means, of course, that many Congressmen cannot do the right thing, since they do not know or do not want to know what the right thing is.

Dr. Williams groups his essays topically: "Race and Sex," "Government," "Education," "The Environment and Health," "The International Scene," and "The Law and Society." A final collection, "Potpourri," contains those columns not easily classifiable.

On race, Dr. Williams writes: "I consider myself fortunate to have had virtually all my education before it became fashionable for white people to like black people. That meant that my educators were free to challenge whatever nonsense I uttered without fear of accusations of racism." Now, he writes, "The grossly fraudulent education received by a majority of black students in government-owned schools is a major problem. . . ." Dr. Williams makes it clear, however, that the problem is not one of racism, but of socialism: White students are also getting a "grossly fraudulent education" in the government schools.

One of Dr. Williams's most important essays is one in which he defends the

founders of America at the time of the Constitution against the charge that they were defenders of slavery. Williams quotes several, including Thomas Jefferson, James Otis, John Adams, Benjamin Franklin, George Washington, James Madison, and Alexander Hamilton. Typical was the statement of Madison that slavery was "a barbarous policy."

Dr. Williams brings to his analysis of contemporary issues the keen insights of a sound economist. He explains why businesses are in favor of regulations (it's to keep down competition), why the self-esteem movement is so pernicious (it stifles effort and achievement), why a balanced budget is not enough (taxes and spending at today's levels are legalized theft). There is hardly a significant and contemporary topic that Williams doesn't discuss in this book. It is well worth reading, and Dr. Williams is well worth listening to. □

Dr. Robbins is professor of political philosophy and Director of The Freedom School at the College of the Southwest in Hobbs, New Mexico.

War on the West: Government Tyranny on America's Great Frontier

by William Perry Pendley

Regnery Publishing, Inc. • 1995 • 301 pages • \$24.95

Reviewed by Jane S. Shaw

If the federal government has declared war on the West, as William Perry Pendley contends, we had better pay attention, since the federal government owns so much of it. As Pendley points out, Washington, D.C., manages more than 80 percent of Nevada, almost two-thirds of Utah and Idaho, and half of Oregon, Wyoming, Arizona, and California.

Pendley, a lawyer and political appointee in the Reagan Administration who now heads the Mountain States Legal Foundation, makes a convincing case that the government is on the attack. Planning the strategy are environmentalists, from blue-suited lobbyists in Washington, D.C., to

urban dwellers in the West's growing cities like Seattle and Portland. These environmentalists (whom Pendley routinely calls "environmental extremists") hold sway over the federal agencies that manage the West. They are imbued with a romantic view of what the West should be—a vast "buffalo commons" interspersed with parks and wilderness areas that have reverted to "presettlement" conditions.

To make their notion a reality, they are using every tool at their disposal, from the Endangered Species Act to the activism of their political ally, Interior Secretary Bruce Babbitt. Their specific goal is to halt traditional western activities such as ranching, logging, and energy production. And they are succeeding.

Anyone who has been following the conflict between environmentalists and commodity users will agree that Pendley's contention is largely correct. He supports his arguments with examples, especially legal cases, sometimes in lengthy detail.

The chief problem with the book is that for Pendley bringing peace to the West means returning to the *status quo ante*. He doesn't champion freedom for the West. Instead, he defends the West as it has been—a federal fiefdom. Until recently, the government nominally controlled vast stretches of land but managed it in close association with ranchers, loggers, and mining companies. Not only was this inefficient (compared with private property); it was often costly to taxpayers.

But that doesn't bother Pendley. What bothers him is the failure to continue this arrangement. He is outraged at Secretary Babbitt's opposition to water projects such as the Animas-La Plata water project in the Four Corners area where Utah, Colorado, Arizona, and New Mexico meet. The project, he says, will "inject more than \$20 million" into the area and total annual benefits will "exceed \$31 million."

But dams in the West are heavily subsidized by taxpayers. The "injections" of funds from taxpayers are a major portion of the benefits that Pendley tallies. As happens so often in politics, the *cost* of a program

looks like a *benefit* to those on the receiving end. But the costs are real.

Similarly, Pendley defends the current system of grazing when he should at least question it. The federal government owns millions of acres of land leased to ranchers, and controversy has swirled around whether the leasing fee is too low. Pendley says the fee is fair, but he ignores the more fundamental issue. That is the question of who should own this land.

In the late nineteenth century, the federal government reversed its past policy of turning territory over to private owners. It did so largely under the influence of the Progressives, an ideological movement committed to the idea that a government bureaucracy could manage natural resources better than private owners. As a result of this reversal, large parts of the West stayed in federal hands. So we have 80 percent of Nevada in federal hands, and only 2 percent of Maine. For a long time, many Westerners liked it that way because, in spite of federal ownership, local ranchers and logging and mining companies were effectively in charge. Now that has changed, as Pendley points out.

It is possible that the growing property rights movement will mount a successful challenge to the environmentalists. But as long as the federal government owns the West, special interest groups will control it. So, the fundamental problem is not “environmental extremists,” as Pendley contends. It is government ownership. □

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The New Color Line: How Quotas and Privilege Destroy Democracy

by Paul Craig Roberts and
Lawrence M. Stratton

Regnery Publishing • 1995 • 254 pages • \$24.95

Reviewed by William H. Peterson

Item: The O. J. Simpson criminal trial verdict brings gasps and cheers. Polls show whites believe “O. J.” to be guilty by

about 75 percent while blacks concur with the verdict of “not guilty” by about 75 percent.

Item: The Million Man March on Washington puts the spotlight on its promoter, Louis Farrakhan, head of the Nation of Islam, who declares President Clinton, House Speaker Newt Gingrich, and Senate Majority Leader Bob Dole to be part of an overall “white supremacist mindset,” adding: “We must be prepared to punish them if they are against us.”

Add race riots from Detroit in 1968 to Los Angeles in 1992, and the 1964 Civil Rights Act’s affirmative action program seems to confirm what I call Peterson’s Law—government intervention boomerangs and makes things worse. All of which makes the Roberts-Stratton book a timely tool to unlock the riddle of the upsurge of racism and polarization in America.

Paul Craig Roberts, the John M. Olin fellow of the Washington-based Institute for Political Economy, and Lawrence M. Stratton, an Institute research fellow and member of the Virginia and D.C. bars, see that the 1964 civil rights law soon deteriorated into statistical race and gender quotas (which its sponsor Senator Hubert Humphrey promised would never happen), that merit loses out to preferment, that many white males have experienced “reverse discrimination,” that the law breaks with Thomas Jefferson’s Golden Rule for domestic tranquility of “equal rights for all, special privileges for none.”

Today the vast majority of Americans, including many blacks, think affirmative action is for the birds. Ditto forced busing to achieve “racial balance” in public schools, and a host of other interventions governing racial “proportionality” for such things as bank credit and government contracts. State-decreed “fairness” becomes, manifestly, state-decreed unfairness supported by dollars from very frequently unwilling taxpayers. Worse, it’s a threat to the ability of Americans to live peacefully together.

No question that racism is a deep social problem but the larger question is its origin—who or what is responsible? Racism,

wisely hold Roberts and Stratton, is largely traceable to the state. Some of it of course reaches back to state-sanctioned slavery—terminated by the Civil War and the Thirteenth Amendment.

But much of it harks back to the New Deal's creation of a Welfare State with its mentality of "entitlements" such as Social Security and Aid to Families with Dependent Children (AFDC), both enacted in 1935. Judicial, legislative, and bureaucratic action of the last 30 years or so, apart from the impact of ghetto public schools, has but intensified America's polarization.

Schools and parental choice are, I think, critical. The authors point to the 1990 U.S. Supreme Court five-to-four decision in *Missouri v. Jenkins*. In 1987 U.S. District Judge Russell Clark ordered that property taxes in Kansas City, Missouri, be *doubled* because school authorities had failed to achieve "racial balance," a situation exacerbated by "white flight" to the suburbs. The Supreme Court upheld Judge Clark's order, with Justices Kennedy, Rehnquist, O'Connor, and Scalia dissenting that "the power of taxation must be under the control of those who are taxed."

Judge Clark had required that the Kansas City schools provide, among other things, radio and television studios, swimming pools, greenhouses, a planetarium, and a model United Nations wired for language translation. Initially the cost was estimated at \$700 million. The final bill was more like \$1.3 billion, or almost twice as much.

In the intervening years Kansas City citizens cried "No Taxation Without Representation!" and dumped tea-bags on the courthouse steps. To no avail. White flight continued, and when CBS's "60 Minutes" did a segment on Kansas City schools in 1994 a camera panning over a high school class revealed a number of students zonked out, their heads on their desks.

Is there a way out of this induced social trauma? Yes. It's back to Jefferson's bidding of no special privileges. It's back to see that the 1964 law's express prohibition of quotas—section 703(j)—means nothing at the hands of federal judges who "interpret"

the law, that Uncle Sam, the social engineer, only makes things worse, that Americans have to revert to an era of good will and laissez faire to restore social peace. Conclude Roberts and Stratton: "There is no way to govern a society composed of implacable separate interests except through coercion from above. If we continue the assaults on good will, we will lose our democracy." □

Dr. Peterson, an adjunct scholar at the Heritage Foundation, is the Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University in North Carolina.

Contending With Hayek: On Liberalism, Spontaneous Order and the Post-Communist Societies in Transition
edited by Christoph Frei and Robert Nef

Peter Lang • 1994 • 228 pages • \$33.95
paperback

Reviewed by John Attarian

Friedrich Hayek is celebrated as a scourge of socialist fallacies and a champion of liberty. As Eastern Europe's former Communist countries pursue a freer state, what can Hayek's ideas teach them?

Those seeking answers to that question should consult this volume of essays, the result of a colloquium in Zurich in 1992, sponsored by the Liberales Institut, which was founded in 1979 to explore basic political concepts in light of classical liberalism. Thirteen European scholars critically scrutinize Hayek's main social and political ideas and his relevance for the post-Communist societies.

John Gray (Jesus College, Oxford) argues that Hayek's ideas don't provide guidance for the transition out of socialism, and that following his prescriptions will be disastrous. The notion of spontaneous order proves central planning's failure, but markets don't just evolve spontaneously; they require institutional underpinnings, such as property and contract law, which post-

Communist societies lack. But Anthony de Jasay responds cogently that historical evidence shows that voluntary exchange systems, supported by privately enforced rules, often pre-dated state authority, and that “constructivists” like Gray have it backwards: the post-socialist states lack the means to create a new order. “A spontaneous process, however its critics may scold it for being anarcho-capitalist and exploitative, generates its own wherewithal for an emergent order,” as in the Czech Republic’s case.

Lauding Hayek’s long-term perspective, Robert Nef (Liberales Institut) counsels patience for the transition, noting that the destruction of mutual trust and good faith were the worst casualties inflicted by socialism and that the market greatly promotes their restoration.

Students of Hayek’s “spontaneous order” and its ethical implications and his epistemological concerns—how to use knowledge and how to elicit it—will find the sophisticated essays by Gerard Radnitzky (University of Trier) and Hardy Bouillon (Gerda Henkel Foundation) useful. Radnitzky expounds and upholds Hayek’s epistemology, notion of cultural evolution, and descriptive ethics; Bouillon unmasks various conceptual confusions in Hayek, e.g., of “freedom” and “power,” and reformulates as necessary.

Roland Kley (University of St. Gallen) contends that Hayek errs in seeing the clash between liberalism and socialism as one of different means to shared ends, which can be resolved scientifically without value judgments. Moreover, *pace* Hayek, the market does not reconcile conflicting claims, and Hayek evades the issue of social justice. Hayek’s liberalism, then, has shaky foundations.

Hans-Hermann Hoppe (University of Nevada, Las Vegas) concurs—from a classical liberal perspective. His essay is one of the book’s best; friends of freedom would do well to peruse it. He exposes serious pitfalls in Hayek’s thought, e.g., an “absurd” notion of coercion, under which one “coerces” others if one doesn’t provide

what they need. Government, Hayek asserts, should ensure a minimum income, spend to augment deficient private investment, regulate for health and safety, provide public amusements, and so on. In short, Hayek’s position is indistinguishable from a statist social democrat’s. Hayek’s fame, Hoppe concludes, arose because “his theory poses no threat whatsoever” to social democracy. Those seeking a free-market champion must look instead to “the great and unsurpassed Ludwig von Mises.”

Other essays present Hayek’s key ideas, explore the circumstances of Hayek’s intellectual beginnings, and trace the development of his notion of spontaneous order. Throughout, Hayek’s ideas receive the thorough and serious exploration they deserve. Wide-ranging and timely, its essays models of scholarship and rigorous argument, *Contending with Hayek* is a must for liberty-loving scholars, especially students of Hayek and of Austrian economics. □

Dr. Attarian is a free-lance writer in Ann Arbor, Michigan.

Speaking Freely: The Public Interest in Unfettered Speech

With an introduction by
Edward Crane

The Media Institute • 1995 • 133 + xxii pages
• \$14.95 paperback

Reviewed by Matthew Carolan

Speaking Freely, written from a conservative-libertarian point of view, contains five medium-length essays about relatively contemporary First Amendment controversies: television violence (written by John Corry), indecency legislation (Doug Bandow), mandated children’s television time (Adam Thierer), limits on commercial speech (Daniel Troy), and the so-called Fairness Doctrine (E. Brandt Gustavson).

The essays are all well-written, contain interesting historical detail, and are explicitly designed in subject matter and argument to convince a conservative audience—not

always sympathetic to free speech—to abandon statist solutions to social pathologies.

At the risk of over-rationalizing this issue, I might say that the argument for regulation of speech boils down to the false dilemma of the demagogue. How else will we “protect children”? Or, on the subject of commercial speech, “how else will we protect consumers?”

The idea that consumers can protect themselves, and parents can protect children, is often dismissed by those who fear the dark, incompetent side of human nature—or believe, in the words of a somewhat bourgeois and populist rhetoric that “parents [consumers] deserve all the help they can get.”

The fact that the government is often not helping, but hurting the very interests of those it seeks to “protect” is a strong theme here. For example, the vagueness of pro-children viewing standards might lead to the control of moral messages as “hate speech”—or the “fairness” of the federal doctrine might require rebuttals to every religious broadcasting message, thereby chilling religious speech.

Less emphasized but still here is the more abstract, deontological theme that regulation is simply a violation of an absolute right, or that what provides you with that extra layer of protection might violate the legitimate property and speech rights of others.

This leads me to wonder when the book will be written for conservatives defending hard-core pornography, or Internet messages on how to build atomic bombs. *Speaking Freely* is revealing, in that sense, for

what it does not discuss as much as what it does. It is interesting, for example, to see well-known religious individuals like Mr. Bandow, and Mr. Gustavson (a religious broadcaster), arguing against content controls in their respective areas of interest, but leaving untouched the broader implications of their message.

In that sense I think the producers of this book should give conservatives a little more credit for powers of circumspection. The authors here are batting out the softballs thrown over the heart of the plate—granted, the kind of softballs that a lot of other conservatives and liberals have been missing terribly. There is no doubt that what is said here is instructive, eminently valuable, and thoroughly convincing.

But it seems there is a larger philosophical issue that is left alone, and must be addressed: Must speech by its nature degenerate and thus lead to increases in degenerate behavior? Is there a teleology to free speech? Will it lead in an evolutionary direction? I for one look forward to more powerful philosophical, metaphysical engagement between conservatives and libertarians on the subject of unfettered speech—a kind of investigation about the direction of unfettered culture that one might find, for example, in the writings of the American philosopher Charles Sanders Peirce. We have seen too many instances, it seems to me, of practical political thinking running out of steam when there is not much else behind it. □

Mr. Carolan is executive editor of National Review.

Answers to the Liberty Quiz questions on page 463.

1. Trial by battle. Apparently the custom had been to settle many disputes by fighting. King Henry II (1154–1189) introduced a number of legal reforms which, among other things, gave people the option of having a group of peers resolve a dispute. Historian F.W. Maitland: “The person sued might refuse trial by battle and have the question ‘Who has the best right to this land?’ submitted to a body of his neighbors sworn to tell the truth.”

2. John Hancock (1737–1793), the resourceful Boston merchant who defied British mercantilist restrictions and, with his sloop *Liberty*, smuggled cloth, hardware, coal, wine, tea, and other contraband. He led protests against British taxes. Hancock was president of the Second Continental Congress, the first elected governor of Massachusetts, and the first to sign the Declaration of Independence. Reportedly, a quarter of the signers were smugglers.

3. The Bill of Rights. Soon after the Constitutional Convention made its proposed Constitution public on September 17, 1787, people who became known as Antifederalists objected that it lacked a bill of rights specifically prohibiting the federal government from violating key civil liberties. The Constitution was ratified without a bill of rights, but Antifederalists threatened to push for a second constitutional convention. To head this off, James Madison sponsored a bill of rights during the first session of Congress.

4. The Emancipation Proclamation didn’t free a single slave. President Lincoln issued it on September 22, 1862, and it applied only to slaves in the rebel South—then beyond Union control. The aim of this war measure was to help stir insurrection in the South. The Emancipation Proclamation didn’t apply to the North or loyal border states, so slavery continued there.

5. Southern state governments enacted “black codes” which made it difficult for blacks to compete with whites in business and professions. To help protect freedom of

contract and property rights for blacks as well as everyone else, Congress passed the Civil Rights Act of 1866. But in 1872, the Supreme Court refused to uphold freedom of contract and property rights for blacks. These were the notorious *Slaughter-House Cases*.

6. The government school movement gained momentum as politically connected Protestants worked to counter the cultural influence of immigrant Catholic hordes from Ireland and Italy. By controlling school tax money and enacting compulsory attendance laws, Protestants could indoctrinate millions in schools they controlled.

America was a highly literate nation long before government schools dominated education. This is apparent from the remarkable number of books sold through the mid-nineteenth century. In 1863, *American Publisher’s Circular* reported some annual sales, including Harriet Beecher Stowe’s *Uncle Tom’s Cabin*, 310,000 and Washington Irving’s works, 800,000. Altogether, Anna Sewall’s *Black Beauty* sold 3 million copies; Noah Webster’s spelling book, 24 million copies; William McGuffey’s *Readers*, 125 million copies. Moreover, foreign visitors like Alexis de Tocqueville reported their impressions that literacy was widespread.

7. Contemporary and near-contemporary accounts suggest the Sherman Antitrust Act was passed to provide political cover for the McKinley Tariff, enacted at nearly same time. Back then, many observers commented on the hypocrisy. For example, New York lawyer Franklin Pierce: “We provide for high duties upon foreign imports for the protection of home industries, and when a monopoly controlling the home market results therefrom, then pass penal laws punishing the monopoly. In this way our politicians prove to the great combinations who furnish campaign disbursements for political parties their fidelity to monopolistic interests, while, by the penal statute, they assure the people that they are against trusts.”

8. Amidst the deep depression of 1920, President Warren Harding ordered 40 percent spending cuts. This depression was

over by July 1921, and the great boom of the 1920s got underway.

National income grew from an estimated \$59.4 billion to \$87.2 billion between 1921 and 1929. Record numbers of Americans bought their own homes. Annual sales of radios soared from about \$10 million in 1920 to \$411 million in 1929. By 1929, there were over 26 million cars registered in the United States, about one for every five Americans. Books sold in record numbers. To be sure, a few groups didn't share in the overall prosperity—notably farmers. They had expanded capacity dramatically during World War I, and afterwards European farmers resumed their normal production levels. So there was substantial excess capacity which farmers were reluctant to liquidate. This depressed agricultural markets for years.

9. Organized crime arose because of alcohol Prohibition during the 1920s. Enterprising individuals filled the continuing demand for adult beverages. They were often rough characters, because one sometimes had to be rough to enforce illegal contracts—courts wouldn't do it. As Milton Friedman reported on homicide trends: "There was a steady rise through World War I, and then an even steeper rise when the Eighteenth Amendment prohibiting the production, distribution, and sale of alcoholic beverages became effective. That rise peaked in 1933, the year in which the Prohibition amendment was repealed. The homicide rate then fell. . . ."

10. The Federal Reserve System was a key culprit responsible for the Great Depression. The Fed is subject to political influence. In addition, it's always difficult to interpret conflicting information, which means human error is a continuing risk. Because the Fed has considerable impact over the money supply, its errors can have a traumatic impact on the economy, as they did during the 1930s. In general, the half-century following the establishment of the Fed was more unstable than the half-century preceding it.

11. Nations raised tariffs on American products as retaliation against the Tariff Act

of 1930 (Smoot-Hawley). They singled out products which hurt Americans the most. Spain, for example, retaliated against U.S. tariffs on Spanish cork, wine, and oranges by slapping 125 percent tariffs on U.S. cars. In Italy, Mussolini had resisted pleas for protection until Smoot-Hawley, but afterwards he agreed to effectively ban U.S. cars and radios. The Swiss boycotted U.S. products—typewriters and gasoline were especially hard-hit. America's long-time friends and military allies like Canada, Britain, and France were as angry as everyone else. Overall, following Smoot-Hawley, U.S. exports plunged as much as 90 percent.

12. Taxes hit Depression-era farmers harder than anything else, costing more than farm mortgages. State and local governments got most of their revenue from property taxes which remained high even though farm commodity prices declined during the Great Depression.

13. The New Deal destroyed jobs by increasing taxes for a variety of spending schemes. For example, New Dealers tried to prop up farm income by reducing farm production, but this destroyed jobs, as Agriculture Secretary Henry Wallace admitted in 1934: "I am fully aware that acreage adjustment produces its unemployment problem just as the shutting down of factories in the cities."

Other New Deal job destroyers: National Industrial Recovery Act (1933), which established cartels to restrict production and hence employment; the Wagner Act (1935) which enabled unions to expand their power and get higher wages, thereby reducing the number of jobs employers could afford; the Social Security Act which, by introducing a new payroll tax, increased the cost of creating new jobs, reducing the number that could be created; Fair Labor Standards Act (1935) which made it illegal for employers to hire people who added less value than a minimum wage.

14. The New Deal certainly did not get America out of the Great Depression. In 1932, when Roosevelt was elected, 11,586,000 people were unemployed. In 1939, almost as many people were still unemployed—

11,369,000. In 1932, 16,620,000 people were on welfare. Eight years later, even more people were on welfare—16,908,000.

15. Woodrow Wilson (1916), Franklin Roosevelt (1940), and Lyndon Johnson (1964) all promised the American people to stay out of war, then maneuvered in.

16. According to the late Henry Hazlitt, U.S. legislative bodies enact some 150,000 new laws a year. Estimate is from the 1970s. There's no reason to suppose this number would be lower. Indeed, now that bigger government is back in style, the number seems likely to be higher.

17. The U.S. has 8,753 tariffs on the books.

18. According to James L. Payne's *Costly Returns*, people spend an estimated 5 billion hours a year unproductively trying to comply with tax laws.

19. Government regulations cost Americans about \$600 billion a year. (See *Market Liberalism, a Paradigm for the 21st Century* [Washington, D.C.: Cato Institute, 1993], p. 6.)

20. All these good things which now seem 100 percent American originated elsewhere or owe much to the enterprise of foreign-born people.

Scoring:

If you got fewer than 10 questions right, you can look forward to a lot of fun learning more. Between 10 and 15 questions right: congratulations for knowing so much about liberty. Over 15 questions right: obviously, you're an advanced student of liberty.

150 Years Ago . . .

In June of 1846, Richard Cobden and John Bright persuaded the British government to abolish its worst import restrictions, on grain, ushering in a glorious era of free trade and peace.

According to biographer John Morley, "[Cobden's reception throughout Europe] was everywhere that of a great discoverer in a science which interests the bulk of mankind much more keenly than any other, the science of wealth. He had persuaded the richest country in the world to revolutionize its commercial policy. People looked on him as a man who had found out a momentous secret."

THE FREEMAN

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It's No Manufactured Crisis

A recently published book claims that the growing discontent about public, or government, schools is the result of a "manufactured crisis." The authors of the book by that name, David C. Berliner and Bruce J. Biddle, maintain that there is no evidence that the schools have declined since the golden era of the 1950s or earlier decades. That being the case, they say, radical reform of education is unwarranted. They go on, perhaps inconsistently, to call for their own reforms, including more money for the public schools, but leave that aside. Let's accept their dubious thesis purely for the sake of argument. What's wrong with it?

It's a non sequitur. It implies that the only reason to consider radically changing the schools is the quality of the education. But that is not the only reason, and it is arbitrary to assume so. In other words, even if—and this is an oversized if—we could expect no improvement in education from radical restructuring, there would still be an incontrovertible case for it. We advocates of total privatization of education must make that clear.

There is only one path that radical restructuring can take. As we all know, the word *radical* refers to *root*. What is at the root of so-called public education? Simply this: someone other than parents makes all the big decisions about children's education. Think about it: government officials determine where a child goes to school, how many hours a day, how many days a week, how many weeks a year, and how many years. Those officials determine what the child will study and when. (On what grounds are all those elements decreed to be the same for all children?) Sure, some minor variation has been allowed here and there as complaints against the schools have mounted. But at its core the system has not changed since the 1840s when Horace Mann's first Prussianized common schools came into being in Massachusetts.

School officials never tire of saying they need the support of parents. They mean that

parents must make sure their children do their homework and listen to the teacher and the principal. In other words, the schools want the parents to be cheerleaders. Cheerleaders of course stand on the sidelines. Oh, yes, parents also get to vote for the school board in democratic elections. Democracy is that system of political governance in which the ayes have it and the nays get it.

Why do we tolerate a system in which parents are shoved aside in one of the most important matters affecting their children? Partly because people have been persuaded that education is too complicated for lay parents. Experts are required. That is nonsense, of course, but the school lobby has effectively propagandized the American people for about 150 years.

Thus, radical restructuring would strike at the root: forced parental irresponsibility. It would restore responsibility by putting the decisions back into the hands of parents. With respect to their children's education, they would trade their cheerleader's pom-poms for the coach's whistle. That's as it should be.

Sue Blevins, a medical writer, has suggested a valuable distinction that fully applies to education. She says that true reform would establish not choice but freedom. At first that may sound like a distinction without a difference. It's not. *Choice* has become the brand name for political contrivances under which people are permitted to choose from a menu of options drawn up by bureaucrats. By definition, a menu is limited. You can't have what's not on the menu. Choice is arbitrarily constricted. It is an illusion of freedom. The problem is that the authors of the menu act as if they and only they know enough to decide what goes on the menu and what does not.

In contrast to choice, freedom is open-ended. It enables people to engage in what Israel Kirzner calls entrepreneurial discovery. How do we know that some unlikely entrepreneur won't offer an educational service that is precisely what a particular child needs and his parents want? We don't.

Choice precludes that option. Freedom does not.

The current system, in which parents are on the sidelines, also makes possible those grand experiments involving the latest pseudoscientific theories being ground out of the schools of education and departments of sociology. Last year the state of California confessed that its decade-long experiment with the whole-language method of reading instruction was a failure. It was, the superintendent of public instruction said, an honest mistake, and she was sorry. Can you imagine an error afflicting millions of children over ten years in the context of freedom-based education? Impossible, precisely because decisions would be made at the family level, where the number of children is small and the feedback is fast and accurate.

Enforced parental irresponsibility and fitful experimentation on children—those are the hallmarks of the government school system. To put it bluntly, public education treats parents like children and children like guinea pigs.

No wonder there is every reason to believe that parent-child-driven education is superior to a government-driven education. No wonder homeschoolers do so well. But even if that were not so, it would in no way upset the argument that parents have a right to make the education decisions for their children. They have a right to freedom even if it could be demonstrated that government schools were better!

The upshot is that parents not only have the right to choose a better education for the children; they also have the right to define the words "better education" for their children. Conversely, the opponents of freedom don't merely demand the authority to guarantee all children an education; they also demand a monopoly on defining the word. The two must always go together. That's what's wrong with the system.

—SHELDON RICHMAN
Guest Editor

Restoring Parental Responsibility for Education

by Marshall Fritz

I would like all children to enjoy the benefits of schools chosen by their parents. If we learn a lesson from our own history it could be possible in very short time. In America we don't use the government to run the churches, and considering our diversity, we have admirable religious harmony. I am a religious man, but I think this "hands off" policy is America's greatest gift to the human race. Now, in the mid-1990s, I believe the miserable condition of our "public" schools has us poised to consider another great gift to ourselves and the entire human race: the separation of *school* and state. To show why separation is necessary, I'd like to tease some insights from the origin, meaning, or misuse of several words.

Marva Collins, founder of Westside Preparatory School in Chicago, has gained international fame as an educator for what she has done with public-school castoffs. I've seen her in action, and she gives them what she has plenty of, courage. She "encourages" them to do their best, and they do. In English the *en* prefix can mean to provide, transfer, or somehow evoke or instill. Marva likes to say, "If it ain't caught, it wasn't taught." In other words, if the children aren't "getting it," the person in front of the class is a talker, not a teacher.

Mr. Fritz is the founder of the Separation of School and State Alliance, Fresno, California, and the former principal of Pioneer Christian Academy.

Some talkers admit the distinction by saying they "covered the subject" as opposed to "taught a lesson." Professor Howard Hendricks of Dallas Theological Seminary says that distinction is easy to grasp in Hebrew because that language has no distinct word "to teach." Instead, a form of the word "learn" is used to mean "to produce learning." We could translate it more correctly if we had the word "enlearning." Indeed, we could avoid some mistakes in education if we replaced the word *teaching* with *enlearning*. Because we "teach what we are," a person who tries to enlearn values he does not hold is simply enlearning hypocrisy.

Flattery Through Imitation

People have long pondered why parent-funded private schools seem to work fairly well for their constituencies and tax-funded public schools seem to be going downhill at an increasing speed. In fact, public-school educators are scrambling to imitate the non-essential features of private schools. Some call for uniforms, some want "values" programs, all clamor for fewer layers of administration in their hopes to reverse their downward plunge. The stampede has gone so far that even union leaders are calling for "public schools . . . to emulate some of the desirable features of private schools: small size of schools . . . ; more choice and market dynamics; . . . the right to set and

enforce high standards of conduct.” (Adam Urbanski, vice president of the American Federation of Teachers, *Education Week*, January 31, 1996, p. 31) While Urbanski tiptoes with, “It will take a lot to make public schools more effective for all students,” Albert Shanker, president of the American Federation of Teachers, deserves outright praise for his bold statement in the *New York Times*, “The schools will have to change. Otherwise public education will continue its present course to destruction.” (October 15, 1995)

Meaningless Names, *Public* and *Private*

One linguistic barrier to understanding our education woes comes from the very names we give to our schools in America, “public” and “private.” The truth is, most private schools are far more open to the public than are district-bound public schools. “Public” schools always ask about your residence and, in some cities, your race. If you live on the other side of some imaginary line, you are outside their “catchment area” and are typically refused entrance. Further, school districts that are trying to achieve racial balance may deny your children access to a “public” school for racial reasons. Lowell School in San Francisco, for instance, is a magnet high school that the district leaders have decided has “too many Chinese.” Thus some Chinese are turned away to make room for non-Chinese. “Private” schools, on the other hand, typically accept children from anywhere in or out of town. If they do have a racial preference/discrimination policy, they keep it hidden because they know it is wrong.

David Kirkpatrick, former state president of the Pennsylvania affiliate of the National Education Association, makes an interesting observation: the most expensive “public” schools in America hire reverse truant officers. That is, they ferret out children from inferior districts who pretend to live in better districts so they can attend those schools. The reverse truant officers follow children home and even stake out train

stations to apprehend the desperate infiltrators. Compare that to the most expensive “private” schools in America. They have active scholarship programs and recruit motivated children from the inner city.

The Missing Link: Responsibility

What if, from the beginning of the government-school era in the 1830s and 1840s, we had referred to the two types of schools as “tax-funded schools” and “parent-or-charity-funded schools” (hereinafter shortened to “parent-funded”)? One thing for sure: as “tax-funded schools” became the mess they are today, we would dismiss anyone who said he had a wonderful way to extend tax-funding to parent-funded schools. We’d see right through clever names such as “charter” and “voucher” and wonder why authors of such plans would risk the ruination of parent-funded schools by sneaking tax-funding into them. We’d instinctively defend the integrity of parent-funded schools because the very name would help us to think straight.

In their call for “market dynamics,” union leaders miss the real secret of success of parent-funded schools: parental responsibility. Conservatives who tout “choice” make the same mistake, says former school board member Jack Simons of Sheffield, Vermont. Simons uses food stamps to illustrate the hollowness of mere “choice” without responsibility: “Some Subway Sandwich shops now accept USDA food vouchers for cold sandwiches not to be eaten inside. If choice is so all-fired important,” asks Simons, “why not man the ramparts demanding that the poor be given the ‘choice’ to use their food stamps to buy hot food and even eat it inside?”

The late Max Victor Belz, a grain dealer in Grundy County, Iowa, helps us reorient from choice to responsibility in his pithy comment, “I don’t want my children fed or clothed by the state; but if I had to choose, I would prefer that to their being educated by the state.” “Responsibility” is the key difference between tax-funded and parent-

funded schools. Parent-funded schools have a high percentage of parents who are fully exercising their parental rights in education, and tax-funded schools have few such parents. I know this is a harsh indictment, and it is aimed at myself as well as millions of others.

Parents who sacrifice to put their children into a parent-funded school remain fully potent. They are capable of exercising their parental rights—they can move their child from one school to another with little or no financial pain. On the other hand, parents at tax-funded schools are almost impotent because they are unaccustomed to being financially responsible for their children's education. They will incur a huge financial burden to remove their children from a tax-funded school, either in the form of tuition or the expense and inconvenience of moving to a different district.

Parent-Funded Schools and Sacrifice

Like investors and entrepreneurs, those who "sacrifice" defer gratification. The original meaning, to make holy by offering to a deity, grew into a parallel secular meaning, "to give up something you value now for something that you value more later." For instance, in baseball, intentionally flying out in order to score or advance a base runner is called a "sacrifice fly" because, before 1894, it counted against the batter's average. The batter sacrificed something he valued, his batting average, for something that he valued more—an improved chance for his team to win the game.

In that sense, parents who directly provide for their children's education sacrifice. That act both reflects and influences their attitude about their children's education. In contrast, paying taxes, just like forking over your wallet to a mugger, is neither investment nor sacrifice. One is not deferring gratification, but merely avoiding pain. Coercion is central to the financing of tax-funded schools, whereas deferred gratification, usually based on hope and love, is the financing source of parent-funded schools.

The call by some conservatives for "parental rights" without a companion call for "parental financial responsibility" is the same "gimme attitude" that drives the liberals' call for "welfare rights." Let's recall columnist Joseph Sobran's insight: "'Need' now means wanting someone else's money. 'Greed' means wanting to keep your own. 'Compassion' is when a politician arranges the transfer."

Now a fatal flaw in American tax-funded schools becomes evident. Most of us were sold a lie. We were snookered. We bought into a *bogus* right. Starting in the 1830s, Americans were talked into believing that children have the right to an education at their neighbors' expense through the force of taxation.

Why is this a lie? Let's go back to the *en* prefix. Marva Collins has courage, so she can encourage children. On the other hand, a depressed person has little life, so he can't enliven a party. A person without title to his neighbor's property cannot "entitle" himself to it. Remember Frederic Bastiat's insight that if it is wrong for a citizen to steal directly from another, it is equally wrong to steal indirectly by using government as a middleman.

The Only Cure for Irresponsibility

It is apparent why we have such an epidemic of parental irresponsibility: government has become the great enabler of irresponsibility and dependence. How to begin to cure it? The only way to teach responsibility is to (a) demonstrate it yourself, plus (b) require others to pay the price of irresponsibility. One of my co-workers, Sharon Karraker, described our society's alternatives precisely: the fear of what might happen as we return to parental responsibility is nothing compared to the knowledge of the mess we'll be in if we stay on our current course.

Simply put, parent-funded schools have love as part of their culture; it starts with their financing. Tax-funded schools have

coercion as part of their culture; it also starts with their financing. In education, like so much of life, love works. Coercion doesn't. Without love, all the rest is pretty much folderol.

We Americans can be proud that our forbears had the wisdom and courage to end government-compelled church funding, at-

tendance, and practice. Similarly, government must be prevented from compelling school funding, attendance, and curriculum. Only with the separation of *school* and state can we re-establish parental responsibility, protect parents' rights, and enable schools, teachers, and students to flourish in an environment of educational freedom. □

Kicking the Habit

I am an addict.

It is hard to stop being dependent—to be free of the addiction. I did it for a year but have gotten hooked again.

Fortunately, the addiction isn't alcohol or drugs. But it is damaging, I believe, to the spirit. I am on welfare and find it difficult to get off. The worst part is, I can afford to get off with some sacrifices, but haven't.

Welfare was easy to get on. My parents were on it. It seemed a normal way of life. Most people accept it and even encourage it. This is not surprising since 88 percent of the families in this country take this form of welfare.

The type of welfare that I am on is "education welfare." Yes, I send my kids to government-run/government-financed schools. I could make sacrifices and pay for my kids' education rather than use taxpayers' money. But it is too easy—even socially acceptable—to take education welfare.

What I find so amazing is the encouragement of people to be on this form of welfare. The year that I sent my son to a Christian school, some of the administrators looked forward to the day when they could accept vouchers. Vouchers are just like food stamps, except everyone with children will get them. I expect more from my fellow Christians than to encourage dependence. The use of vouchers will likely hook most of the twelve percent that have stayed off education welfare.

Many other welfare programs have been shown to be failures. People who use these programs are harmed—not helped. I know that taking education welfare is harmful to myself, my kids, and society, just as other welfare programs have hurt many people.

I have a vision of a society where children can get the education they need without the dependence on the damaging welfare state. I pray for the strength to help this come about—in a personal way—by getting off the welfare addiction myself.

—PAUL SCHMIDT
Johnson City, Tennessee

How to Separate School and State: A Primer

by Douglas Dewey

A forceful case for eliminating the role of government in education has been stated in the previous article. This essay will provide an introductory answer to the “how” question.

Efforts to achieve separation of school and state can be divided into three categories, by order of importance: entrepreneurial, educational, and political.

“Entrepreneurial” serves as a catchall for all forms of voluntary action; that is, efforts that do not involve or require government action. It naturally includes the common use of “entrepreneurial,” as in a risk-taking, profit-seeking business venture. But it also refers to everything parents, churches, associations, and others can do *today*—without leave from the superintendent or governor—to liberate families from servile and therapeutic dependency on government for the education of their children.

Entrepreneurial efforts further the cause of the separation of school and state both in fact and by example. Every time a child is removed from a government school, bound either for private or home education, the ratio of free to dependent is improved, and the process of manumission and self-responsibility provides a stirring and fortifying

Mr. Dewey is president of the National Scholarship Center, in Washington, D.C., a research and information clearinghouse on privately funded voucher programs. The views expressed here are his own.

witness for other families and the public at large.

Education *about* education is crucial. We are repeatedly told that the world is entering the “knowledge age.” If this is so, then the cause of separation is cinched. Once people learn—even a little—about the true origins and purpose of compulsory government schooling, their faith in it evaporates. Some people’s faith is more stubborn than others, and they will ultimately be persuaded only by the success of entrepreneurs.

Political action of every type is happily the least achievable and least important front in the war for educational independence. With a few notable exceptions, most political efforts are as fraught with danger as they are difficult to achieve.

1. Entrepreneurial Efforts

Edu-Tech

Educational futurist Lewis J. Perelman likes to ask audiences to identify one of the pioneers of the unschooled, ungoverned learning industry (coming to a fiber loop near you). The man’s name is Tim Berners-Lee, and no one knows who he is, even though he invented the World Wide Web. Mr. Perelman’s point is that the big news in education is already happening and is neither waiting for nor dependent on hype from *People* magazine or *60 Minutes*. That

is fairly typical in the history of innovation, says Perelman: the leading edge is already the trailing edge by the time most people know of it.

Right now, there are things happening of which nobody is aware that will hugely affect the way Americans teach and learn. The vital role that technology will play in cracking open the nearly \$300 billion K-12 education market today is only dimly perceived. The most obvious impact is in the area of home education. Increasingly powerful and affordable learning tools give parents the confidence to try their own hand as educators of their own children.

At Bob Jones University in Greenville, South Carolina, televisions and computers combine with satellites to allow teaching and learning to conquer time and space forever. LINC (Live Interactive Network Classroom) can broadcast live expert instruction into homes and buildings located literally anywhere on the globe. A student in Alaska can ask a question, have it be heard by students in New York, Kansas, and Oregon, and answered by the teacher in Virginia. Those who want to set their own schedules can download courses on their VCR and use them at their own convenience.

Columnist Cal Thomas notes that this kind of technology has enormous potential to help liberate both middle-class and poor families "from their bondage to government schools." For children whose homes cannot afford satellite dishes, their churches and boys' clubs can acquire them for use in small groups.

New Schools

New technology also brings top-notch instruction and subjects such as foreign languages and advanced math and science within reach of small, fledgling, or struggling private schools. And fledgling schools are what we must see much more of—especially from religious conservatives, whose disgust and frustration with arrogant government educators has already brought them to the brink of mass exodus. They need nudging.

Why do Christian parents send their chil-

dren to government schools that noisily promise to undermine everything they hold dear? One reason is historical and will wear off over time: Protestants in their mid-40s and above still fondly remember when their collective denomination had some clout in the government schools, and they dream of regaining it. Never mind that this clout was integral to the establishment of compulsory government schooling in the first place and came at the expense of Catholics. Now the Protestants have lost control to the secularists, and don't like it one bit. But parents in their 20s and 30s have no memories of the Ten Commandments on the classroom wall, and will be less prone to the vain and sentimental hope of re-Christianizing government-owned schools; these parents are more likely to home school or build schools. They are the future.

A second, and more formidable stumbling block for many conservative Protestants is their evangelical commitment to be "salt and light" *within* the secular government schools. Christ certainly enjoins his followers to be "fishers of men"—a daunting task requiring courage, humility, and prudence. He does not necessarily ask us to use minnows to bait barracudas.

Rather than being satisfied with piecemeal progress within the government system, Christians can build more of their own fully successful schools, and win converts by providing attractive examples of godly education. A clean, cheerful school filled with 200 well-behaved, intelligent children can preserve, enhance, and enlighten the whole community. More salt and light, perhaps, than scattering those 200 children across the rocky ground and shallow soil of government schools.

The Poor

When all else fails, government school apologists point to the inability and unwillingness of "poor people," especially those in the "inner cities," to see to their children's education. It is an appalling hypocrisy for governmentals who have used every available means to rip and burn the social fabric of black, urban, and low-

income Americans to point to their own handiwork as proof of their indispensability. It is true that family and civic life in cities and among the poor is in tatters. The main cause is the stripping away of family responsibilities from families by government—education chief among them. Restore that one thing and the rebuilding can begin.

Precollege scholarships (a.k.a. privately funded vouchers) can be a big help here. In 1991 J. Patrick Rooney, chairman of the Golden Rule Insurance Co. in Indianapolis, committed \$1.2 million of his own money to help low-income families pay for tuition at the school of their choice. Mr. Rooney called the scholarships a “hand up, not a hand out” and backed that up with a requirement that participating families pay half the cost. Five years later, Pat Rooney’s tough-love philanthropic vision has spawned a movement that helps some 10,000 low-income children in 25 towns across America. Another half-dozen precollege scholarship programs are in the planning stages, and interest continues to build.

The goal of fostering independence from government is completely fulfilled in miniature by precollege scholarships. Citizens in a given community help the needy among them to attend the schools of their choice. Scholarships liberate families one at a time, without coercion. They are flexible, replicable, efficient, and empowering. They enjoy broad bipartisan support, and, if marketed effectively, could grow into the same kind of tradition of giving enjoyed by the United Negro College Fund, the Red Cross, and the Salvation Army.

America has a long tradition of providing help for needy families to attend college. We simply need to extend that great tradition to help children earlier, when it costs less and is needed most.

Edu-Movers

Then there are the entrepreneurs in the traditional sense. In a recent *Forbes ASAP* article, George Gilder asked Michael Milken what he thought about the potential for opening up the \$300 billion K-12 education industry, and Milken instantly corrected

Gilder, saying that it is a \$2 trillion industry, because it’s *worldwide*. People like Michael Milken and Bill Gates become billionaires not so much because they think bigger, but longer. They have what could be called an entrepreneurial imagination, unconstrained by the way things look, and the way people think, wherever they happen to be stuck in time. Michael Milken is still behaving penitently for now (he needn’t), but he has founded a corporation called EEN (Electronic Education Networks), which he hopes to ultimately build into a multibillion-dollar corporation.

He won’t lack for investors, either. Wall Street is not nearly so fettered by turfy political ideologies as Washington, and big investors will not fret over the touselled sensibilities of government school union bosses once they are convinced there is real money to be made. When government schools are perceived merely as vehicles for brownie points with liberal journalists, sycophancy is painless and even profitable for corporate America. But as public confidence in government schooling continues its inexorable collapse, and the whiff of billions begins stirring in the air, the savvy investor will focus his attention on the greatest emerging market in decades and treat government schools as just another competitor to blow out of the water.

And that rusted ol’ educational Titanic is listing badly. In February 1996, Lehman Brothers held its first ever Educational Industry Investment Conference in New York. Conferees were regaled with new opportunities in a \$600 billion industry, including preschool, K-12, postsecondary, and training and development. Conference organizer Michael Moe, now with Montgomery Securities in San Francisco, compares the potential education market to the health-care industry of 25 years ago. “The mentality used to be that this was the province of government, just like it is now with education. But that’s changing,” says Moe. John M. McLaughlin edits the Education Industry Report from St. Cloud, Minnesota, which is published by EduVentures of Boston. McLaughlin has begun rating

25 publicly traded education-related companies and maintains an Education Industry Index (EII), which in 1995 rose 65 percent.

As the EII continues to rise, watch for sudden, precipitous increases via Michael Milken (or Warren Buffett, or Bill Gates, or AT&T, or IBM, or . . .). A single educational FedEx will change everything.

Another worthy effort involves setting up rival teachers associations to the NEA and AFT. The Association of Christian Educators already has 5,000 members. The Association of Educators in Private Practice started in 1991 with 16 members; it now has 500 members—three-quarters of whom are self-employed “freelance” teachers—in other words, doing it (heavens!) for profit. Rival accreditation and credentialing groups are an outstanding idea—any nongovernment authority in education threatens the monopoly and should be welcomed.

2. Educational Efforts

Everything entrepreneurial is by nature educational—teaching separation of school and state by example. But we speak of efforts whose *primary* purpose is educational, in the sense of offering ideas to the public.

Winning with Words

It is no mere pedantry to insist upon the immense power of words. He who names the words makes the rules, controls the game, and determines the outcome, simply because rules are made up of words, and the terms of victory and defeat are described and settled with words. No rational thought, nor communication of thought, is possible without them. Allowing your opponent a wording advantage is rather like permitting him to be permanent prosecutor, with you the permanent occupant of the witness stand:

“Isn’t it true that private education is elitist, racist, and undemocratic, and its apologists always reflexively deny this charge?”

“Well actually—”

“Just answer the question with a yes or a no.”

“Umm, no.”

“I rest my case.”

For 150 years we’ve been losing the school war through the word war!

There are scores of real-life examples of how the government schooling monopoly uses language to its own advantage. For instance, you never hear it refer to itself as a compulsory government-monopoly. More typical is the friendly and familiar invitation to support “our neighborhood public schools.” Nongovernment schools must take their pick from parochial (selfish and narrow), private (elitist, exclusive), and independent (individualistic, superior).

Government schools are public the way jails and departments of motor vehicles are public, not the way parks, libraries, or hardware stores are public. Try living in southeast Washington, D.C., and sending your child to the “public” school a few miles away in McLean, Virginia! This one example has the makings of a significant rhetorical (hence, educational) victory for educational freedom. Never say “public,” always say “government”—government school, government program, government teacher. It’s not an insult; it’s merely accurate. If someone finds it offensive, ask him if he’s got something against the government doing those things.

One more important example of the power of words, is one that pertains directly to the heart of what separation of school and state is really about. It’s the matter of *reform* vs. *repeal*. The work of liberating families from educational serfdom has nothing to do with reform and everything to do with *repeal*. In the late 1980s Mikhail Gorbachev had some famously irrelevant ideas about “reforming” Communism. The problem Gorbachev encountered was that the only people interested in *perestroika* and *glasnost* were aging fellow travelers at American universities and magazines who desperately hoped he would succeed in preserving the Soviet regime.

It must not be that way with us. The fundamental lesson of *perestroika* is not so much that it failed, but that it was the pursuit

of a hollow and unattainable goal and deserved the failure to which it was doomed. As an institution, government monopoly schooling, like Communism, has no human face. It is by definition coercive, corrosive, and usurpative. Our goal is not a sensitive and flexible tyranny, but an arrangement for learning that is entirely voluntary, with full authority restored to families, which in turn educate their children not in servility and fear, but in honorable obedience to duty and love.

As a practical matter, this means the words “improve” and “government schooling” must stop appearing in the same sentence. Similarly, we should not think of ourselves as education reformers. Let Catholics reform Catholic schools if they need reforming; let Montessori schools improve themselves, or not, according to the requirements of their pedagogy and the preferences of their clients. Notice there is no such thing as computer reform, motorcycle reform, or gardening reform. When gardeners figure out it’s better to mulch in the fall, that’s when they’ll do it—if they want. A rule of thumb is that if something can be reformed, it’s probably controlled by the government. A business may retool, restructure, and even revamp, but it only reforms when so commanded by government. The whole notion of education reform should be rethought—and rejected.

Building Confidence

The first intellectual victory on the horizon is eliminating the prevailing mythology that pregovernment-schooled America was preliterate America. It is hard to over-emphasize the importance of broad public education on that matter. Most people assume that government schools were begun to correct a problem of crippling illiteracy. Yet there is a wealth of facts showing the depth and breadth of America’s remarkable and unprecedented literacy from colonial times through the mid-nineteenth century. Such inconvenient facts and many others like them need to start making the rounds of American public life.

There is a critical need for more popular

and scholarly books about how America got government schooling, where it was designed, how it was adopted, and who were the prime movers and beneficiaries.

Even as we uncover the truth about how successful American education was before the states took it over, we need to paint a vivid and exciting picture of what it will look like when we regain the freedom we once had—a vision of educational opportunity and excellence. When education is in the hands of families, churches, and businesses the excellence, variety, and affordability will come from market-driven enterprises.

3. Political Efforts

Here it might be helpful to quote Irving Kristol’s first law of educational reform: *Any reform that is acceptable to the educational establishment, and that can gain a majority in a legislature, federal or state, is bound to be worse than nothing.* It’s that second part that most impresses. In addition to the prodigious political clout of the teachers unions, recall that 88 percent of American families still depend on government for their children’s education.

That means that as long as legislatures even remotely represent the perceived interests of their constituencies, no “reform” will win passage that is not acceptable to the educational establishment. The deeper truth that Mr. Kristol may not have intended, is that the “worse than nothing” rule includes legislation that could pass in any legislature even *against* the expressed wishes of the unions. The reason is that the unions are not the true establishment, but merely its bell-couse representative in the political arena. *We are the establishment.*

There is no point soft-pedaling the deeper truth that most American families have abnegated the sacred duty they owe their children by relinquishing the obligation to pay for and provide their education.

If government had taken over the family’s duty to feed their children, and zoned kids into neighborhood feeding stations for all their meals, we wouldn’t argue that families had in fact retained the duty to feed their

children, by pointing out that they still paid their taxes. By this logic, there are no family rights and responsibilities, and there is nothing the government should not undertake in their behalf.

It would be more pleasant to paper over the acquiescence of American families in the face of persistent and egregious government intrusion as the “no choice reaction.” But just as with the first war for American independence, the struggle to regain the rights and burdens of self-governance will be achieved through sacrifice and strife, not happy talk. We must say: “Yes, American families are weak. Yes, *my* family is weak, but I won’t let it stay that way!”

This hard truth presents the greatest challenge and most promising opportunity for separation. For millions to exit the system, only thousands have to show them the way—and thousands already are doing so. In March 1996, the *Wall Street Journal* ran a front-page story about the flight of suburban middle-class families from government schools to private and Catholic schools. The Boston area experiences a 6 to 8 percent increase in private-school enrollments each year; in Florida it rose by 20 percent in three years. Nongovernment enrollment is booming throughout the country, most tellingly at the expense of the supposedly “good suburban schools.” Homeschooling continues to expand and draw from increasingly diverse population groups. Not long ago, *Better Homes and Gardens* did a feature on it. In a few short years homeschooling has shifted from a “fringe” idea to a respectable educational choice.

What has all this to do with politics? *Nothing*—which is the main point about how important political action is at this stage of the campaign: *it isn’t*. According to Sun Tzu, it is always better to avoid a pitched battle if victory can be achieved by other means. The visible opponents (unions and the politicians they control) are powerful, entrenched, wealthy, experienced, and unscrupulous. Separationists are weak, dispersed, without resources, inexperienced, and generally limited in scope of action by strongly held principles. Our strength is our

message, which gets drowned in the welter of political persiflage. In the calm of the written word, the careful debate, we win every time.

Besides, most education-related political action is either useless (and a waste of precious resources) or fraught with danger. Many political efforts that conservatives consider bold are no more than revenue schemes, such as expanding government financing to include nongovernment schools through vouchers or tax credits. Proponents of those ideas are either oblivious or indifferent to the deeper premise of government-funded schooling—that it robs families of the ownership (hence stewardship) of their children’s education—and their obliviousness constitutes a *de facto* embrace.

To be sure, there *are* some political actions worth pursuing, including tax relief at every level, repealing compulsory attendance laws, and eliminating the federal role in education. For each political action, the following three-part test should be applied:

1. Does the action in any way concede the authority or prior claim of the state in the realm of education?
2. When it comes to independent and religious schools, does the action heed the Hippocratic dictum to first, do no harm?
3. Does the action do a deliberate wrong, no matter how slight, to achieve a good, no matter how great?

Conclusion

As promised, this is only an introductory answer to what must be considered the biggest public-policy question of the century. It speaks directly to the prospects of continued self-reliance and limited government. Only if we can restore the fundamental sovereignty of families in the education of their children can we begin once again to speak of “the family” as having political and moral standing in public life. If families remain weak and servile, no other liberties will long endure. With families restored to full dignity and vitality, *all* else can be restored. □



Mixing Public and Private

Is private, for-profit management compatible with tax-funded public schools?

The idea that business-savvy entrepreneurs might improve the operation and performance of public education is, on the surface, an attractive one: under contract with local school boards, private management firms would take over the schools, exert some financial discipline, promote innovative educational techniques, and boost student test scores in the process. Many public schools already save money and get value for tax dollars by contracting with private firms for food service, custodial work, transportation, and even certain instructional services. Why not go one step further and put private companies in charge of running the whole operation?

To school reformers who see the need for public education to be less bureaucratic and more responsive to customers, this form of “privatization” may appear to be a step in the right direction. And it might be precisely that if it worked so well that it prompted parents and taxpayers to see the virtue of separating school from state altogether. Unfortunately, the recent experiences of a prominent company pioneering in this field indicate that reforming public schools with halfway measures like private management is at best a frustrating exercise and, at worst,

a waste of time. The root of the problem with government schools, these experiences suggest, is government itself.

Education Alternatives, Inc. (EAI), a Minnesota-based school management firm, made headlines when it signed a five-year contract in 1992 to operate nine inner-city schools in Baltimore, Maryland. As the first major experiment of its kind in the country, the arrangement put the company in charge of management, computer instruction, and administrative services. But on November 22, 1995, barely halfway into the life of the contract, Baltimore city officials canceled it. Apologists for public education seized on the news to claim that it spelled failure with a capital “F” for the cause of privatization in general. That interpretation was widespread but it was also superficial, self-serving, and dead-wrong.

In reality, the contract fell apart because EAI rejected an ultimatum it couldn’t possibly abide. City officials suddenly and arbitrarily demanded that the company accept \$7 million less per year—16 percent of its \$44 million-a-year contract—to help Baltimore close a deficit in its municipal budget. The politicians in Baltimore were saying this: “Our mismanagement of other budgets for such things as streets and sewers has put us in financial trouble. We decided to fix our problem by taking it out on the schools. Even though we have a contractual obligation to a private firm and are not claiming that it has failed to live up to the agreement, we decided to unilaterally rip them off for \$7

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million anyway. We can get away with this because we are the government.”

An analyst with Lehman Brothers told the *New York Times*, “Baltimore has been a success. . . . The schools that EAI took over were a disgrace, and today they’re schools that work.” Baltimore’s Superintendent of Schools, Walter G. Amprey, one of EAI’s strongest defenders, praised the company, saying it “established a model and a template for us that has changed the way we are doing business.” But the *Baltimore Sun* correctly chalked up the experience to the failures of government:

EAI ran into the cold reality of urban education and city politics. The company chose a struggling urban system to establish a beachhead, and it was handling nine of Baltimore’s most troubled schools. Mr. Golle (EAI president) signed a contract allowing the city to cancel with 90 days’ notice. The escape clause, which Mr. Golle said was a “mistake,” left EAI at the mercy of cost-cutting politics at a time of shrinking school resources.

Opponents of the Baltimore experiment with EAI, some of whom worked hard from the start to make sure it failed, claim that student performance as measured by test scores did not improve during the three year period of EAI’s contract. They are not very quick to point out that EAI “mainstreamed” many children that otherwise would have been labeled “learning disabled.” The company reduced the percentage of learning disabled in Baltimore from 25 percent (two and a half times the national average!) to just 12 percent. A University of Maryland report explained that this fact “almost certainly accounts for some of the lack of increase in test scores.”

More recent data put EAI’s work in an even more favorable light. According to the January 10, 1996, issue of *Education Week*, results from last spring’s Maryland School

Performance Assessment Test became public in late December, weeks after the cancellation of EAI’s contract. They revealed “larger improvements in the nine schools run by EAI than in other city schools.” Baltimore’s officialdom can’t bring itself to apologize and reinstate what worked for the kids because, after all, it is the government and government knows best.

On January 23, 1996, EAI suffered another setback. Hartford, Connecticut, pulled the plug on its 16-month relationship with the company. More proof, opponents claimed, that privatization doesn’t work.

Closer inspection, once again, revealed politics as the real culprit. Teachers union agitators sabotaged the effort from the start, resisting every constructive move the company wanted to make. EAI was compelled to retain every employee and avoid any layoffs. It had to hire locally and submit to costly, nitpicking union work rules. Good business sense dictated a switch from one computer brand to another, but the company was prevented from doing so by the neanderthals opposed to change. The school board refused to get its act together and allow the company to straighten out its financial procedures as the contract stipulated. To top it all off, Hartford’s board of education imitated the reprehensible example of Baltimore: it decided to make up a budget deficit by simply not paying EAI for services rendered.

Perhaps some will say that we shouldn’t be quick to give up on the idea of private management of public schools, that the events in Baltimore and Hartford are isolated instances and nonrepeatable if we learn from the mistakes.

But, alas, a round peg doesn’t fit a square hole. The stronger argument would seem to belong to those who say the real mistake of Baltimore and Hartford was assuming that private management can be grafted on to government schools in the first place. □

The Spread of Education Before Compulsion: Britain and America in the Nineteenth Century

by Edwin G. West

Most persons agree that children need the protection of the law against potential abuse by parents. But evidence shows that only a small minority of parents turn out to be delinquent. In practice it is very seldom indeed that governments remove children from their family home. At the end of the 1980s fewer than two children per 10,000 below the age of 18 were under state care in either the United States or England and Wales. That is less than two-hundredths of one percent!¹

It can thus reasonably be assumed that the vast majority of parents are altruistic toward their children so that, for instance, they will not neglect their food, clothing, or shelter. Yet if these necessities were to be provided today on the same basis as education, they would be available free of charge. Indeed, there would be laws for compulsory and universal eating and higher taxes to pay for children's "free" food at the nearest local government kitchens or shops.

But it is only in the last century and a quarter that this kind of asymmetry of treat-

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ment has emerged. This essay will accordingly look at the history of the subject to enquire to what extent the altruism of typical parents extended to education as well as to other necessities before governments intervened. I shall first examine conditions in England in the nineteenth century prior to the introduction of compulsory education. I shall then make a similar investigation of the United States to see if there were interesting parallels.

England and Wales

Contrary to popular belief, the supply of schooling in Britain between 1800 and 1840 was relatively substantial prior to any government intervention, although it depended almost completely on private funds. At this time, moreover, the largest contributors to education revenues were working parents² and the second largest was the Church. Of course, there was less education per child than today, just as there was less of everything else, because the national income was so much smaller. I have calculated, nevertheless, that the percentage of the net national income spent on day-schooling of

Table 1
Growth in Public Schooling in England and Wales, 1818-1858

Year	Population	Average annual growth rate of population	Number of day scholars	Average annual growth rate of day-scholars
1818	11,642,683		674,883	
		1.40%		3.60%
1833	14,386,415		1,276,947	
		1.47%		3.16%
1851	17,927,609		2,144,378	
		1.21%		2.35%
1858	19,523,103		2,525,462	

Sources: The 1851 Census (Education Report) and the Newcastle Commission Report on Education in 1858 (Parliamentary Papers 1861).

children of all ages in England in 1833 was approximately 1 percent. By 1920, when schooling had become "free" and compulsory by special statute, the proportion had fallen to 0.7 percent.³

The evidence also shows that working parents were purchasing increasing amounts of education for their children as their incomes were rising from 1818 onwards, and this, to repeat, at a time before education was "free" and compulsory by statute. Compulsion came in 1880, and state schooling did not become free until 1891.

Table 1 demonstrates that the annual growth of enrollments between 1818 and 1858 exceeded the annual growth of population. After the compilation of the first educational census in 1851, it was reported that the average school attendance period of working-class children was nearly five years. By 1858 the Newcastle Commission concluded that it had risen to nearly six years. And the same authority reported that "almost every one receives some amount of school education at some period or other."⁴

The author of the famous 1870 Act, W. E. Forster, explained that the intention of introducing fee-based government-run establishments for the first time was not to replace the vast system of private schools but simply to "fill up the gaps" where they could be found. His officials, however, were overam-

bitious in their reports of these needs, and after government schools were erected they were often found to have much surplus capacity. To reduce their embarrassment over half-empty schools, the education boards then resorted to lowering tuition fees and using tax revenues to fill the breach. The lower price naturally expanded the demand; but this was at the expense of the private schools, many of which could not survive such unfair competition.

After education was made compulsory by statute, the government-school advocates argued that it was wrong to compel the very poorest to do something they could not afford. But rather than propose a special financial dispensation or grants to these families, the advocates insisted that education should be made free for all: the rich and the middle class as well as the lower-income groups. Free education was legislated for the new government schools exclusively because it was argued that it would be inviting conflict to ask taxpayers to subsidize religious schools. Protestant taxpayers, for instance, would object to their taxes financing Catholics, and vice versa.

In this way the new "gap-filling" government schools were given a wide-open field with their zero-priced education. Since most of the subsequent growing population naturally chose the free alternative, the private schools' share of the market declined and that of government schools skyrocketed.

The Literacy Record

The pre-1870 record of educational outputs such as literacy was even more impressive than the numbers of children in school, and this presents an even more serious problem to typical authors of social histories. Professor Mark Blaug has observed that "Conventional histories of education neatly dispose of the problem by simply ignoring the literacy evidence."⁵

R. K. Webb, a specialist historian of literacy, offers the following conclusions about conditions in Britain in the late 1830s:

In so far as one dare generalize about a national average in an extraordinarily varied situation, the figure would seem to run between two-thirds and three-quarters of the working classes as literate, a group which included most of the respectable poor who were the great political potential in English life.⁶

There was, moreover, an appreciable rate of *growth* in literacy. This is reflected in the fact that young persons were more and more accomplished than their elders. Thus an examination of educational attainments of males in the Navy and Marines in 1865 showed that 99 percent of the boys could read compared with their seniors: seamen (89 percent), marines (80 percent), and petty officers (94 percent).⁷

It is not surprising that with such evidence of literacy growth of young people, the levels had become even more substantial by 1870. On my calculations for 1880, when national compulsion was enacted, over 95 percent of fifteen-year-olds were literate.⁸ This should be compared to the fact that over a century later 40 percent of 21-year-olds in the United Kingdom admit to difficulties with writing and spelling.⁹

American Education on the Eve of Government Compulsion

In the interests of manageability I shall confine attention to a single U.S. state. New York is selected because it seems to have

been reasonably representative of conditions generally in the first 70 years of nineteenth-century America.

In 1811 five commissioners were authorized to report on the extent of education in the state. They recognized that, in order to qualify for state aid, it was necessary to establish in what respects the people were not themselves already securing sufficient education for their children. The commissioners acknowledged that schooling was indeed already widespread: "In a free government, where political equality is established, and where the road to preferment is open to all, there is a natural stimulus to education; and accordingly *we find it generally resorted to, unless some great local impediments interfere.*"¹⁰ Poverty was in some cases an impediment; but the biggest obstacle was bad geographic location:

In populous cities, and the parts of the country thickly settled, *schools are generally established by individual exertion.* In these cases, the means of education are facilitated, as the expenses of schools are divided among a great many. It is in the remote and thinly populated parts of the State, where the inhabitants are scattered over a large extent, that education stands greatly in need of encouragement. The people here living far from each other, makes it difficult so to establish schools as to render them convenient or accessible to all. Every family therefore, must either educate its own children, or the children must forego the advantages of education.¹¹

The problem was thus presented in the same terms as those later used in England by W. E. Forster, the architect of the 1870 English Education Act. As we have seen, it was largely a problem, to use Forster's words, of "filling up the gaps." The logic of such argument, of course, called mainly for discriminating and marginal government intervention. To this end three methods were available. First, the government could assist families, but only the needy ones, by way of educational subsidies. Second, it could subsidize the promoters of schools in the special

areas where they were needed. Third, the government itself could set up schools, but only in the "gap" areas. Without discussing possible alternatives, the New York State commissioners recommended that the inconveniences could generally best be remedied "by the establishment of Common Schools, under the direction and patronage of the State."

The report, having stressed the plight of the rural areas, leads the reader to expect special attention to be paid to them in the New York State general plan of intervention. No such priority appears, however. The main features of the plan suggested by the commissioners were: that the several towns of the state be divided into school districts by three commissioners, elected by the citizens to vote for town offices; that three trustees be elected in each district, to whom shall be confined the care and superintendence of the school to be established therein; that the interest of the school fund be divided among the different counties and towns according, not to the distribution, but to the size of their respective populations as ascertained by the current census of the United States.

Thus, in place of discrimination in favor of the poor and thinly populated districts, a flat equality of treatment was decreed for *all areas*; the public monies were to be distributed on a per capita basis according to the number of children between five and fifteen in each district, whether its population was dense or sparse, rich or poor.

Two details of the early legislation (of 1812 and 1814) are worthy of special attention. First, there seems to have been no announced intention of making education free. Even with the addition of the revenues from town taxes there were far from sufficient monies to cover expenses. The substantial balance was presented in the form of rate bills (fees) to the parents, who were required to pay in proportion to the attendance of their children. For instance, in 1830 parental fees contributed \$346,807 toward the total sum for teachers' wages of \$586,520.¹²

The second detail of the early legislation

worth noticing is that religion was regarded as an integral part of school education. The commissioners observed: "Morality and religion are the foundation of all that is truly great and good; and consequently, of primary importance."¹³ The Bible, in common schools, was to be treated as more than a literary work. The commissioners particularly recommended the practice of the New York Free Schools (the charitable establishments) in "presuming the religious regard which is due to the sacred writings."¹⁴

Subsequently, the annual reports of the superintendents revealed a steady growth in the number of school districts organized. In some cases, entirely new schools were built; in others the personnel of existing private schools allowed themselves to become socialized, that is, to become common schools, in order to qualify for the public monies. In the report of 1821 it was stated that the whole number of children between the ages of five and 16 residing in the state was 380,000; and the total number, of all ages, taught during the year was 342,479. Thus, according to this evidence, schooling in the early nineteenth century was already almost universal *without being compulsory*. Moreover, although it was subsidized, it was not free except to the very poor.

In the first half of the century, statistics for private schooling throughout the state were hard to come by. But it will be remembered that the 1811 Commissioners observed that in thickly populated areas the means of education were already well provided for. The Superintendent's Report of 1830 contained an account of a census of the schools of the city of New York for the year 1829. It showed that of the 24,952 children attending school in the city, the great majority, 18,945, were in private schools.¹⁵

By this time the superintendents were expressing complete satisfaction with the provision of schooling. On the quantity of it the Report of 1836 asserted:

Under any view of the subject, it is reasonable to believe, that in the common schools, private schools and academies, the number of children actually receiving

instruction is equal to the whole number between five and sixteen years of age.¹⁶

The fact that education could continue to be universal without being free and compulsory seems to have been readily acknowledged. Where there were students who had poor parents, the trustees had authority to release them from the payment of fees entirely, and this was done "at the close of term, in such a manner as to divest the transaction of all the circumstances calculated to wound the feelings of scholars."¹⁷

Literacy in Nineteenth-Century America

The spread of literacy among the American population before education became compulsory seems to have been at least as impressive as in the case of Britain. An item in the *Journal of Education* of January 1828 gave this account:

Our population is 12,000,000, for the education of which, we have 50 colleges, besides several times the number of well endowed and flourishing academies leaving primary schools out of the account. For meeting the intellectual wants of this 12,000,000, we have about 600 newspapers and periodical journals. There is no country, (it is often said), where the means of intelligence are so generally enjoyed by all ranks and where knowledge is so generally diffused among the lower orders of the community, as in our own. The population of those portions of Poland which have successively fallen under the dominion of Russia, is about 20,000,000. To meet the wants of which there are but 15 newspapers, eight of which are printed in Warsaw. But with us a newspaper is the daily fare of almost every meal in almost every family.

Sheldon Richman quotes data showing that from 1650 to 1795, American male literacy climbed from 60 to 90 percent. Between 1800 and 1840 literacy in the North rose from 75 percent to between 91 and 97 percent. In the South the rate grew from about 55 percent to 81 percent. Richman

also quotes evidence indicating that literacy in Massachusetts was 98 percent on the eve of legislated compulsion and is about 91 percent today.¹⁸

Finally, Carl F. Kaestle observes: "The best generalization possible is that New York, like other American towns of the Revolutionary period, had a high literacy rate relative to other places in the world, and that literacy did not depend primarily upon the schools."¹⁹

Conclusion

This account of education in New York State prior to full government intervention to make it free, compulsory, and universal, can be concluded as follows: Whether or not it was appropriate (after 1867) to apply compulsion unconditionally to all classes of individuals, the laws that were actually established did not in fact secure an education that was universal in the sense of 100-percent school attendance by all children of school age. If, on the other hand, the term "universal" is intended more loosely to mean something like, "most," "nearly everybody," or "over 90 percent," then we lack firm evidence to show that education was not already universal prior to intervention. The eventual establishment, meanwhile, of laws to provide a schooling that was both compulsory and free, was accompanied by major increases in costs. These included not only unprecedented expenses of growing bureaucracy but also the substantial costs of reduced liberty of families eventually caught in a choice-restricted monopoly system serving the interests not of the demanders but of the rent-seeking suppliers. Both sides of the Atlantic, meanwhile, shared this same fate. □

1. G. Becker and K. Murphy, "The Family and the State," *Journal of Law and Economics* 30 (1988): 3 and fn. 9.

2. E. G. West, *Education and the Industrial Revolution* (London: Batsford, 1975).

3. *Ibid.*, p. 89.

4. Newcastle Commission, 1861, p. 293.

5. Mark Blaug, "The Economics of Education in English Classical Political Economy: A Re-Examination," in A. Skinner and T. Wilson, eds., *Essays on Adam Smith* (Oxford: Clarendon Press, 1975), p. 595.

6. R. K. Webb, "The Victorian Reading Public," in *From Dickens to Hardy* (London: Pelican Books, 1963), p. 149.

7. *Ibid.*

8. E. G. West, "Literacy and the Industrial Revolution," *Economic History Review* 31 (3) August 1978.

9. Central Statistical Office, *Social Trends: 1995 Edition* (London: HMSO, 1995), p. 58.

10. M. Randall, *History of the Common School System of the State of New York, from its Origins in 1795, to the Present Time* (New York: Ivison, Blakeman, Taylor, & Co, 1871), p. 18; my emphasis.

11. *Ibid.*

12. *Ibid.*, p. 66. Teachers' wages constituted about one-half of total expenses.

13. *Ibid.*, p. 19.

14. *Ibid.*, p. 22.

15. Annual Report, New York Superintendent Common Schools, 1830, p. 17.

16. Annual Report, New York Superintendent Common Schools, 1836, p. 8.

17. Annual Report, New York Superintendent Common Schools, 1831, p. 16.

18. Sheldon Richman, *Separating School and State: Liberating America's Families* (Fairfax, Va.: The Future of Freedom Foundation, 1994), p. 38.

19. Carl F. Kaestle, *The Evolution of the School System: New York City 1750-1850* (Cambridge, Mass.: Harvard University Press, 1973), p. 5.

Why Not Separate School and State?

Government "education" includes three forms of coercion: (1) compulsory attendance, (2) government-dictated curricula, and (3) the forcible collection of the wherewithal to pay the enormous bill.

The results of force are bad enough as related to the pocketbook, but are far worse as they affect the educational process. Force is precisely inefficacious in education as when applied to religion and for the same reason. . . . Reflect on this lamentable situation:

- Coercion is a ramming-into procedure. Education is a taking-from process.

- "Graduation" in many schools requires no more than attendance; learning is no longer a criterion.

- To really appreciate the extent of coercion, try to run a private school and observe how your freedom of choice and action is restricted. The power mongers insist that you run your school their way—no other. This coercion—backed by physical force, the constabulary—is rapidly on the increase.

So I ask, why not separate School and State as Church and State are now operated? Leave education to the free market, where the wisdom is. Let organized force—government—have no role, none whatsoever, other than to inhibit fraud and misrepresentation.

—LEONARD E. READ, *Vision* (1978)

Education: What About the Poor?

by Chris Cardiff

In various forms, the question “what do we do about the poor?” outstrips all others as the most frequently asked question about separating school and state. The implicit assumption, only natural after 60 years of the welfare state and 150 years of government control of education, is that government is the only entity capable of looking out for the poor and educating them.

Both the historical record and present conditions invalidate this assumption. There is no evidence that poor children were denied an education in the nonslave states before the government takeover of the schools in the mid-1800s. Since then, educational opportunities for the poor have declined steadily.

While government control of education harms all families, children of low-income families are damaged most severely. Our inner-city government schools resemble prisons with their metal detectors and armed guards on patrol. Described as “poverty mills” by critics, these institutions cannot educate; they can only warehouse children. Despite spending over 300 billion taxpayer dollars on education every year, our existing system of government schools is not meeting the needs of low-income families.

The full separation of school and state means rescinding government-compelled attendance, curriculum, credentialing, ac-

creditation, and financing. The issue of providing educational opportunities for the poor hinges on financing. Restated, the question becomes: how will low-income families be able to afford education for their children without government handouts?

The Second-Largest Entitlement Program in the World

With expenditures of over \$316 billion per year, education is the second-largest entitlement program in the United States (and the world), ranking behind Social Security but ahead of Medicare-Medicaid.¹ Providing educational opportunities for low-income families can be met without edu-welfare by replacing the government educational dole with a system of private scholarships (or private vouchers) funded by charitable donations.

As part of the movement toward a free market in education, dozens of private scholarship foundations for elementary and secondary school-age children have proliferated since J. Patrick Rooney, chairman of Golden Rule Insurance, inaugurated the first one in 1991. These charity-financed programs encourage family involvement with their children’s education and schools by requiring participating families to choose a school that matches their needs and to pay part of the tuition themselves.

These programs are successfully provid-

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ing the means for over 10,000 children to attend independent schools today. Is it realistic to expect them to replace our gigantic edu-welfare system? How much money would these programs need to help all low-income families?

The answer is, comparatively, very little.

Running the Numbers

A simplified static analysis of educational funding requires two numbers: how many children (or families) will need financial assistance to attend independent schools, and how much will it cost them? As a rough estimate, one-third of families—16 million children—will need financial assistance. Half of these, eight million, are classified as “poor” by the U.S. Census Bureau, while the other half could be considered lower middle-class.

According to the National Center for Educational Statistics, private school tuition averages between \$2,500 and \$3,000 per year. A typical private scholarship program provides up to half (some pay more than half, most have ceiling amounts). For this simplified static analysis, assume \$1,500 scholarships—half the cost of the upper end of the range. (It’s easy to improve on this model by developing a sliding scale of scholarships based on financial need, ranging, for example, from \$750 to \$2,250 but averaging \$1,500).

If all 16 million poor and lower-middle-class children were provided a \$1,500 scholarship, educational opportunities in today’s independent schools could be opened for all low-income families for only \$24 billion. To put that amount in perspective, it is 25 percent less than the state of California alone spends and less than 8 percent of the \$316 billion spent on education today by all levels of government nationwide.

Where Will the Money Come From?

We have a long history of charitable giving in this country. While many charities have been co-opted and crowded out by govern-

ment, Americans still give generously of their time and money. Consider these statistics:

- In 1993, Americans donated \$126.2 billion to charities.²
- 89 million Americans donated four or more hours a week to charitable efforts in 1993.³
- Individuals, corporations, foundations, and other organizations donated \$12.4 billion directly to colleges and universities in 1994-1995.⁴
- Private-sector sources donated \$24.9 billion in private scholarships and fellowships for higher education in 1994.⁵

• “Partnerships” between businesses and schools, in which firms donated goods and services, money, or all three, grew from 40,000 to 140,000 between 1983 and 1988.⁶

All this is on top of an average tax burden of over 40 percent. Clearly, we are a generous nation, a giving people—and much of our largess is directed toward providing educational opportunities for others. With donors already contributing \$37.3 billion for higher education, how difficult would it be to raise the \$24 billion needed for private scholarships for elementary and secondary school-age children?

A recent example illustrates the credibility of this scenario. Last August, a local judge shut down much of Milwaukee’s school-choice program (based on government vouchers) after thousands of children had already begun classes. A generous outpouring by Milwaukee’s citizens resulted in raising \$1.6 million in ten days (and eventually more than \$2 million) so that the children could remain in the schools they chose and not be forced to return to government schools.⁷

It’s not a question of whether Americans will support private scholarships for elementary and secondary school children—obviously, they already do.

The Dynamics of a Free Market and a \$316-Billion Tax Cut

Eliminating government’s role in education eliminates the need to tax citizens to

fund the government schools. That even suggests a natural course of action to begin separating school and state. Taxes could be phased out, allowing the private sector to grow over time. Families could pay tuition bills with funds previously taken as taxes. Others have called for an immediate repeal of all taxes that fund schools.

Imagine the possibilities of returning \$316 billion to taxpayers as part of separating school and state! Currently only 12 percent of America's school-aged children attend independent, parochial, or home schools.⁸ Making this market eight times larger would spur educational innovation as entrepreneurs chased those dollars. Educational opportunities would expand tremendously for everyone—especially the poor. The quantity and quality of educational opportunities would increase dramatically.

Finally, consider the possibilities for raising \$24 billion for private scholarships from taxpayers who have just had \$316 billion returned to them. If only eight percent of that money found its way to private scholarship funds, money would be available for all children of lower-income families to attend better schools than they are attending today. In the dynamic real world, much less would be needed, as families learned to become independent again. Not only is it likely that private funding for scholarships

would be available for lower-income families, but those dollars would also be purchasing a much better educational product. Given these synergistic benefits, the only question remaining is: what are we waiting for? □

1. Government's elementary and secondary schools spend \$249 billion. That includes \$211 billion of per-pupil costs, \$27 billion in capital outlay and interest, \$2 billion from U.S. Department of Education, \$3 billion from other federal programs, and \$6 billion of additional state expenditures. Myron Lieberman, *Public Education: An Autopsy* (Cambridge, Mass.: Harvard University Press, 1993), pp. 114–142. In the 1992–1993 school year, federal, state, and local governments provided \$66.6 billion to colleges and universities. *Chronicle of Higher Education Almanac*, September 1, 1995, p. 25.

2. Kim Dennis, "The History of Social Assistance," National Leadership Conference, March 29, 1995.

3. *Ibid.*

4. "Sources of Voluntary Support for Higher Education, 1993–1994," *Chronicle of Higher Education Almanac*, September 1995, p. 25.

5. The private sector controls and awards \$24.9 billion. *Database Survey*, National Scholarship Research Service, December 1991. This survey result is independently corroborated by data reported in *Foundation Giving* (New York: The Foundation Center, 1994), p. 10, and in *The Chronicle of Philanthropy* (April 1990).

Some \$9.1 billion is controlled and awarded by schools. *The Digest of Education Statistics 1994* (U.S. Department of Education, National Center for Education Statistics), p. 321, table 313. Figures are for academic year 1991–1992.

6. John Hood, "When Business 'Adopts' Schools: Spare the Rod, Spoil the Child," Cato Institute Policy Analysis, June 5, 1991, p. 5.

7. "School Wars," editorial, *The Wall Street Journal*, September 11, 1995, p. A16.

8. *The Digest of Education Statistics 1990* (U.S. Department of Education, National Center for Education Statistics), p. 51, table 37, and p. 68, table 53. Figures are for academic year 1987–1988.



Teachers Unions: Are the Schools Run for Them?

by James Bovard

Public education is the most expensive “gift” that most Americans will ever receive. Government school systems are increasingly coercive and abusive both of parents and students. Government schools in hundreds of cities, towns, and counties have been effectively taken over by unions, and children are increasingly exploited, thwarted, and stymied for the benefit of organized labor.

Government schools are increasingly run by the unions and for the unions. Former U.S. Secretary of Education Lamar Alexander observed, “After the post office, schools are the most unionized activity in America. [Teachers unions] collect a lot of money in dues, they are often the largest lobby in the state, they are very, very powerful.” Teachers unions are especially powerful in inner cities, where teacher pay is often highest and teacher performance is usually the worst. Mario Fantini, in his book *What’s Best for Children*, declared, “For many black and Puerto Rican parents, the teachers unions now represent the ‘enemy.’” Reverend Jesse Jackson has questioned teachers’ “right to strike for more money when the employer—a taxpaying parent—holds tax receipts in one hand and test results in the other that prove he’s paying more and more for less and less.”

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Teacher monopoly-bargaining laws (laws that permit unions to claim to represent and speak for all teachers, and to force school boards to deal with unions) in 34 states cover 67 percent of the nation’s teachers. Teachers unions have worked to destroy local control of education, subvert standards, prevent teacher accountability, and deny parents a significant voice in their children’s education. Unions have launched strikes to prevent and restrict “parental interference” in public education. Thanks to a strong union, New York school janitors are paid an average of \$57,000 a year, yet are required to mop the schools’ floors only three times a year. As a result, New York City public schools are sometimes filthier than New York City streets.

Teachers unions have long been the most powerful force in education at both state and local levels. *Forbes* magazine nicknamed the NEA “The National Extortion Association.” An October 11, 1995, *Wall Street Journal* editorial entitled “The Unions’ Schools” noted,

The next time you’re visiting a state’s Capitol building, scan the neighborhood for a nearby building that’s as big or bigger. There, in the largest, grandest, best-situated office building you’re likely to find one of the most powerful political institutions in the state: the teachers’ union.

The *New York Times* noted last year that teachers unions have been “for decades the most conspicuous voice in American education.” Teachers unions do not hesitate to use their clout blatantly. The NEA announced a boycott of Florida orange juice after the Florida citrus department advertised on the Rush Limbaugh radio show. As Barbara Phillips reported in the *Wall Street Journal* in January, the local teachers union in Jersey City, New Jersey, threatened a statewide boycott against Pepsi if PepsiCo did not withdraw from its support of Mayor Bret Schundler’s school voucher proposal. There is no limit to the brazen demands of some unions: the West Virginia teachers union sparked controversy in February by demanding that teachers be permitted to retire at age 50 with full benefits—even though the teacher pension fund was far in hock.

Policy Dictators

Teachers unions are increasingly dictating policy to the schools. The NEA has denounced back-to-basics programs as “irrelevant and reactionary.” The union is the leading advocate of “no-fault” teaching—whatever happens, don’t blame the teacher. The *Chicago Tribune* concluded in 1988 that the Chicago Teachers Association has “as much control over operations of the public schools as the Chicago Board of Education” and “more control than is available to principals, parents, taxpayers, and voters.” The *Tribune* noted that “even curriculum matters, such as the program for teaching children to read, are written into the [union] contract, requiring the board to bring any proposed changes to the bargaining table.”

As Richard Mitchell noted in his classic *The Graves of Academe*, the NEA has played a crucial role in mentally debasing American public schools. In 1918 it authored a federal government report known as “Cardinal Principles of Secondary Education.” Mitchell summarized the principles:

It is a thematic illusion of our educational enterprise that understanding can be had without knowledge, that the discretion

can be informed without information, that judgment need not wait on evidence. . . . The self-interest of a massive educationists’ trade union is evident on every page of Cardinal Principles. . . . They wanted to be not teachers but preachers, and prophets too, charging themselves with the cure of the soul of democracy and the raising up in the faith of true believers.

In 1971 the NEA issued a “Call to Action” that renewed its commitment to the Cardinal Principles. It declared, “We have overemphasized the intellectual development of students at the expense of other capacities.” Thanks to the NEA’s success in rewriting school curricula, student knowledge of history has nose-dived, student reading and comprehension have plummeted, and college remedial classes have thrived.

“Solidarity Forever”

Teachers unions have sometimes blatantly sought to manipulate what children are taught in order to inculcate pro-union attitudes. In the late 1970s the Miami affiliate of the American Federation of Teachers sent out a bulletin urging music teachers to “order music such as ‘Solidarity Forever,’” English teachers to “incorporate short stories, novels, poems, and films depicting labor struggles and conflicts,” and math teachers to “use labor and management as specific examples in problems.” But, of course, the union members were objective in their class discussions.

Teachers unions blatantly exploit their power over school children. In Montgomery County, Maryland, union teachers refused to write letters of recommendations to colleges for students unless the students first wrote to the county council urging an increase in government spending for education (and, naturally, higher salaries for teachers). One high school senior told the *Washington Post*, “The consensus among students seems to be it may be blackmail, but students are going to go along with it anyway.”

In California in 1991, teachers required

students to write to state legislators demanding more money for education. The tactic backfired because numerous letters contained threats of physical violence against the legislators.

At Wilson High School in Washington, D.C., teachers gave parents a formal notice that they would not write letters of recommendation for students unless parents wrote three letters demanding higher pay for teachers: "Please submit to each teacher from whom your child is requesting a college recommendation your letters to your city council member, the superintendent and your school board member along with three addressed and stamped envelopes." Parents thus had to grovel in front of a teacher—to surrender their right to their own opinion on public education policy—in order for their children to receive consideration from the teachers.

Teachers have stronger legal rights to tax dollars than the taxpayers have to a quality education for their children. School systems face vastly more repercussions from firing an incompetent teacher than from totally neglecting school children. In 1988, the *Chicago Tribune* reported:

All 22 students in Grace Currin's 4th grade class must attend summer school this year because, their principal says, Currin did not teach the children enough to pass to the next grade. Dyanne Dandridge-Alexander, principal at [Chicago's] Spencer Elementary School: "Those children have suffered because they have a totally inept teacher that no one has been able to fire."

A 1992 *Detroit Free Press* investigation entitled "Shielding Bad Teachers" concluded that it takes a school district seven years and costs an average of \$100,000 to fire a single incompetent public school teacher. Seven years is over half of the schooling time of the average pupil. The *Free Press* concluded, "No protections are built in for the state's 1.5 million public school students, who can suffer physical, sexual or educational abuse." The American Association of School Administrators conducted

an audit of District of Columbia public schools and concluded that an "astonishingly low" number of teachers receive unsatisfactory ratings and that it is "nearly impossible" to fire bad teachers.

Potent Political Power

Many politicians have claimed that the problems of public education can be resolved by rigorous new teacher evaluation programs. But teachers unions often politically dominate state legislatures, and the legislators protect the teachers against their own incompetence. In 1991 the Louisiana legislature voted to suspend teacher evaluations for one year. That evaluation had originally been introduced as part of a joint package with large pay raises for teachers; after the legislature enacted the pay raises, the teachers unions then launched a successful attack on the evaluation program.

Homeschooling is one of the fastest growing triumphs in family rights in the country. Naturally, teachers unions have been fiercely opposed to permitting parents to teach their own children to read and write. Annette Cootes of the Texas State Teachers Association declared that "home schooling is a form of child abuse." The NEA annually passes resolutions calling for a de facto ban on homeschooling.

One measure of the coerciveness of the government school monopoly is the percentage of parents who would remove their kids from government schools if they could. If Americans could choose—if they had not already paid for public education through taxes—there would likely be a wholesale exodus from government schools in many cities. A 1992 poll of black residents of Milwaukee revealed that 83 percent favored a voucher system that would allow parents to choose their children's school. A 1991 Gallup poll found that 71 percent of people 18 to 29 favored educational vouchers and 62 percent of people 30 to 39 favored vouchers. The Gallup survey found that "by a 10-to-1 margin, respondents said private schools do a better job of . . . giving stu-

dents individual attention and maintaining discipline.”

Teachers unions and school officials have repeatedly sabotaged parents’ efforts to defect from the public school monopoly. In 1992 in California, a coalition sought to put on the state ballot a proposal to provide a \$2,500 state scholarship to children attending private schools. (Since the state of California was then spending over \$6,000 per public school student, taxpayers would save over \$3,000 for each additional student transferring from public to private schools). Though organizers got almost one million signatures to put the measure on the ballot, the effort was bushwhacked by the California Teachers Association and public school officials. Teachers at El Camino Real Elementary School in Irvine gave students oversized checks stamped with the word “fraud” in their campaign to thwart the measure.

As economist Thomas Sowell noted, “The Los Angeles Unified School District has used its taxpayer provided cable television channel to propagandize against allowing the public to vote in November on an initiative to permit school choice. Los Angeles school board member Julie Korenstein warned that allowing parents to choose

between public and private schools would ‘end up with bigotry and ultimately with a fascist type of society.’ ” Del Weber of the California Teachers Association declared, “There are some proposals that are so evil that they should never even be presented to the voters.”

Squads of teachers traveled around the state to surround the petitioners and prevent people from signing the petition. Many teachers signed the petitions numerous times knowing that the state government would nullify hundreds of thousands of valid signatures as a penalty against duplicate signatures. Conny McCormack, San Diego’s registrar of voters, concluded: “This is an unprecedented case of intentional fraud.”

The power of the teachers unions is one of the best reasons to pursue the separation of school and state. There is no simple reform, no fancy political trick that will break the power of the teachers unions over the day-to-day activities of public schools. Given the realities of campaign contributions and organized greed, it will always be easier for teachers unions to exploit the education system for their own benefit than for parents to fight the eternal bureaucratic and political wars necessary to protect their children. □

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Government Licensing: The Enemy of Employment

by Steven Yates

Not long ago I found myself without a job. The experience offered me some insight into the causes of unemployment in American society. I knew that occupational licensure was both a stumbling block to would-be entrepreneurs and a spur to joblessness because it prices entry into markets out of many people's reach and creates disincentives to hire. I now have firsthand experience of how government bureaucracy systematically blocks individuals' efforts to offer services to others in order to improve their own well-being.

When I found myself with no university teaching appointment last summer, I did what any responsible believer in individual liberty would do: I took stock of my strengths. I had seven years of full-time, university-level teaching experience, and additional years of part-time teaching. Though my doctorate is in philosophy, I had once been a science major with a year each of undergraduate mathematics, chemistry, geology, and physics. So I formulated my options and realized I had the background and skills to teach high school math and science. While there may be a glut of philosophy professors, there is a well-

publicized shortage of math, science, and foreign-language teachers.

It is one thing to grasp a problem or situation intellectually. It is quite another to experience it in "real time." What I learned from the experience of actually seeking a public-school teaching job made me recoil in horror.

"Are You Certified?"

The first thing I did was go to a local high school with my résumé, and transcript in hand and advertise my availability to teach math or science. I naively thought my experience as a teacher, combined with the course work clearly evident on my transcript, would make an impression. I'd hoped that all I would have to do is apply and, perhaps, take a test to demonstrate my grasp of the subject, and I'd be set. No sweat, right?

Wrong!

A receptionist immediately confronted me and asked, "Are you certified?" Knowing what I knew about government licensing, red flags went up at once. I replied that I wasn't, and requested more information. I was directed to an office about a mile away. There, again, I was unable to get past the receptionist who asked the same question, as if by rote. Again I said no and requested an application for certification. She had none, but gave me the phone number of the teacher certification division of the South Carolina Department of Education.

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I called and made an appointment. On the designated day I drove to the complex in downtown Columbia where a number of state offices are housed. The Department of Education takes up ten floors of the Rutledge Building; the teacher certification division is on the tenth floor. A woman about my age gave me an informational package including brochures with titles like "Questions and Answers Related to Teacher Certification," lists of instructions on "How to Apply for a South Carolina Teaching Credential," request forms for official transcripts to be sent, a "Verification of Teaching Experience" form, a long application for an "Initial Teaching Credential," another to take an Educational Testing Service standardized examination given four times a year, and so on. A final form required fingerprints of all ten fingers to be sent to the FBI; a memorandum identifying the specific legislation behind this requirement (something called Section 59-25-115) was included.

None of this is free. The fee for the initial application for certification is \$25. The registration fee for the standardized test is \$30; the fee for the test itself runs anywhere from \$25 to \$85, depending on the content. The fingerprint review costs an additional \$24.

Because there are critical shortages of teachers in certain subjects, such as mathematics, the sciences, and foreign languages, the teacher certification division developed a Critical Need Certification Program. Since the purpose of that program is to get teachers into the classroom quicker, I initially opted to pursue it, thinking I could be teaching in less than a year. Wrong again. Despite the science and math on my transcript and my evident ability to research topics quickly, teaching in any of these areas required at least a bachelor's degree, as well as a passing score on the equivalent National Teacher's Examination. My degree was in philosophy; thus my seven-years-plus university-level teaching experience was meaningless. Even with a math degree, though, the most I could have gotten in one year was "conditional certification."

More Requirements

A forest of additional requirements would have stood between conditional and actual certification, including (1) attendance at a pre-service institute at one of the local colleges "designed to prepare these prospective teachers for the opening of school and their initial involvement with students, peers and the instructional environment"; (2) attendance at eight once-a-month sessions during the school year "designed to provide a specific instruction component in addition to planning and interaction with other conditional teachers"; (3) attendance at an in-service institute the following summer "designed to address specific teaching techniques, classroom management, lab skills, etc."; (4) attendance at four additional once-a-month sessions the following school year; and (5) completion of three education courses that address such matters as "student growth and development," "exceptionalities [sic] of children," "teaching of reading in the content area," and so on. All that, of course, is in addition to the responsibilities teachers assume once they set foot in the classroom, including class preparations, grading, tutoring, informal counseling, and the like.

The government stipulates this forest of extra requirements to obtain an occupational license. Some of the language is sufficiently vague as to drive a one-time logic teacher like me up a wall. What, for example, is a "specific instruction component"? And what do they mean by "student growth and development"? Do they mean something besides learning the subject matter of a course? But that is the nature of bureaucratise. Remember, too, that the bureaucrats who originate those brainstorms draw higher salaries than do classroom teachers.

There are, of course, many would-be teachers willing to put up with this nonsense—they want to teach badly enough. That is fortunate, because without them there would be even greater shortages of qualified teachers. I decided I wasn't one of them. My disdain for "educrats" is simply

too great. While reviewing the licensing procedure I would have to go through to teach in a South Carolina high school, I thought of Francisco d'Anconia's remark in Ayn Rand's *Atlas Shrugged* about how "when you see that in order to produce, you must obtain permission from men who produce nothing . . . and your laws don't protect you against them but protect them against you . . . you may know that your society is doomed."

Entrepreneurship, Not Bureaucracy

That may be overstating the case a little. But we know that public education is in trouble, and we know most of the reasons why. As we would expect from government bureaucracy, there are too many administrators and too few teachers, too much paperwork and too little teaching, too many discipline problems and too little freedom to do something about them, too much "self-esteem" psychobabble and too little encouragement of the values that lead to happy, successful lives. The source of the trouble: public education is not run by educators but heavy-handed bureaucrats obsessed with rules and procedures imposed from outside. For the bureaucrat, regulations matter, and for good reason: untying our hands would instantly send them scurrying to the want ads. As far as the actual business of educating goes, they have little to offer and they accomplish little except to get in the way—although they excel at interpreting every attempt to derail their gravy train as an attack on education itself.

The solution is obvious: get rid of the government licenses, get the bureaucrats out of the educational system, and sell the schools to private educational entrepreneurs to run as businesses. There is no danger that getting rid of government licensure in education will permit a flood of incompetent teachers into the classroom, for individual schools will have to compete for the best teachers and the best pupils. Reputations spread. Poor teachers will have to pursue other lines of work, and inefficient institutions will soon be out of business. Schools can administer tests and identify their own criteria for determining who is best, but there won't be room for bureaucratic foolishness.

Thus not only will there be attainable teaching jobs, but the quality of education will go up across the board. So will salaries. Schools will have to offer teachers wages at market rates in order to attract the best, with salaries increasing in those areas of under-supply. Also, fewer administrators and less overhead will mean more money for teachers and their immediate needs. Instruction will proceed without the need to jump through bureaucratic hoops.

Most of this is probably obvious, and much is common knowledge. Let's remember, though, that this is just one occupation. Today, most occupations are licensed, regulated, and ultimately controlled by the ever-present state. In some cases, the price tag for admission to the club is many times higher than it is for teaching. That gives us a ready explanation for why entrepreneurship is so difficult in today's society, and why many people who want to work cannot find jobs. The question is: when are we going to do something about it? □



When Entrepreneurs Become Victims

by Patrick Groff

For a capitalist economy to function, entrepreneurs must not be subject to gratuitous or capricious government action. It is a violation of the cardinal precepts of free markets, as well as common moral sensibilities, for government to publicly vilify legitimate entrepreneurs.

The Federal Trade Commission has often been guilty of such vilification. Recently it took after a popular educational product called “Hooked on Phonics,” driving the producer, Gateway Educational Products, into bankruptcy. The product may be forced from the marketplace.

Anyone who views, listens to, or reads the mass media regularly is doubtless aware of the catchy slogan “‘Hooked on Phonics’ works for me!” The large amount of advertising for “Hooked on Phonics” made the product highly recognizable. The company was planning to take the product to the United Kingdom. Then it was targeted by the FTC.

For anyone who is too far removed from his or her school days to remember, “phonics” is a method of teaching reading that relates how letters are used to represent the sounds of spoken words. The aim of phonics teaching is to develop students’ abilities to look at a written word, recognize its letters, attach speech sounds to them, blend the

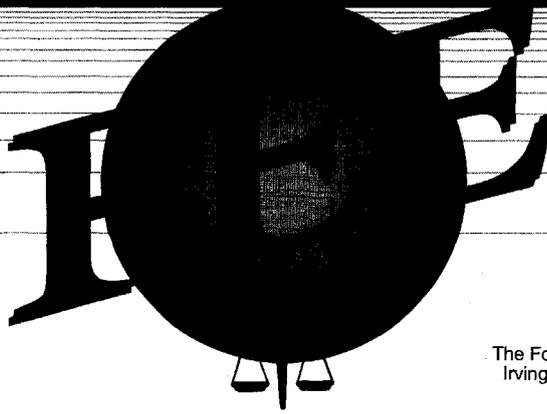
sounds together, and finally pronounce the word. According to experimental research, students who learn to decode written words through application of phonics information inevitably learn to read better than those who do not do so. By learning the relationship between spoken and written language, students acquire an independent means to read and understand any written text that they could fathom were it read aloud to them. “Hooked on Phonics” was designed in accordance with the research results.

The FTC Charges

As a specialist in reading development who closely follows the experimental research, I was shocked to learn that the FTC charged that advertising for “Hooked on Phonics” illegally exaggerated its potential for helping people learn to read. As those who have seen the ads will recall, they by and large contained testimonials by ordinary people who used the product, and found that it dramatically improved their or their children’s reading.

The FTC does not usually file complaints against advertising that contains testimonials, especially by noncelebrities. Nonetheless, the agency ordered Gateway “to forthwith cease and desist from representing, in any manner, directly or by implication,” that “Hooked on Phonics” will “quickly and easily teach [large numbers of] persons

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Jobs and Trade

Unemployment is the great puzzle of our time. It perplexes politicians, confuses officials, and even entangles economists. It persists and continues to grow despite all the government programs that mean to reduce it and the tax dollars spent to alleviate it.

Some writers continue to echo the teaching of Karl Marx. For them, capitalism always creates an "industrial reserve army of labor" consisting of the mass of wage-earners who are exploited and then thrown out of their jobs. Most economists are at one with John Maynard Keynes, the economic guru of our time, who viewed unemployment as a symptom of insufficient spending. Politicians continue to cling to the Keynesian view because it supports their spending predilection.

Some old-guard politicians and writers explain unemployment in protectionist terms which are among the oldest and most controversial in economics. Unemployment, they blaze about, is the price we pay for our participation in a global economy with millions of unemployed and under-employed people who are willing to work for 25 cents an hour. "Free trade" is "unfair trade" for Americans who are condemned to the indignities and hardships of unemployment.

If foreign trade actually were responsible for the corporate layoffs, the phenome-

nal rise of imports and exports in recent years should have disemployed most Americans. According to U.S. Department of Commerce statistics, U.S. general imports in 1950 amounted to \$8.954 billion. By 1960 they had nearly doubled to \$15.073 billion. By 1970 they had risen to \$40.356 billion. During the 1970s they soared to \$244.871 billion, and during the 1980s to \$495 billion. This year they may exceed \$700 billion. Surely, if imports would destroy jobs, this 7,800 percent rise in imports since 1950 should have thrown most Americans out of work.

It is difficult to imagine our present working conditions and standards of living if the U.S. government had turned inward and closed its borders in 1950, as the Hoover Administration managed to perpetrate in 1930. Even if the disruption of trade and immediate foreign retaliation would not have brought another depression, the crushing burden which radical liberal administrations placed on the economy during the 1960s and 70s would surely have depressed the economy and drastically lowered American levels of living. Similarly, if there had been no foreign investments, the staggering budget deficits of the 1980s and '90s would have drained the capital market and paralyzed the economy.

Employment always is a phenomenon of productivity and cost. In a market economy, in

booms and depressions, there is an unlimited demand for labor that makes productive contributions. Labor that costs more than it is expected to produce, whether it is unskilled or armed with triple degrees, is devoid of any demand. In the eyes of potential employers, it is utterly "unproductive." This applies to actors and administrators, systems analysts, software programmers, automatic engineers, and aeronautical scientists. If young Ph.D.s in mathematics are unable to find employment, employers believe them to be rather "unproductive" considering their cost and productivity.

Much university-educated labor remains unemployed because it is not in touch with the labor market. It is government-directed and taxpayer-financed. Graduating from mammoth state universities and guided by Pell grants, Work-Study grants, Stafford loans, Perkins loans, and numerous other federal and state support programs, many graduates are ill-equipped for useful employment. In nearly all fields of economic activity employers provide most of the productivity training. But they are reluctant to offer it if the expenses of the trainee are prohibitive and the final results of the training are not expected to cover the outlays.

Businessmen continually adjust to changes in demand, supply, transportation, technology, cost of labor and capital, government levies and obstacles, domestic and international competition. Every member of the market order is under pressure to adjust in order to stay productive. Of course, a person is free to ignore the pressures; the typist may continue to pound the typewriter. But she cannot justly insist that she be subsidized by fellow workers and employers. The same is true of a university-trained aeronautical engineer who has learned to build great military planes. In times of war and preparations for war he is in great demand. In

peace he will have to learn peaceful pursuits. He does not have the natural right to live off the labors of others.

International competition is as beneficial as domestic competition; it forces sellers to outdo one another by offering better and cheaper goods and services and forces buyers to outdo one another by offering higher prices. Protective tariffs and other trade restrictions effect the very opposite; they permit the protected producers to offer inferior products at higher prices. They cause production to shift from places in which the natural conditions of production are more favorable to places in which they are less favorable. They force labor to move from export industries paying high wages to the protected industries that generally pay lower wages. In short, trade restrictions hamper production and thus lower the standards of living.

The competitive position of an enterprise in domestic as well as international markets is determined by its total costs of which labor costs merely are one of many components. In capital-intensive industries, such as the pharmaceutical, chemical, aeronautical, steel, tool-and-die industries, the cost of capital tends to determine competitiveness; in labor-intensive industries the total cost of labor is decisive. There are no labor-intensive American industries that compete with foreign labor. Our service industries which render valuable labor services need not fear foreign competition; they are protected by onerous immigration restrictions.

Free trade is fair trade; those who deny it to others do not deserve it for themselves.



Hans F. Sennholz

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with reading problems or disabilities to read." In deciding to proceed against "Hooked on Phonics," the FTC had to reject or ignore the abundant evidence that phonics teaching is the best way for students to learn to recognize written words quickly and accurately. Gateway was prohibited from telling potential customers that no method of teaching reading has been more successful, or that a great number of parents who school their children at home say its product works.

The FTC also dismissed, without reasonable cause, the results of a recent, well-designed experimental study of "Hooked on Phonics" in schools with low-income urban children. The independent study revealed that those children made uncharacteristically high gains in reading competence thanks to "Hooked on Phonics." The company's unconditional money-back guarantee did not deter the FTC from telling the public that the product could not be trusted to meet its claims. The mass media, always attracted to a scandal, interpreted the FTC's action to mean that "Hooked on Phonics" is a fraudulent product that consumers should avoid.

Challenges to the FTC Action

After the FTC announced that Gateway was guilty of false advertising, satisfied customers and defenders of phonics protested. The FTC said it received thousands of letters from "Hooked on Phonics" customers. Michael Farris, president of the Home School Legal Defense Association, challenged the FTC's contention that reading can only be taught by trained professionals. He reminded the agency that "more than 96 percent of home school parent-teachers" have no professional training. Farris offered the FTC standardized test data that indicated children aged five to eight who were taught phonics at home on average achieve the 87th percentile in reading. By contrast, only 24 percent of public school fourth-graders read proficiently, according to the National Assessment of Educational Progress.

House Majority Leader Richard Armey

headed a congressional delegation that objected to the FTC's treatment of Gateway. James C. Miller III, a former chairman of the FTC, complained that the agency had used the "power of the state to suppress a competing technology." Robert Sweet, head of the research department of the U.S. Department of Education in the Reagan administration, strongly questioned the validity of the advice the FTC said it had received from unnamed "outside experts" that "phonics instruction may not help many people with reading problems." Sweet concluded that the FTC had acted against "Hooked on Phonics" in an attempt to disable "the phonics movement in this country."

Thanks to the massive protest, the FTC reversed itself, pleading that it had not intended to put Gateway out of business. It would be naive, however, to assume that the FTC had no preconception of the effect of its original action. The product's reputation was largely damaged. Its sales plummeted. Gateway was driven to seek relief in bankruptcy court.

Who Profits?

It is unlikely that anyone will ever discover what special interests prompted the FTC to go after "Hooked on Phonics." But we can determine who would benefit most from its demise. (It certainly would not be people with reading problems.) Sweet, who is now president of the National Right to Read Foundation, points out that "the antagonism of the education industry and its professional associations against teaching intensive, systematic phonics in schools is almost palpable." The obvious winners in the "Hooked on Phonics" affair turn out to be two influential educational organizations, the International Reading Association (IRA) and the National Council of Teachers of English (NCTE). The great commercial success of "Hooked on Phonics" was a constant embarrassment to those groups, since they strongly promote an alternative approach to reading development called "whole language." IRA and NCTE regard direct and systematic phonics teaching as

dangerously anachronistic, and cavalierly dismiss the empirical evidence of its superiority as bogus.

The groups' devotion to the whole-language method is exemplified by their unwillingness to take seriously the disastrous consequences of its mandated use. Whole language is more popular in California than in any other state. As a result, California students are the worst readers in the nation. Whole-language teaching in Massachusetts has hurt reading achievement so badly that last year 40 distinguished professors of linguistics, cognitive science, psychology, and neurology from several eminent universities petitioned the state's commissioner of education to stop promoting it. According to those experts, whole language's practices "run counter to most of the major scientific results of more than 100 years" in their respective fields.

The widespread acceptance of the whole

language approach by educators, despite the lack of supporting evidence, is ominous. The FTC attack on "Hooked on Phonics" therefore was more than just a federal agency trying to destroy a small business. The action also represents a setback to effective reading instruction at a time when, according to the U.S. Department of Education, almost 50 percent of American adults are functionally illiterate. These are ex-students, of course, many of whom learned to read by the method recommended by the IRA and NCTE.

Thus the publisher of "Hooked on Phonics" is not the only victim of the FTC's action. The injured parties in this notorious affair number in the tens of millions. They are people of all ages across the nation, who, because of the FTC's interference, may have lost their opportunity to learn to read in the most effective manner possible. □

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Liberty and Responsibility: Inseparable Ideals

by Max More

The founders of the American political and economic system felt a burning desire to establish a country of unprecedented liberty. Many of those who endured the arduous journey to the New World left behind religious oppression and rigid class systems. The highhanded rule of King George III and his demands for tribute sharpened resentment of State control. America, rooted in an ideal of liberty for all, marked a proud step forward in the evolution of human political arrangements.

America still inspires those seeking escape from or reform of their own country's political arrangements, but its example no longer seems to shine as brightly. Despite significant remnants of creativity, entrepreneurship, and invention, there are more criminals, more hopeless people, more dependents and outright parasites. Too many people spend their energy and money engaged in legal battles rather than in producing. A vast bureaucracy has grown: a bureaucracy devoted to controlling productive activity and to growing ever larger.

Do such problems stem from allowing people too much liberty? Social commentators of diverse affiliation often suggest this, and call for tougher government regulation and control. As Charles Murray demonstrates in *Losing Ground*, both history and

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economic theory clearly show that such centralized approaches have failed and will fail. The solution lies not with central control but with the preservation and expansion of liberty. Vital to this solution is an appreciation of the relation between liberty and personal responsibility.

Liberty and Responsibility

Over the course of this century the ideals of liberty and personal responsibility have increasingly drifted apart. Personal responsibility cannot exist without liberty, and liberty will not endure without responsibility. Liberty without responsibility is license.

Liberty-as-license has become a widespread aspect of our culture. It manifests itself in many ways: in desires for freedom to do anything without restraint and without cost (someone else will bear the cost); the demand for income *as a right* (someone else will produce the income); the expectation of guaranteed commercial success (someone else will pay the costs of government subsidies and protection from foreign and "unfair" competition).

The survival of liberty *requires* personal responsibility. Without this connection our political institutions become a means for the shifting of blame, for compelling others to fix our problems, and for living off the efforts of others. As responsibility declines, the political system grows increasingly oppres-

sive and burdensome. Politicians pass more laws telling people what to do and how to do it. Tax-funded handouts expand to support those who do not want to produce. The law increasingly allows unprincipled liability suits as the irresponsible seek an easy source of income. Government agencies take over, telling us what we can eat, what vitamins we may take, what risks we may assume, what we can read, and what we can paint and say.

If we do not take charge of ourselves we will soon find ourselves devaluing liberty. Choice can be confusing and frightening to those unused to it. It requires practice and commitment until it comes to feel natural. I remember reading about a visitor to the United States from the Soviet Union (as it was then). The writer told of how the Soviet visitor entered a drugstore looking for toothpaste. The variety of types and brands shocked him. He exclaimed how much easier it was in the Soviet Union, where the choice had been made for you. For liberty to remain attractive, we need to foster certain qualities of character.

Characteristics of Personal Responsibility

What does personal responsibility involve? Responsible self-direction crucially involves *rationality*: a commitment to see the world as accurately as possible rather than believing what seems easiest. A corollary of this is *self-control*. Once we see what we need to do to successfully pursue our goals, we must firmly set aside incompatible desires and resist distractions. Being responsible for ourselves also implies the virtue of *productiveness*—creating values that we can trade for other values to sustain ourselves. The virtue of *honesty* is an aspect of rationality and means the refusal to deceive ourselves or others. Honesty involves taking responsibility for our role in any situation instead of avoiding or shifting it. Being responsible for our lives necessarily also requires *perseverance* and *persistence*. If, after choosing a goal, we soon give up on it, we will fail ourselves, as well as show our unreliability to others.

If these and other virtuous qualities of character disappear from a society, liberty will also decline. Irresponsible people cease to value liberty and the challenges it presents. Liberty requires a widespread acceptance of personal responsibility. The converse is also true.

Responsibility Requires Liberty

Without the liberty to choose our own actions and make our own choices, we lose the qualities of responsibility and virtue that make us uniquely human. Our nature allows and requires us to make conscious choices rather than programming us for automatic responses. As a result, persons form differing purposes and goals. Political and economic liberty makes it possible for us to pursue these divergent ends. Without this freedom we find our choices constrained or distorted to fit the purposes of others. The more others force us to act for purposes not our own, the less able we will be to choose and pursue our own goals.

If we force a person to do “the right thing,” we can have little confidence in the moral worth of that action. Only freely chosen actions reflect character. Only when people do the right thing freely can we have confidence in their character. If they act as we think they should, and they do so out of virtues such as benevolence, productiveness, and integrity, then we know their good actions resulted from a good character. If they took the action out of fear, then we can know nothing about the goodness of their character. All we will know is that we have removed an opportunity for the free exercise of virtue.

Responsibility and the State

For most of us, license always feels easier than liberty. License means taking without giving, consuming without producing, and faking instead of facing reality. License has taken over from liberty in part because of the doctrine that there is no rational basis for values. If nothing is truly good or bad, if it's all a matter of opinion, then why not follow your whims?

Magnifying the effects of this false relativist doctrine are our political and economic arrangements. Government intervention in the economy and personal life, along with the establishment of the welfare state, have undermined responsibility. The government produces nothing; it takes from some by taxation and regulation, and gives what it has taken to others (after taking a cut for itself). Since each new tax and each new regulation imposes costs on some of us, interventionism leads to a scramble to grab what we can before it's taken from us. Government intervention thereby encourages us to focus on what we can get, rather than what we can create.

Welfarism and interventionism have both ignited claims to "positive rights"—rights to be given or guaranteed something. (The original constitutional rights were "negative"—rights to be free of interference, such as theft, government oppression, and fraud.) The United States government acts as if there are positive rights: a right to a guaranteed income or to health care (at someone else's expense), a right to an apartment at a certain maximum rent, a right to get a job even against an employer's wishes, or a right to sell a product without having to compete against overseas companies.

Those economic and social policies gradually break down the virtues needed for responsibility. Being responsible increasingly means giving up these short-term benefits. As each of us sees others being given money taken from us by taxation, or sees companies protected by subsidy or import controls, we begin to feel left out. We feel pressured to join in and grab our share, rather than work hard while others reap the benefits. Interventionism and welfarism act as a tax on responsibility. The higher this tax, the less responsibility we will see. That simple economic insight shows why, once the forces are set in motion, the overall level

of intervention grows. As intervention grows, so does dissatisfaction and demands for "parity" or "fairness."

I described the acceptance of these government "benefits" as *short-term* benefits. We can resist their temptations better if we bear in mind their heavy longer-term costs. Protectionism and industrial subsidies lead to complacency, stagnation, and slow growth. The high taxation needed to pay for intervention and welfare reduces savings, making investment funds expensive. Living on welfare breeds passivity, removes one from the learning process, and destroys work habits essential to adaptation and employment.

These interventionist government practices foster envy and resentment. Many Americans no longer feel they should have to *earn* their income: we have heard repeatedly that we are each entitled to a slice of "the pie,"—as if there were a single collectively owned and created pie, rather than individually created and owned goods. Increasingly Americans, like people all around the world, have latched on to the socialist doctrine of entitlement. It embodies license, not liberty. The belief in such entitlements is corrupting our character. If we do not have what we think we are entitled to, then someone is withholding it from us. Envy festers within us. Resentment of success replaces admiration.

America was founded on an ideal of liberty, with concomitant personal responsibility. Personal responsibility requires effort, and so liberty is always vulnerable to decay into mere license.

Let us continue to stress the central place of liberty in the American political system. Let us add to this a renewed appreciation of the vital connection of liberty and personal responsibility. When implemented personally, politically, and economically, we can expect a renewal of this country's vigor, confidence, and pride. □



Rejecting Responsibility

by Russell Madden

At a recent family gathering my father and I happened to discuss some of the problems facing Social Security. My 71-year-old dad received partial disability benefits before retiring and also claims veterans' benefits from a wound he suffered in Europe during World War II. During our conversation, I pointed out that no actual funds existed in the so-called Social Security Trust Fund. The government simply spends on current expenses whatever excess revenues it gathers. The fund consists of nothing more than IOU's which would never be fully repaid. Despite impressions to the contrary, there is no saving or investing involved in Social Security, only spending and consuming.

I told my father that—though I rejected State-mandated retirement programs—adopting a plan similar to one instituted in Argentina or Chile would be a step in the right direction. By privatizing Social Security to that extent, each taxpayer would have money set aside directly for himself which could be invested and earn interest over his working lifetime. Rather than having the government simply waste Social Security taxes, each citizen would have at least a degree of control over the funds invested for him. As has been pointed out elsewhere, over a 50-year career, even a minimum-wage earner could retire a millionaire. Wealthy individuals would fare even better.

My dad complained that people could not

be trusted even under this suggested coercive system. He believed that given half a chance, people would pillage their retirement funds and squander those resources while young.

This answer echoed one I had heard from a friend of mine who is in his eighties. Like my father, he felt the government should handle the funds that so many citizens rely upon for retirement. Ignoring the fact that the federal government is hardly an exemplar of prudence in financial affairs, I supposed that perhaps the similar attitudes expressed by these two men reflected some kind of generational, Depression-era mentality.

That notion found itself knocked askew at a dinner party where I talked with the host about the issue of welfare. This man is in many ways the opposite of my father. My dad never finished high school, is a former truck driver, and has little interest in philosophical discussions. My host was in his mid-forties, has been a professor at a local college for nearly two decades, and spends much of his time discussing intellectual issues.

During our pre-dinner conversation, I argued against welfare for either individuals or corporations. After establishing the social principle of rejecting the initiation of force, I said that only voluntary interactions were proper. Government's only legitimate function was to retaliate against those who violate our rights. Under no circumstances should the State itself act coercively in compelling citizens to engage in behavior that violates rights.

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My host countered with a common question: what are we to do about those who can't take care of themselves?

Whether people accept it or not, I said, as adults, we are all responsible for our own lives. Charity is available for those truly in need, but those down on their luck can only ask for help; they cannot demand it. Need is not a claim on wealth. "Forced charity" is a contradiction in terms. Whatever is done, the action must not violate someone's rights.

In examining the responses of my dad and my dinner host, I see two men different in background and separated by nearly three decades in age yet united in their belief that the State should hold the ultimate responsibility for the lives and fortunes of its citizens. As the final safety net, it must guide and control those who will not—or "cannot"—accept the reins of their own destinies. Even though my father and those like him see themselves as self-responsible, they do not think the "other guy" is capable of directing his own affairs according to his own best judgment and actions.

Defenders of freedom, however, have long contended—as I did in these encounters—that much of the political strife we face today would end if individuals accepted responsibility for their own lives and did not expect others to take care of them.

That sentiment is correct as far as it goes, but such an analysis covers only half the story. Conservatives in Congress call for personal accountability yet are not shy about *forcing* people to act in ways the politicians see as typifying such behavior. As with my dad, many private citizens see it as *their* responsibility to ensure that others are also responsible—not by assuming that role themselves on a one-on-one, face-to-face basis but by delegating that impersonal watchdog status to their favorite guardian of propriety, the State.

Being Responsible

What politicians and those sharing the views of my father and dinner host fail to realize, however, is that there is a distinc-

tion between *engaging* in responsible behavior and *being* responsible. Morally, we all should *act* responsibly. Also, morally, we all *are* responsible for our own existences, whether we behave responsibly or not. Politically, however, the State should concern itself only with the latter. When the government steps beyond the boundary of acknowledging the self-responsibility of each individual and instead seeks to force its citizens to act responsibly, it is itself behaving, well, *irresponsibly*.

As Nathaniel Branden once observed, no one plays the helplessness game on a desert island. Alone, a person must either acknowledge and accept the reality of his self-responsibility or he must die. Only in a social situation can a person pretend that his beliefs, his actions, his destiny can be directed or caused by someone else. In the context of the present discussion, however, the essential point to remember is that such evasion can succeed only to the extent that others accept and take on that ignored responsibility.

As important as the recognition and acceptance of self-responsibility are morally, politically, the failure to reject responsibility that is not theirs is the stone over which all current "reformers" must stumble. Only when people appropriately delimit what rightly belongs to their spheres of personal responsibility—and what does not—will the "helpless" face the full consequences of trying to avoid the requirements of reality. Only when the national political debate takes into account the problems arising from well-intentioned meddling will actual reform occur. Only when each of us realizes precisely what personal responsibility entails—and where it ends—will true freedom be established in this country.

Adults must be able to act in ways that are objectively foolish, silly, or harmful as long as they respect the rights of others. As much as a person may cringe to witness the self-destructive behavior of others, he must respect the moral autonomy of those people and not impose his own standards on them. What is permissible or even desirable between parents and their children must be

rejected when dealing with those who are not family members. Contrary to the wishes and words of so many in this country today, we are not all "part of one big family," we are not our "brothers' keepers," we are not "children" subject to the dictates and punishing hand of a governmental "parent" who must ascertain and obtain what is in our best interest. Those and similar communitarian metaphors are fundamentally flawed.

In the modern parlance, an "enabler" is someone who inappropriately accepts responsibility for another person's life and creates the conditions that allow that person to continue in self-destructive actions without facing the full negative consequences of such behavior. On every level, the state is the biggest enabler of all time. Government "over-functions" when it makes it easier for people to abrogate their obligations, to slide along while others pay for their mistakes.

Pragmatists and Moralists

Any number of reasons may explain the desire of some individuals to direct others' lives. For some, "pragmatic" considerations of maintaining power, position, or prestige demand that a substantial number of citizens not accept personal responsibility. If no such group of "helpless" or "misguided" souls existed, no justification could be offered for most bureaucrats' jobs. Not only their perks but also their livelihoods would disappear. Others who champion the State may require a pool of people to "help" in order to feel superior or to feel good about themselves.

Yet even more dangerous than the "pragmatists" are those who seek to manage the lives of the unfortunate or incompetent or

lazy because of "moral" considerations. The pragmatists might be convinced to abandon their positions if they could be shown other avenues offering better prospects. The moralists, however, will stick to their course no matter how much destruction their activities create. Though both groups depend on suffering and the prolonging of pain for their *raison d'être*, those who hold selfless service to others as their moral imperative have more to fear from a society in which the guiding political principle is rejection of inappropriate responsibility. The altruist descendants of Comte or Kant would find moral behavior impossible in a culture in which every person refused to violate the moral autonomy of any other individual. When a purported moral system leads to such a self-contradiction, it must be in error.

Acceptance of that very error, however, still permeates the political landscape of the world. Refusal to reject responsibility for the mistakes and misfortunes of other people sends our troops to hopeless hot spots around the globe. It creates and perpetuates the modern welfare state. It subverts our system of justice and gives rise to a criminal class unprecedented in this century. It demeans the dignity of not only those who evade the mantle of their personal responsibility but also the dignity of those who stoop to pick it up.

Knowing when to reject responsibility for the life of any other individual is a skill most people have yet to learn. Until that lesson is well mastered, the painful consequences flowing from the actions of the well-intentioned do-gooders of the world will continue to plague us. □



The Virtues of Competition

by George C. Leef

Competition is a universal and extremely powerful force. Long before we began to record history, man was competing for food, mates, and territory. Later, we found ourselves competing for jobs, resources, customers, victories in athletic contests, and awards in many different fields of human endeavor. Competition in one form or another is inevitable as long as the things we desire remain scarce, that is, as long as there is not enough for everyone to have all that he wants.

Sometimes the nature of competition is peaceful, and when that is the case, the results are beneficial to mankind, even though the immediate losers may suffer for a time. Sometimes, however, the nature of competition is violent and then the results are harmful to mankind, usually leaving even the “winners” worse off when all the costs are taken into consideration.

As noted, competition is thrust on us by nature. Scarcity is a fundamental and inescapable fact of life. Whenever two or more people want the same thing, the necessary consequence is some form of competition to determine who will have it.

Violent competition is, of course, not virtuous. Nothing good comes from perfecting the talents for murder and plunder. When I speak of the virtues of competition, I refer exclusively to peaceful competition—the kind that comes about when people must act only in ways that do not violate

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the rights of life, liberty, and property, which all human beings possess. Peaceful competition impels each competitor to continually improve his skills, his efficiency, and the desirability of his product or service. It is understood by all that sloppiness, carelessness, waste, and indifference to the desires of others will be punished. Of course, the punishment is not physical, administered by a malevolent authority, but rather the punishment of not getting what one wants, or least not as much as one wants, because people have chosen to deal with others instead.

Everyone knows that competition reigns in the worlds of business, politics, and sports. The results of competition there are brought to our attention daily. What most people do not perceive is that competition also exists (usually, anyway) among non-profit service institutions, and that when it does, those institutions are affected by it in the same beneficial way that more obviously competitive institutions are. Nonprofit organizations are impelled to operate as efficiently as possible lest they lose the support of their financial backers.

Competition and Charity

Consider private charitable organizations. We have a great many of them—dedicated to assisting needy people, to helping fight serious diseases, to achieving certain environmental goals, to promoting the fine arts, and so on. They are nonprofit institutions, but that only means that they

must spend all their revenues. The fact that they are not trying to earn profits for stockholders, however, does not mean that they are not under competitive pressure. If a charitable institution earns a reputation for having lavish offices, high expense accounts and salaries for administrators, and other expenditures that do not help to achieve its stated goals, contributions will most likely decline. After all, people do not have unlimited funds to contribute and will redirect their money to other charities in which they have more confidence.

Just as sellers of products are competing for a limited number of consumer dollars, so are the administrators of charities competing for a limited number of contributor dollars. Poor quality products will probably cause sales to fall off, and for that reason, business managers are alert to quality problems and try to prevent them from occurring. It is in their self-interest to do so. By the same token, administrators of charities do not want to be perceived as running low-quality organizations. Self-interest motivates them to try to get the maximum amount of benefit from the dollars donated.

The parallel here is not exact because it is more difficult for contributors to get good information about how effectively the institutions to which they contribute are run than it is for consumers to get information on the quality of the products they purchase. The consumer directly experiences the products, whereas the contributor seldom directly experiences the endeavors of the charities he supports. Nevertheless, there is still some competitive discipline exerted on those who run charities. If they operate inefficiently, that information may leak out and be publicized. That has happened often enough that it presumably exercises some influence over the decisions of the administrators. The possibility of losing contributions to other organizations leads to greater efficiency in the pursuit of a charity's objectives.

But what if charities were guaranteed a steady or expanding flow of revenue regardless of how well or poorly they perform their missions? The predictable result would be

rising costs and falling efficiency. If there is no looming penalty for sloth and inefficiency, the human tendency will be to slide in that direction. We find exactly that in government-run charities, that is, welfare programs. By all accounts, welfare programs have significantly higher administrative expenses and are less adept at making sure that funds are spent effectively than are their private counterparts.

The difference is that while there is a direct link between contributions and private charities, there is no such link between taxpayers and welfare bureaucracies. The absence of that link gives the people who run those institutions the latitude to operate with a high degree of inefficiency and the luxury of not having to worry about it. Even though it is widely known that welfare fraud is commonplace, the administrators of welfare programs do not need to fear that their budgets will shrink because angry taxpayers decide to take their money elsewhere. They can't. And that makes the administrators unaccountable and irresponsible.

Competition and Education

Precisely the same analysis applies to schools. Private schools have to compete for financial support. Tuition dollars and donations cannot be taken for granted. If a school does not continue to satisfy parents, they can and will enroll their children elsewhere. If it pursues educational or non-educational ends that alumni disapprove of, it will probably experience a decline in support. That private schools must compete for students and money motivates the people who run them to put forth an educational "product" that is at least reasonably good and often very good.

Competition also motivates private school administrators to search for ways to improve so they might fare even better in the future. Entrepreneurial discovery is not unique to profit-seeking businesses. Private school officials are keenly interested in finding improved ways to deliver their services. Any improvement may translate into more satisfied customers. But any change will be

carefully considered before it is implemented, and it will be monitored to see if it works as expected. Failed innovations are quickly dropped.

Government-run schools, in contrast, are insulated from the gusty winds of competition. Because their funding does not come directly from satisfied parents and willing donors, their administrators need not worry about adverse consequences of their actions. If students graduate who cannot read or write, that is no reason for concern—the money will flow anyway. In fact, the worse the performance, the better the chances that the authorities will be persuaded to increase the school budget to deal with the educational crisis the administrators created.

Government-school officials have a different view of innovation. Again, since their revenues do not depend on satisfying parents, the innovations they introduce will not likely be intended to satisfy them. Instead, innovations will aim at satisfying those who directly support them, chiefly politicians and certain special-interest groups. For example, an automatic test-scoring machine might be popular with the teachers union and therefore an attractive investment, despite the fact that such devices are apt to lead to tests with fewer or no essay questions and thus less attention to how well students write. Trendy curriculum changes such as “multicultural studies” programs are another example. They please politicians and special-interest groups, but mean less class time for learning what used to comprise the core of education. Many parents disapprove, but why bother with their concerns? They have no choice but to keep sending in their money.

Competition and Performance

I have discussed charitable organizations and schools, but this analysis applies, I submit, to all human institutions. Whenever any kind of institution is freed from the need to compete for revenues, the results we can expect are wholly undesirable: declining quality, increasing costs, irresponsible and high-handed management. Competition

makes people feel insecure and that is a good thing. When people feel insecure, they strive to become more secure and that in turn causes them to do their utmost to serve those who patronize them. In the end, they reduce scarcity and lift society.

It follows that one of the worst mistakes we can make is to exempt an institution from competition. Once we do that, once we sever that vital connection between performance and revenue, we dramatically alter the incentives that people face. No longer must they focus their energies and abilities on doing their best to please customers or contributors. Now revenues and resources can and will be used to make life more comfortable for the administrators, including ongoing endeavors to preserve the cherished competition-exempt status. Alertness and efficiency inevitably decline. Society suffers.

Freedom and Competition

Competition is the natural state of affairs. Competing for jobs, promotions, customers, loans, donors, students, victories, mates, space in magazines, and many other things is unavoidable. Other people are constantly attempting to satisfy their desires out of a limited quantity of resources, and that means that each of us has to assert himself—to compete—to get the things we want. As long as others are free to pursue their objectives, whether they are self-interested or altruistic, we will find ourselves having to compete with them.

The attempt to escape from competition can therefore be accomplished only by using coercion to prevent others from pursuing their objectives. If the managers and workers of the U.S. Postal Service want to be free from competition in the delivery of mail, that can be accomplished only by threatening legal penalties, which is to say violence, against others who would like to deliver mail. If the public schools wish to be free from the competition of educational alternatives, that requires taxing people who do not want their money going to public schools. If domestic peanut growers want to

be free from the competition of foreign peanut growers, that requires governmental force to prevent peanut transactions in excess of the arbitrary import quota set by federal law. It is only through a willingness to employ violence or the threat of violence, either personally or under the auspices of the State, that people or institutions can attempt to escape from the rigors of competition. But in fact, they merely substitute peaceful competition (the market) for the violent kind (politics). We must, therefore, choose: do we prefer a world of freedom and competition or one where the unscrupulous use coercion to stifle or eliminate eco-

nomie competition where it benefits them to do so?

Conclusion

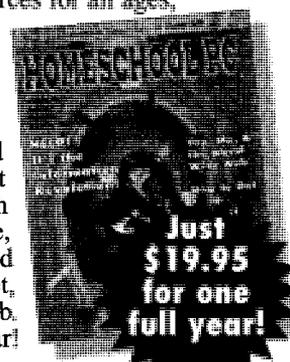
Most people understand that it is a good thing for businesses to have to compete. What I hope more people will appreciate now is that it is *universally* a good thing for people and institutions to have to compete. To eliminate the need to compete is to eliminate a host of beneficial incentives for optimizing performance and to embrace the dangerous idea that coercion is acceptable. That is always a bad idea.



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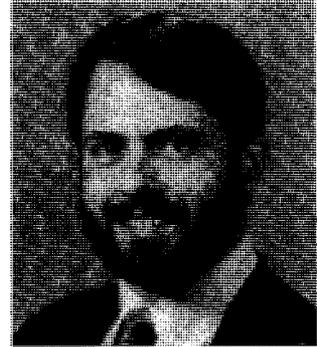
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There may be no more politically contentious issue than race. The federal government has created a vast racial spoils system that often helps those who least need assistance. To be well-educated and well-connected—that is, successful—is to gain the most from a system supposedly intended to help the victims of discrimination.

But the perversion of such programs is not the most important reason to dismantle racial norming, quotas, preferences, and other forms of discrimination against the “majority.” Justice should be based on individual, not group, treatment. To favor someone simply because he or she is black (or Hispanic, or whatever) is morally wrong. Doing so is also, in the long run, socially destructive, causing everyone to look at almost everything through a racial lens. The most elemental decisions about education and employment become political; even private relationships increasingly polarize as everyone squabbles over their supposed “entitlement” by color. Lest one doubt the damage being caused by racial politics in America, one need only turn to two recent books: Paul Craig Roberts and Lawrence M. Stratton’s *The New Color Line: How Quotas and Privilege Destroy Democracy* (Regnery) and Terry Eastland’s *Ending Affirma-*

tive Action: The Case for Colorblind Justice (Basic).

Race also underlies most of the other critical issues facing our society: crime, economic opportunity, education, poverty, welfare. Too many political debates quickly descend into vicious squabbles over race, even though the solutions are usually simple to discern. African-Americans are almost invariably the victims of perverse government policies, which, though racially neutral on their face, have a highly disparate impact. The minimum wage disproportionately bars urban youth from the job market; welfare disproportionately disrupts inner-city families and communities. And so on. Here, too, less state control and more individual freedom and community responsibility are the answer.

Yet to criticize government intervention on race, especially the tendency of people to turn every private dispute, no matter how small, into a public crisis—via a formal lawsuit, government prosecution, or federal program—carries with it a responsibility to criticize acts of private discrimination and intolerance. That is, if we really believe that public law should not reach every obnoxious private act, then people who are moral as well as free should practice the alternative: applying social sanctions.

The need for private action is probably greater than realized by most middle-class whites. Imagine stopping by the mall and buying a shirt that you liked. Imagine returning to the shop the next day wearing the

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shirt. Imagine being accosted by two security guards, demanding to see the receipt for your shirt—which, not surprisingly, you didn't think to bring with you. Imagine being ordered to strip off the shirt and, even though a cashier remembered selling you one, told to bring in the receipt to retrieve your shirt.

Seem improbable? If you're a middle-aged white, it's inconceivable. Any employee going up to such a customer and saying, "Excuse me, sir—that shirt looks like the type we stock. Where's your receipt?" would earn a quick trip to the unemployment line.

But an Eddie Bauer clothing store in a Washington, D.C., suburb forced Alonzo Jackson, a 16-year-old black male, to literally give the shirt off of his back to store security personnel. He went home in his t-shirt. He did find the receipt, though not without some effort. The store's management wasn't entirely satisfied: explained spokeswoman, Cheryl Engstrom, "The amount on the receipt matched the purchase, although the stub didn't specifically indicate whether or not it was the same shirt." However, Engstrom added, the store "gave him the benefit of the doubt and let him keep it anyway." Mr. Jackson was lucky the store guards weren't checking underwear as well as shirts.

The treatment of Alonzo Jackson dramatically demonstrates why race remains such a painful and divisive issue. Store personnel implicitly accused Jackson of being a criminal and took his property—because he was black. It took a torrent of angry letters and phone calls from whites and blacks alike before the company formally apologized.

That young black males are treated badly because they are young black males is not new. Cab drivers are less likely to pick up and jewelers less likely to buzz into locked shops African-American males. Stores are, as Jackson certainly knows, more likely to suspect young black males of shoplifting.

The fear of African-American men is shared by many African-Americans—black cab drivers also pass by black pedestrians. It was Jesse Jackson, of all people, who

once observed that "There is nothing more painful to me at this stage in my life than to walk down the street and hear footsteps and start thinking about robbery—then look around and see someone white and feel relieved."

Yet this understandable fear of a small number of predators who commit a disproportionate share of crimes penalizes the vast majority of African-Americans who are not only decent, law-abiding people, but also the primary victims of crime. Explains the Justice Department, "Black households, Hispanic households, and urban households were the most likely to experience crime." In fact, blacks are 50 percent more likely than others to be victimized by a violent crime. People like Alonzo Jackson are paying twice—they are more likely to suffer from crime and be suspected of being criminals.

And that has a larger social impact. Such treatment can only fan anger, frustration, and resentment. Victimology has become big business, with most everyone wanting to be called, and recompensed for allegedly being a victim. But there are real victims, like Jackson.

What can we do? Some of the answers, as noted earlier, are better policy. Crime must be detected, punished, and deterred, especially in poor neighborhoods, where residents are so vulnerable. The government's educational monopoly must be broken, giving disadvantaged students a chance to receive a real education. The economy needs to be deregulated and opened to help everyone, rather than controlled to enrich special interests, such as labor unions, which back laws like the Davis-Bacon Act, which restrict the hiring of minorities.

Racism is harder to address, especially through government. Some race-based decisions, like those of cab drivers who pass by blacks, reflect reasons other than prejudice. Are we really prepared to penalize people who, even if wrongly, believe their lives might be in danger—especially when today's anti-discrimination laws have misfired, creating a quota mentality and encouraging disappointed job-seekers to routinely scream racism?

We especially need to steer clear of the quota temptation that has so entranced politicians in Washington and across the nation. When the high school in Piscataway Township, New Jersey, facing the need to lay off one of ten business education teachers, fired Sharon Taxman because she was white, it compounded rather than alleviated injustice. Cases like this also ensure that anger, frustration, and resentment will rise among whites as well as blacks.

At the same time, the kind of racist behavior exhibited by Eddie Bauer should be criticized and treated as socially unac-

ceptable. As it was when consumers of all races demanded that Eddie Bauer apologize to Alonzo Jackson, else they would take their business elsewhere.

And this is how it should be. As individuals, we need to insist that racism is wrong. That means speaking out and taking action when necessary. The burden for doing so falls especially heavily on those of us who don't believe that every instance of offensive behavior should be a crime. If political society is to do less, as it should, then civil society must do more. It becomes the duty of every one of us to help shape society's moral code.

HAD ENOUGH?

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Alexis de Tocqueville: How People Gain Liberty and Lose It

by Jim Powell

Alexis de Tocqueville was a gentleman-scholar who emerged as one of the world's great prophets. More than a century and a half ago, when most people were ruled by kings, he declared that the future belonged to democracy. He explained what was needed for democracy to work and how it could help protect human liberty. At the same time, he warned that a welfare state could seduce people into servitude. He saw why socialism must lead to slavery.

Tocqueville staked his life on liberty. "I have a passionate love for liberty, law, and respect for rights," he wrote. "I am neither of the revolutionary party nor of the conservative. . . . Liberty is my foremost passion."

Reflecting on Tocqueville's famous book *Democracy in America*, historian Daniel J. Boorstin observed: "The most interesting question for the newcomer to Tocqueville is why this book, of all the myriad travel accounts of the United States, should have become a classic—the standard source for generalizing about America. From Tocque-

ville's era, two best-selling books on the United States—Mrs. Trollope's *Domestic Manners of the Americans* (1832) and Charles Dickens' *American Notes* (1842)—by more clever stylists and more acute observers than Tocqueville, survive only as scholarly footnotes. They tell us about those curious earlier Americans, but Tocqueville tells us about ourselves. He speaks to us every day."

Tocqueville was a good listener with a keen memory. He had a remarkable mind capable of discerning trends which almost all his contemporaries missed. He drew shrewd lessons from experience. He envisioned the insidious long-term consequences of government intervention.

To be sure, as a member of the landed gentry who earned most of his income from tenant farmers, Tocqueville shared the usual aristocratic prejudices against business enterprise. He hardly uttered a word about the industrial revolution that enabled millions to avoid starvation.

He worked long hours completing important books despite health problems that plagued him most of his life. He suffered migraine headaches, neuralgia, and stomach cramps lasting a week at a time. Undoubtedly these afflictions were a major reason why he was often irritable.

Mr. Powell is editor of Laissez Faire Books and a senior fellow at the Cato Institute. He has written for the New York Times, the Wall Street Journal, Barron's, American Heritage, and more than three dozen other publications. Copyright © 1996 by Jim Powell.

In his books, Tocqueville seems like a realist, yet his letters suggest he was a romantic who dreamed of great adventures and endured bouts of depression. At 19, he wrote a friend that he wished “to roam about for the rest of time.” When he was nearly 30, after *Democracy in America* became a hit, he lamented: “Oh! How I wish that Providence would present me with an opportunity to use, in order to accomplish good and grand things . . . this internal flame I feel within me that does not know where to find what feeds it.” At 41: “Perhaps a moment will come in which the action we will undertake can be glorious.”

Tocqueville, according to Yale University historian George Wilson Pierson, was “almost diminutive in stature; a dignified, reserved, shy little gentleman, delicate of feature and restrained in gesture. Proud, dark, troubled eyes arrested the glance and fitfully illuminated his pale and serious face. A sensitive mouth and lightly cleft chin, below a strong aquiline nose, betrayed his breeding and bespoke a more than ordinary determination. The finely shaped head was darkly framed in his long black hair, which he wore falling in locks to his shoulders, in the proud fashion of the day. When receiving, or conversing, he waved his narrow hands with grace and distinction. And, when he spoke, a resonant and moving voice, surprising in so small and frail a body, made his listeners forget all but the intense conviction and innate sincerity of the man.”

Early Influence

Alexis-Charles-Henri Clérel de Tocqueville was born the youngest of three boys July 29, 1805, in Paris. His father Hervé-Louis-François-Jean-Bonaventure Clérel was a 33-year-old landed aristocrat descended from Norman nobles. His mother was Louise-Madeleine Le Peletier Rosanbo, also 33. They were imprisoned during the French Revolution, maintained their royalist ties throughout the Napoleonic era, and after the restoration of the Bourbon dynasty in 1815 Hervé served as a regional

government administrator. Alexis was tutored by Abbé Lesueur, a priest who taught devotion to the Catholic Church and the French monarchy.

At 16, Alexis began exploring his father’s library, which included such provocative French Enlightenment authors as Montesquieu and Voltaire. “When I was prey to an insatiable curiosity whose only available satisfaction was a large library of books,” he recalled, “I heaped pell-mell into my mind all sorts of notions and ideas which belong more properly to a more mature age. Until that time, my life had passed enveloped in a faith that hadn’t even allowed doubt to penetrate into my soul. Then doubt entered, or rather hurtled in with an incredible violence, not only doubt about one thing or another in particular, but an all-embracing doubt. All of a sudden I experienced the sensation people talk about who have been through an earthquake.”

Rather than become an officer in the French army like his two brothers, Alexis preferred the intellectual career for aristocrats—law. He studied law from 1823 to 1826, then traveled in Italy with his brother Edouard. Alexis’s most memorable experience was seeing how war and despotism had ravaged the land, and he wrote over 350 pages of notes on the subject. He pondered how once-mighty civilizations could perish.

In 1827, his father had him appointed as a judge at Versailles, serving the Bourbon monarchy. He seemed the very proper French aristocrat, but he was aboil. “I had spent the best years of my youth,” he wrote later, “in a society that seemed to be regaining prosperity and grandeur as it regained freedom; I had conceived the idea of a regulated and orderly freedom, controlled by religious belief, mores and laws; I was touched by the joys of such a freedom, and it had become my whole life’s passion. . . .”

On July 25, 1830, people arose and drove the Bourbon King Charles X into exile. The new king was Louis Philippe from the House of Orleans. Tocqueville figured this was better than chaos, so he took a new loyalty oath like many other judges, outraging his friends and relatives. But the king didn’t

trust holdovers. Tocqueville was demoted to a post without pay.

His warm and easy-going friend Gustave de Beaumont, a fellow judge at Versailles, was in a similar fix. Since the Chamber of Deputies talked about reforming the criminal code, Tocqueville and Beaumont got official permission to see America and study the prison system there. Their families would pay expenses. The two men canvassed friends and relatives about possible contacts in America. They studied American literature. They read some of the travel books which Europeans had written about America. Tocqueville spent 40 francs on a leather trunk to carry two pairs of boots, a silk hat, hose, and other fashionable apparel, plus note paper and a copy of *Cours d'économie politique* by French laissez-faire economist Jean-Baptiste Say.

Travels in America

On April 2, 1831, Tocqueville and Beaumont boarded the American ship *Le Havre*. It had an 18-man crew, 163 passengers, and a cargo of silk from Lyons. After four days of seasickness, Tocqueville and Beaumont adopted a daily schedule which they continued in the United States: up around 5:30 a.m., work till breakfast at 9, then work from 11 to 3 p.m., then dinner and work until bedtime—they didn't join other passengers for supper. After 38 days, they reached New York.

During the next nine months, they toured cities—New York, Albany, Boston, Philadelphia, Washington, Montreal, and Quebec. They passed through towns like Buffalo, Cincinnati, Detroit, Knoxville, Louisville, Mobile, Montgomery, Nashville, Memphis, New Orleans, and Pittsburgh. They ventured into the hinterlands as far west as Lake Michigan. They visited Niagara Falls. They traveled along the Hudson River Valley. They saw the Mohawk River Valley, the setting for James Fenimore Cooper's bestselling novel *The Last of the Mohicans*. They took a boat trip down the Mississippi River. They inspected many prisons.

They met many notable Americans including Unitarian leader William Ellery Channing, historian Jared Sparks, Senator Daniel Webster, former President John Quincy Adams, and Texas adventurer Sam Houston. They talked with Cincinnati lawyer Salmon Chase, who was to become Chief Justice of the Supreme Court, and with Charles Carroll, last surviving signer of the Declaration of Independence.

Return to France

Soon after they left America on February 20, 1832, they began to write the promised book on America's penal system. Beaumont did most of it. The book was published in January 1833 as *Du système pénitentiaire aux États-Unis, et de son application en France*. They believed many prisoners could be reformed through isolation and work, but they insisted the primary purpose of imprisonment must be to punish wrongdoers. The work was a critical success, and the Académie Française awarded them the prestigious Montyon Prize.

Although they had talked about collaborating on a book about America, their interests diverged. Beaumont, most concerned about slavery, wrote a novel called *Marie, ou l'esclavage aux États-Unis*. Tocqueville was fascinated with American social and political life because of the difficulties his own country had developing institutions favorable to liberty.

Tocqueville attributed the upheavals his family lived through to centralized government: "Most of those people in France who speak against centralization do not really wish to see it abolished; some because they hold power, others because they expect to hold it. It is with them as it was with the pretorians, who voluntarily suffered the tyranny of the emperor because each of them might one day become emperor. . . . Decentralization, like liberty, is a thing which leaders promise their people, but which they never give them. To get and to keep it the people might count on their own sole efforts: if they do not care to do so the evil is beyond remedy."

He observed that liberty makes for a peaceful social order. "Picture to yourself," Tocqueville wrote a friend, "a society which comprises all the nations of the world—English, French, German: people differing from one another in language, in beliefs, in opinions; in a word a society possessing no roots, no memories, no prejudices, no routine, no common ideas, no national character, yet with a happiness a hundred times greater than our own. . . . How are they welded into one people? By community of interests. That is the secret!"

Tocqueville decided that before he could write about liberty and democracy, he had to better understand England, which pioneered limited government. He visited the country for five weeks in 1833. "England," he noted, "is the land of decentralization. We have a central government, but not a central administration. Each county, each borough, each district looks after its own interests. Industry is left to itself. . . . It is not in the nature of things that a central government should be able to supervise all the wants of a great nation. Decentralization is the chief cause of England's material progress."

Democracy in America

He spent almost a year writing the first two volumes of *De la Démocratie en Amérique*. He worked in an attic room of his parents' Paris house, 49 rue de Verneuil, Paris. In mid-September 1833, he wrote Beaumont: "Upon arriving here, I threw myself on America in a sort of frenzy. The frenzy is still going on, though now and then it seems to die down. I think my work will benefit more than my health, which suffers a little from the extreme exertion of my mind; for I hardly think of anything else as I fire away. . . . From morning until dinner time my life is altogether a life of the mind and in the evening I go to see Mary."

He was referring to Mary Mottley, an English commoner he had met while a judge at Versailles. They got married October 26, 1835. She had a calming influence, but unfortunately, she couldn't keep up with his interests. "In our hearts we understand

each other," he told a friend, "but we cannot in our minds. Our natures are too different. Her slow and gradual way of experiencing things is completely foreign to me." They didn't seem to have much fun.

Meanwhile, the first two volumes came out on January 23, 1835. Tocqueville was 29. The publisher, Gosselin, reportedly hadn't read the manuscript and agreed to issue only 500 copies. But Tocqueville publicized the book via newspaper advertisements, and an ideological adversary unintentionally drew attention to the book by attacking it in a newspaper article. An immediate hit, the book won another Montyon Prize which brought a 12,000-franc award, and it was reprinted eight times before the last two volumes appeared in April 1840. They were less successful commercially than the first two, but critics considered them more important, and they helped buoy Tocqueville's reputation.

"Essential Doctrines"

Henry Reeve, a 22-year-old editor of the influential *Edinburgh Review*, began translating the book into English, and a revised version remains the most popular translation. In the October 1835 *London and Westminster Review*, English thinker John Stuart Mill called *Democracy in America* "among the most remarkable productions of our time." Mill gave the last two volumes an even bigger boost in the October 1840 *Edinburgh Review*: "the first philosophical book ever written on Democracy, as it manifests itself in modern society; a book, the essential doctrines of which it is not likely that any future speculations will subvert, to whatever degree they may modify them. . . ." Mill asked Tocqueville to write an article for the *London and Westminster Review*, giving him further exposure in the English-speaking world. The book was also translated into Danish, German, Italian, Russian, Serbian, and Spanish.

A Broad Vision

His book had a lasting impact because he offered a broad vision rather than a journal-

istic chronicle which would become dated. He was interested in the workings of democracy and illustrated general principles with his observations about America, the largest country to try democracy. He wrote from the standpoint of an outsider, concerned about what America meant for liberty in France and elsewhere.

Tocqueville was the man who discovered American individualism—he described it somewhat negatively as “a mature and calm feeling which disposes each member of the community to sever himself from the mass of his fellow-creatures, and to draw apart with his family and friends.” Yet he talked approvingly about self-help, a hallmark of American individualism. For example: “The citizen of the United States is taught from infancy to rely upon his own exertions in order to resist the evils and the difficulties of life; he looks upon the social authority with an eye of mistrust and anxiety, and he claims its assistance only when he is unable to do without it.”

Tocqueville explained what people everywhere came to recognize as the American dream: “There is no man who cannot reasonably expect to attain the amenities of life, for each knows that, given love of work, his future is certain. . . . No one is fully contented with his present fortune, all are perpetually striving, in a thousand ways, to improve it. Consider one of them at any period of his life and he will be found engaged with some new project for the purpose of increasing what he has.”

Tocqueville commended the peaceful influence of free enterprise. “I know of nothing more opposite to revolutionary attitudes than commercial ones. Commerce is naturally adverse to all the violent passions; it loves to temporize, takes delight in compromise, and studiously avoids irritation. It is patient, insinuating, flexible, and never has recourse to extreme measures until obliged by the most absolute necessity. Commerce renders men independent of one another, gives them a lofty notion of their personal importance, leads them to seek to conduct their own affairs, and teaches how to conduct them well; it therefore prepares men for

freedom, but preserves them from revolutions.”

Tocqueville observed how liberty and the need for social cooperation give people incentives to be virtuous. “I have often seen Americans make great and real sacrifices to the public welfare; and I have noticed a hundred instances in which they hardly ever failed to lend faithful support to one another. The free institutions which the inhabitants of the United States possess, and the political rights of which they make so much use, remind every citizen, and in a thousand ways, that he lives in society. They every instant impress upon his mind the notion that it is the duty as well as the interest of men to make themselves useful to their fellow creatures; and as he sees no particular ground of animosity to them, since he is never either their master or their slave, his heart readily leans to the side of kindness.”

Tocqueville denounced American slavery, saying “the laws of humanity have been totally perverted.” He anticipated civil war. He predicted blacks and whites would have a tough time getting along after the abolition of slavery, but he expressed confidence that blacks could do fine if truly liberated: “As long as the Negro remains a slave, he may be kept in a condition not far removed from that of the brutes; but with his liberty he cannot but acquire a degree of instruction that will enable him to appreciate his misfortunes and to discern a remedy for them.”

Tocqueville warned against war and violent revolution: “it is chiefly in war that nations desire, and frequently need, to increase the powers of the central government. All men of military genius are fond of centralization, which increases their strength; and all men of centralizing genius are fond of war. . . . A people is never so disposed to increase the functions of central government as at the close of a long and bloody revolution. . . . The love of public tranquillity becomes at such times an indiscriminate passion, and the members of the community are apt to conceive a most inordinate devotion to order.”

The Welfare State

With phenomenal foresight, Tocqueville predicted that the welfare state would become a curse. For example: "Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood; but it seeks, on the contrary, to keep them in perpetual childhood; it is well content that the people should rejoice, provided they think of nothing but rejoicing. For their happiness such a government willingly labors, but it chooses to be the sole agent and the only arbiter of that happiness; it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances; what remains, but to spare them all the care of thinking and all the trouble of living?"

"Our contemporaries," he continued, "combine the principle of centralization and that of popular sovereignty; this gives them a respite: they console themselves for being in tutelage by the reflection that they have chosen their own guardians."

Like some other nineteenth-century gentleman-scholars such as Thomas Macaulay, Tocqueville hoped to shape public policies. He spent a dozen frustrating years as an elected representative in the Chamber of Deputies and Constituent Assembly where he focused on such controversies as abolishing slavery in French colonies. For five months, he served as Finance Minister. But he had little influence on François Guizot (pro-business) or Louis Adolph Thiers (moderate opposition) who utterly dominated French politics during this era.

During the Revolution of 1848, which toppled King Louis-Philippe, socialism reared its ugly head. Tocqueville was far ahead of his time in seeing why it must mean slavery, as he told fellow representatives:

"Democracy extends the sphere of individual freedom, socialism restricts it. Democracy attaches all possible value to each man; socialism makes each man a mere agent, a mere number. Democracy and socialism have nothing in common but one word: equality. But notice the difference: while democracy seeks equality in liberty, socialism seeks equality in restraint and servitude."

Since Tocqueville believed individuals should be judged on their own merits, he rejected the racist theories of Arthur de Gobineau who wrote *The Inequality of Human Races* (1855). For example, Tocqueville told Beaumont that Gobineau "has just sent me a thick book, full of research and talent, in which he endeavors to prove that everything that takes place in the world may be explained by differences of race. I do not believe a word of it. . . ." To Gobineau, he wrote, "What purpose does it serve to persuade lesser peoples living in abject conditions of barbarism or slavery that, such being their racial nature, they can do nothing to better themselves, to change their habits, or to ameliorate their status?"

Interpreting the French Revolution

In Tocqueville's last great work, *L'Ancien Régime et la Révolution* (1856), he interpreted the French Revolution, which ignited war throughout Europe. Once again, he confronted the demon of centralized government: "the object of the French Revolution was not only to change an ancient form of government, but also to abolish an ancient state of society . . . clear away the ruins, and you behold an immense central power, which has attracted and absorbed into unity all the fractions of authority and influence which had formerly been dispersed amongst a host of secondary powers, orders, classes, professions, families and individuals, and which were disseminated throughout the whole fabric of society."

Tocqueville's health had always been delicate, but it took a turn for the worse in March 1850 when he spat blood—tuberculosis. It went into remission for several

years, then became more serious. He could talk only in a low voice. Advised to spend time in a sunny climate, he and Mary went to Cannes in January of 1859. Lord Brougham, an English friend who lived there, made available his luxurious library so Tocqueville could relieve the boredom of illness.

He suffered agonizing pain in his stomach and bladder. On March 4, 1859, he wrote Beaumont: "I know nothing that has ever grieved me so much as what I am going to say to you . . . COME. COME, as fast as you can. You alone can put us back on the field. Your cheerfulness, your courage, your liveliness, the complete knowledge you have of us and our affairs, will make easy for you what would be impracticable for someone else. Come. . . . Let me treat you like a brother; have you not been a thousand times more in a thousand situations! . . . Come . . . I embrace you from the depth of my soul." Beaumont hurried to be by Tocqueville's side.

Tocqueville lost consciousness and died around 7 p.m., April 16th. He was returned to Paris and buried in Tocqueville, Normandy, his family's birthplace. The following year Beaumont, steadfast for more than

30 years, published his friend's works and correspondence.

Tocqueville fell out of fashion during the late nineteenth century, perhaps because Germany, not America, seemed to have caught the wave of the future. German Chancellor Otto von Bismarck embraced socialism and established the first modern welfare state, and people everywhere looked to Germany for leadership.

But socialism triggered communism, fascism, Nazism, and other brutal tyrannies that slaughtered tens of millions during the twentieth century. The welfare state shackled hundreds of millions more with taxes and regulations. Then after World War II, America emerged as the world's brightest hope. Tocqueville predicted it all.

Now he's hailed as a prophet. Recent decades have brought the most comprehensive biography of him (1988) and new editions of his complete works—the latest beginning in 1991. Today everyone can see for themselves the wonder of this troubled man who peered into the mists of time, warned against the horrors of collectivism and boldly proclaimed redemption through liberty. □

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How Real Is the Asian Economic Miracle?



“Singapore grew through a mobilization of resources that would have done Stalin proud.”

—Paul Krugman, “The Myth of Asia’s Miracle,” *Foreign Affairs* (November/December, 1994)

The post-war Asian economic miracle has come as a great shock to the economics profession. In my review of the top-ten textbooks (*Economics on Trial*, Irwin, 1993), few economists tell the wonders of Japanese prosperity and none reveals the secrets of the Four Tigers (Hong Kong, Singapore, Korea, and Taiwan) or the newly industrialized economies (Indonesia, Malaysia, and Thailand).

A desperate, starving, shattered Japan of 1945 was one of the poorest countries on earth. There were no skyscrapers, no wealthy banks, no automobile and electronics industries. Yet within a single human lifespan, Japan has become an economic superpower, ranking second behind the United States among the world’s richest nations.

Hong Kong has faced gigantic problems: six million people jammed into 400 square

miles, with no oil or other natural resources, most of its water and food imported, and its trading partners thousands of miles away. Yet this small British colony has broken the vicious cycle of poverty and become the second most prosperous country in the Pacific Basin.

Since 1965, the 23 economies of East Asia have grown faster than all other regions of the world. The high-performing Asian economies have experienced extremely rapid growth and rising incomes. The proportion of people living in absolute poverty has dropped sharply. Life expectancy has increased from 56 years in 1960 to 71 years in 1990.¹

The Cause of the Miracle

Why have American economists ignored until recently these economic success stories? Perhaps because the Asian development model does not fit neatly into the Keynesian framework and policy prescriptions, which favor high levels of consumption, debt, and government spending. In almost all of the rapidly growing economies in East Asia, the degree of government taxation and central planning has been relatively low, savings rates excessively high by Keynesian standards, government budgets normally in surplus, and the welfare state relatively small. As the World Bank concluded in its 1993 study, “the rapid growth in each economy was primarily due

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to the application of a set of common, market-friendly economic policies, leading to both higher accumulation and better allocation of resources."²

Krugman's Challenge

Now along comes Professor Paul Krugman to throw water on the whole idea of an Asian miracle. Krugman, who recently moved from MIT to Stanford University, is the darling of the establishment media and is referred repeatedly as a brilliant *wunderkind*, the next Nobel Prize winner, and according to *The Economist*, "the most celebrated economist of his generation."

According to Krugman, there is nothing miraculous about Asian economic growth. It is *déjà vu*, a reminder of the incredible growth rates of the Soviet Union in a by-gone era (1920–1990). Krugman sees "surprising similarities" between East Asia and the former Soviet Union. Both engaged in an "extraordinary mobilization of resources." In the case of the Soviet Union, Krugman notes, "Stalinist planners had moved millions of workers from farms to cities, pushed millions of women into the labor force and millions of men into longer hours, pursued massive programs of education, and above all plowed an ever-growing proportion of the country's industrial output back into the construction of new factories."³

According to Krugman, East Asian leaders have been just as authoritarian, pushing more of the population to work, upgrading educational standards, and making an awesome investment in physical capital. In short, East Asia is just like the Soviet Union, "growth achieved purely through mobilization of resources."

Moreover, like the Soviet Union, growth in East Asia is likely to diminish, due to limits on labor and capital. Krugman states, "it is likely that growth in East Asia will continue to outpace growth in the West for the next decade and beyond. But it will not do so at the pace of recent years."⁴ Asia is subject to the law of diminishing returns.

The Tyranny of Numbers

I have serious reservations about Krugman's ivory-tower analysis of the Asian miracle. First, his comparison to the Soviet Union is attention-getting, but fundamentally flawed. The Soviet Union was primarily a command economy, the Asian nations free economies. The Stalinists engaged in grim industrialization and militarization at the expense of the Soviet standard of living. In this sense, Soviet growth statistics were largely fictitious. As Soviet expert Marshall Goldman stated in the early 1980s, "This system keeps producing steel and basic machine tools, when what is wanted is food, consumer goods, and more modern technology."⁵

On the other hand, the Asians mobilized resources by producing an increasingly sophisticated range of products demanded by international markets, and thereby increased dramatically their own standard of living.

The Lessons of Asia

Finally, Krugman misses the bigger picture. The real question is: Why have so few developing countries outside the Asian region been able to produce their own miracles? And what can industrial nations such as the United States and Europe learn from the Asian miracle?

The answer is clear. The Asian economies have grown rapidly for a number of reasons. First, they are largely market-friendly, avoiding wage-price controls and excessive regulation of business. Second, they encourage macroeconomic stability (avoiding high levels of inflation and budget deficits), limit government activism, and discourage social welfare schemes. Third, they offer stable and secure financial and legal systems. Fourth, they promote high levels of saving and capital investment rather than high consumption spending. Fifth, many East Asian nations offer tax holidays for export-oriented businesses and impose few (if any) taxes on investments. Sixth, they are

open to global technology and foreign capital.

Granted, many East Asian countries limit civil liberties, engage in industrial planning, and restrict imports, but overall the degree of government intervention is relatively low.

Many developing countries in Latin America and Africa are adopting many free-market reforms and creating their own miracles. The industrial nations could regain their traditional growth rates by adopting a large dose of supply-side economics, cutting taxes on business and investment, privatizing Social Security, promoting better education and training, streamlining regulations on business and employment, and eliminat-

ing the federal deficit. As Ludwig von Mises concludes, "it is one of the foremost tasks of good government to remove all obstacles that hinder the accumulation and investment in new capital."⁶

1. For an excellent survey of the region, see *The East Asian Miracle* (The World Bank, 1993).

2. *Ibid.*, p. vi.

3. Paul Krugman, "The Myth of Asia's Miracle," *Pop Internationalism* (MIT Press, 1996), p. 173. Originally published in *Foreign Affairs* (Nov./Dec., 1994).

4. *Ibid.*, p. 184.

5. Marshall Goldman, *USSR in Crisis: The Failure of an Economic System* (New York: W. W. Norton, 1983), p. 2.

6. Ludwig von Mises, "Capital Supply and American Prosperity," *Planning for Freedom*, 4th ed. (South Holland, Ill.: Libertarian Press, 1980), p. 214. I highly recommend this talk on economic development, given by Mises in 1952.

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BOOKS

The Lost City: Discovering the Forgotten Virtues of Community in the Chicago of the 1950s

by Alan Ehrenhalt

Basic Books • 1995 • 310 pages • \$24.00

Reviewed by Stephen J. K. Walters

Can individuals have too much freedom? Can markets serve up too many choices for consumers? Do we need more “authority” in the America of the ’90s?

In *The Lost City*, Alan Ehrenhalt answers these questions affirmatively; he blames our ’60s-era rejection of authority and enshrinement of personal choice as the most important of life’s values for the lost sense of community that today makes our cities nightmarish and our suburbs sterile. Those who cherish liberty might be tempted to ignore such views, or dismiss them as the tired rantings of a reflexive statist or deluded nostalgic—the kind of person who, had he been born in Rome rather than Chicago would be pining for the good old days when Mussolini made the trains run on time.

But those who ignore *The Lost City* will miss an entertaining and stimulating book. Ehrenhalt may not be much of a political economist or philosopher, but he is a top-flight journalist. His vision of the ’50s never veers into fuzzy sentimentalism; it is clear-eyed, objective, and wide-ranging. Whether he is describing ’50s life in a blue-collar enclave in southwest Chicago, in a bustling South Side ghetto, or in a leafy commuter suburb, Ehrenhalt has a talent for making you feel part of the time and place. His book is like an opened time capsule; after examining its holdings a while, you will be convinced—as Ehrenhalt is—that we have lost something precious since that capsule was sealed.

It is only when Ehrenhalt gets down to the task of diagnosing *how* our culture mutat-

ed—how “Ozzie and Harriet” devolved into “Married. . . With Children”—that he stumbles. His errors arise from widely shared presumptions and impulses, however, so it behooves those who respect markets and value freedom to take them seriously.

Consider, for example, Ehrenhalt’s verdict that “The difference between the 1950s and the 1990s is to a large extent the difference between a society in which market forces challenged traditional values and a society in which they have triumphed over them.” We hear echoes of this notion every day in the popular media’s assertions that murderers kill because movies taught them to, that teens get pregnant because corporations use sex to sell their wares—even that the traditional values of loyalty and thrift have died because free-agent athletes change uniforms too readily.

But let’s get real: the marketplace is culture’s servant, not its master. The goods purchased in free markets do not determine their buyers’ tastes, they reflect them. If the marketplace serves our cultural predispositions too well, blame not markets but ourselves.

The Lost City would have been incomparably better had Ehrenhalt not shied from identifying the true sources of America’s cultural decay. In fact, he comes close. He notes the awesome cultural influence of the dissatisfied: “[T]he cultural images that come down to us as history are written . . . by the dissenters—by those whose strong feelings against life in a particular generation motivate them to become the novelists, playwrights, and social critics of the next.” He just underrates the power of these malcontents’ ideas; he fails to see that our repudiation of ’50s mores and institutions has not been a triumph of the market but a mere intellectual mutiny. The at-home mothers Ehrenhalt credits with keeping ’50s neighborhoods “glued together” and with seeing that the young avoided sin did not hustle off to office jobs because markets seduced them. Rather, they were seduced by Betty Friedan and others who taught them that women at home were oppressed—that Harriet Nelson was a myth or a sellout.

In truth, the last few decades have been a huge lab experiment, the dissenters of the '50s and '60s deciding what next to put into the test tube. A little gender feminism here, some radical egalitarianism there, then some environmental deism. On and on we go, heaping intellectual fashion on academic conceit on untested social theory. Stir with the heavy hand of the State and get: the lost culture. For details, see Thomas Sowell's *The Vision of the Anointed*.

What should occupy us is this: Why does the marketplace of ideas not work as well as the one for autos or beer? Why is Susan Faludi better known than Hayek? Why is Ralph Nader a hero? Why is Paul Ehrlich not bankrupt? Considering such questions and studying the special attributes of the intellectual marketplace might be a necessary condition for the reconstruction of a civil society—or, at the least, might keep us from losing it once it is restored. □

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Hazardous to Our Health? FDA Regulation of Health Care Products

edited by Robert Higgs

Oakland, Cal.: Independent Institute • 1995 •
113 pages • \$14.95 paperback

Reviewed by Doug Bandow

There was a time when people actually trusted the federal government. However, "I'm from the government and I'm here to help you" is now considered to be a top joke line, along with "the check is in the mail." Nowhere is the first line more appropriate than the Food and Drug Administration (FDA).

The FDA has long seen its mission as *restricting* the availability of such products, irrespective of the cost to the public. One estimate is that 200,000 people have died over the last three decades because the FDA prevented them from using drugs, many of

which were available in other countries. Thousands more have died when denied access to medical devices. Hundreds of thousands of people suffered in small and big ways as the FDA prevented—and continues to prevent—doctors from providing safe and effective treatments.

It wasn't supposed to be this way, of course. In 1938 Congress empowered the FDA to monitor drug safety. However, the agency had to act within a specified time in order to block product sales and its impact on the pharmaceutical market was modest. But the FDA gained power over time, in what Robert Higgs of the Independent Institute calls "a process of 'punctuated politics.'" Although the agency itself has regularly sought to increase its power, the major expansions have been granted by Congress in response to perceived crises.

Probably the most celebrated example of this phenomenon occurred after the widespread international use of thalidomide, which generated birth defects. As a result, in 1962 Congress approved new legislation that greatly expanded the FDA's power. The agency could monitor efficacy (which had not been at issue with thalidomide) as well as safety, and could take as long as it wanted—years in some cases—to conduct its reviews. The FDA also began regulating clinical trials.

Unfortunately, as Higgs and his collaborators detail, this constant if episodic increase in FDA power has given an inefficient and unaccountable bureaucracy a stranglehold over the drug and device industries. When it comes to this agency, observes Higgs, "one encounters claims for what amounts to a variant of central planning that are virtually identical to the claims now recognized as discredited in relation to socialist central planning for the whole economy." No group of federal bureaucrats, however good their intentions, can determine the most appropriate and effective treatment for thousands of doctors and millions of patients.

But the issue is far more than efficiency. It is also morality. After all, what is more basic than the ability to decide one's own

medical destiny? Observes Higgs, today the government “presumes to exercise control over people’s lives that cannot possibly be justified unless one views people as having no more rights than the sheep in a flock.”

The agency also regulates devices, some 6,000 of which are now used in diagnosing and treating patients. Only in 1990 did Congress allow the FDA to strictly control these products, but the agency quickly employed its new power: approval rates fell dramatically and backlogs became huge. Between 1991 and 1993, for instance, the review time for so-called 510(k) applications (simple requests for “substantially equivalent” devices) more than doubled. Reports Higgs, “the buildup of the huge backlog in 1992 and 1993 . . . led bewildered applicants to speak of a ‘black hole’ and ‘eternal limbo.’”

Perhaps even more astonishing is how the FDA ignores the First Amendment in its zeal to control not just advertising, but the flow of any information from drugmakers to patients and doctors. Paul Rubin of Emory University tells the long, sad story. Aspirin manufacturers cannot inform consumers that use of their product helps reduce the risk of heart attacks. Pharmaceutical firms cannot distribute peer-reviewed journal articles on the use of approved drugs for other purposes that have not been specifically okayed by the FDA. Companies cannot underwrite the travel of doctors to discuss such uses, no matter how widespread. And much, much more. “By impeding the free flow of information,” notes Rubin, “this set of policies also has substantial detrimental effects on health.”

As *Hazardous to Our Health?* makes clear, the FDA’s record is execrable, making reform imperative. Given the overwhelming incentives for the agency to inflate and misuse its power, administrative reform is no option. Higgs advocates abolishing the agency. Absent that, he suggests limiting the FDA to certifying drugs: “This change would curtail the agency’s capacity to do harm while preserving its capacity—on the questionable assumption that it actually has such a capacity—to act beneficially.”

Although a short volume, *Hazardous to Our Health?* ably makes the case for indi-

vidual freedom. And that, ultimately, is the most important issue. Concludes Higgs: “Citizens who value liberty should have no trouble rejecting a system that simultaneously harms the public health and deprives citizens of their ability to make vital choices about their own health.” □

Mr. Badow is a Senior Fellow at the Cato Institute and the author of The Politics of Envy: Statism as Theology (Transaction).

A History of the Mont Pelerin Society

by R. M. Hartwell

Liberty Fund, Indianapolis • 1995 • 269 pages
• \$20.00

Reviewed by William H. Peterson

Ideas have consequences on the right and left. R. M. Hartwell of Oxford University and a recent Mont Pelerin Society president points to Britain’s Fabian Society as a counterpoint to MPS, a worldwide group of 450 mainly economists dedicated to the ideas of freedom and free enterprise.

The Fabian Society, founded in 1884 and later a think-tank for the Labor Party, rejected outright Marxism while setting a successful organizational strategy—careful marketing of soft socialist ideas advanced slowly, by degrees. The basic idea: undercut private property rights.

It did so by pushing state-protected trade unionism and other state interventions such as social security and unemployment insurance. And it did so by claiming that capitalism worsens inequality and exploitation, that it is rife with robber barons and virtueless inheritors such as playboys.

Prominent Fabians included Ramsay MacDonald (later a Labor prime minister), H. G. Wells, George Bernard Shaw, and Beatrice and Sidney Webb (later Lady and Lord Passfield). By 1945 Fabian ideas triumphed. Churchill was out, and a postwar Labor Government boldly enacted cradle-to-grave welfarism and nationalization of basic industries such as coal and steel.

The Mont Pelerin Society was founded in

1947 when state ascendancy and Marxist or Keynesian planning were sweeping the globe.

Principal organizer and longtime MPS president was F. A. Hayek, who stressed that MPS was to be a scholarly community arguing ideas against collectivism while not engaging in public relations or propaganda. At the first MPS meeting in Switzerland were Hayek, Karl Popper, and Lionel Robbins of the London School of Economics, Milton Friedman, Aaron Director, and George Stigler of the University of Chicago, Leonard E. Read and F. A. Harper of the Foundation for Economic Education, Henry Hazlitt of *Newsweek*, Ludwig von Mises of New York University, Bertrand de Jouvenel of Paris, Trygve Hoff of Oslo, and 27 other devotees of a free society.

The MPS declaration of aims included ideas on reaffirming and preserving private property rights, a moral code for both public and private activity, intellectual freedom, state behavior limited by the rule of law, and "the right of each individual to plan his own life."

Prominent MPS members who advanced to policy positions included Chancellor Ludwig Erhard of West Germany, President Luigi Einaudi of Italy, Chairman Arthur Burns of the U.S. Federal Reserve Board, and, currently, Prime Minister Vaclav Klaus of the Czech Republic. Eight MPS members, including Hayek, Friedman, and Stigler, won Nobel prizes in economics. And according to Martin Anderson of Stanford's Hoover Institution, of 76 economic advisers on Ronald Reagan's 1980 campaign staff, 22 were MPS members, including Anderson himself.

Hartwell also notes the MPS intellectual push for a free society has ever been uphill against counter-ideas. Even today government almost everywhere is still looked upon as the guardian of "social justice," the purveyor of "affirmative action," the regulator and restrainer of "unbridled capitalism," the educator of the young, the pensioner of the old, the compassionate redistributor of income and wealth from the "haves" to the "have-nots."

Hartwell also notes MPS members, if united on the idea of freedom, have had to

deal with sharp internal differences over means. Substantive debates within the society have ranged over social security, public schools, economic development, the gold standard, compulsory arbitration as a way to head off strikes, Milton Friedman's idea of a negative income tax, and other welfare reforms. More than once, Ludwig von Mises, perhaps the most uncompromising MPS member, accused some MPS members of harboring socialist tendencies.

Hartwell believes MPS, along with dozens of regional free-market think-tanks it helped spawn across the globe, has changed the world for the better. He holds that, thanks to MPS as an intellectual venture, freer trade prevails, and few thinkers now boost state planning or question the superior efficiency of the market and its close tie to human liberty.

Hartwell's sometimes narrowly focused yet fascinating book on the role and duel of ideas is a clarion call for, in his words, "continued vigilance in the defense of the free market and in opposition to the omnipotent state."

The Hartwell MPS history gives rise to three conclusions: Thought precedes action. Think-tanks and ideas indeed have consequences. Ideas, good or bad, triumph in the end. □

Dr. Peterson is an adjunct scholar at the Heritage Foundation and the Distinguished Professor Emeritus of Business Philosophy at Campbell University in North Carolina.

An Endless Series of Hobgoblins: The Science and Politics of Environmental Health Scares

by Eric W. Hagen and
James J. Worman

The Foundation for Economic Education •
1995 • 140 pages • \$9.95 paperback

Reviewed by Robert H. Nelson

The idea of the scientific professional emerged in the progressive era around the beginning of this century. There should

be a clear boundary, the founders of scientific professions said, between science and politics. Ever since, most scientists have believed, their role is to do careful research, publish it in scientific journals, and leave to others the dissemination of the results for decision-making purposes in government. Indeed, a scientist who was perceived as a "lobbyist" or "publicist" risked the disapproval of his or her professional colleagues.

Like so many other features of the progressive design, this separation of science and politics has not worked. When mainstream scientists refuse to assume active leadership roles, it leaves a vacuum that all-too-often is filled with all manner of hucksters and zealots. Those scientists who do speak out are often those with the strongest ideological blinders, while mainstream scientists are content to do research, publish in academic journals, and leave to others the dissemination of the results in the public arena. The end result, unfortunately, becomes "science by press release," leaving much of the public confused and poorly informed about many matters of vital importance to public health and welfare.

It thus is welcome that James J. Worman, professor of chemistry at Dartmouth College, has decided to review the current state of scientific thinking on several recent controversies in environmental policy. With his co-author, Eric Hagen, they report on three substances: Alar, asbestos, and dioxin.

Alar is a chemical available since the 1960s for preserving apples for longer periods, aiding in their marketing. In the early 1980s studies of mice fed massive doses of Alar showed cancer tumors. Based on these studies, the Environmental Protection Agency (EPA) in 1985 proposed a ban. However, EPA was forced to cancel this action when the agency's own Scientific Advisory Panel challenged the scientific validity of the earlier studies. Although new studies were done, they had many of the same problems. For example, the doses of Alar were so high that most mice died prematurely. As a result, it was impossible to say whether resulting cancers were due to general toxic effects of the Alar on the

immune system, or were actually due to some cancer-causing characteristic of Alar.

Complicating matters, in rats Alar did not produce cancer at any dose. Moreover, when the dose for mice was cut in half—and was still equal to the equivalent of a person eating 14,000 pounds of apples per day for 70 years—no cancers showed up. By 1989 a United Nations panel including experts from most industrialized nations concluded that Alar was "not oncogenic [cancer-causing] in mice" and recommended Alar for use within an "acceptable daily limit."

Nevertheless, pressured by environmental crusaders, in 1989 EPA again proposed a ban. This was not enough for the Natural Resources Defense Council (NRDC), however. Taking matters into its own hands, NRDC enlisted actress Meryl Streep and the CBS television program *60 Minutes* to warn Americans that they should not eat apples. The resulting mass hysteria virtually wiped out apple sales for a time in some parts of the United States—and also eventually caused the removal of Alar from the market. In its national publicity campaign, NRDC asserted that Alar posed a risk 25 times greater than even EPA considered to be the case.

Furthermore, lost in all the controversy was fact that 95 percent of apples were not receiving any application of Alar at all. Editor Daniel Koshland of *Science* magazine was moved by the whole sorry episode to protest the use of "scare of the week" tactics and to warn the public that fundraising and other incentives meant that "public interest groups have conflicts of interest, just as do business groups."

An Endless Series of Hobgoblins tells similarly depressing stories for asbestos and dioxin. It has been known for many years that exposure to significant concentrations of airborne asbestos fibers, most likely to happen in the workplace, causes cancer and other lung disease. Although the effects of much smaller exposures are still not known, many uses of asbestos were tightly controlled in the 1970s. Then, in the 1980s, attention turned to the lingering effects of past use of asbestos. Under pressure from

the Sierra Club, Audubon Society, and other groups, Congress in 1986 enacted the Asbestos Hazard Emergency Response Act.

Although the Act did not directly require it, the very fact of its passage and other alarmist statements stirred exaggerated public fears, resulting in many school districts across the nation acting to remove any remaining asbestos in the walls and other parts of schools. Staggering costs—nationwide in the several billions of dollars per year—were incurred, often by financially strapped school systems. Yet, by 1991 EPA was stating that “removal is often not a school district’s or other building owners’ best course of action.” Indeed, the removal process itself frequently left greater asbestos residues in the air—which would not disappear for many years—than had previously existed. The Occupational Safety and Health Administration (OSHA) projected seven casualties per 1,000 asbestos removal workers, likely to cause more total deaths among the workers than would be averted by the asbestos removal itself.

Dioxin is a chemical that is highly toxic for many animals. Yet, its impacts vary greatly from one animal to another; a guinea pig is 5,000 times as susceptible to dioxin as a hamster. Inadvertent experiments due to accidental releases of dioxin suggest that human beings may be among those species facing lesser risk, or even no risk. In the aftermath of an industrial accident in Seveso, Italy, in 1976 that dumped very large quantities of dioxin over the area, only 200 cases of chloracne have ever been definitively linked to this event. To be sure, the facts to the contrary did not inhibit *Newsweek* magazine in 1982 from reporting that there had been a large increase in birth defects.

Researchers have failed to find scientifically verifiable connections between cancer and exposure to Agent Orange (another dioxin) in Vietnam, even though the U.S. government agreed to distribute \$180 million to those exposed. Vernon Houk, the government official responsible in 1983 for the dioxin evacuation of Times Beach, Mis-

souri, in 1991 stated that he considered his own past decision a mistake. The controversy, to be sure, is continuing. Acknowledging that some past fears have not proven out, EPA still maintains that dioxin is a probable carcinogen. At the same time, leading scientists have concluded that “studies on dioxin have failed to produce any conclusive evidence that dioxin is a human carcinogen.”

These events are familiar to many of those who follow U.S. environmental policy closely. Hagen and Worman do not break new ground, but they do provide well written summaries accessible to a general audience. *An Endless Series of Hobgoblins* adds to the rapidly mounting body of writings finding that this nation has wasted many tens of billions of dollars on minor or perhaps nonexistent risks. The public has been ill served on risk matters by government agencies, the media, environmental groups, and scientists too timid to speak out. It is to be hoped that more mainstream scientists will follow the example of this book in making their expertise on risk matters available for public benefit. □

Dr. Nelson is professor of environmental policy at the School of Public Affairs of the University of Maryland and senior fellow of the Competitive Enterprise Institute.

Human Action

by Ludwig von Mises

The Foundation for Economic Education •
Fourth revised edition, 1996 • 907 pages •
\$49.95 cloth

Reviewed by Hans F. Sennholz

Human Action is the legacy of a genius, left to us and to be passed on from generation to generation. Most books, like their authors, are soon forgotten. *Human Action* lives, and its influence will live throughout the centuries. It is one of those books to which we return again and again—it never fails us, never ceases to instruct.

In the world of economic literature, *Hu-*

man Action now holds the position which Adam Smith's *Wealth of Nations* used to occupy. Smith had derived his economic knowledge from universal propositions which he deemed clearly established. He proceeded from the assumption that nature has endowed man with a motivating power that prompts him to better his condition. And he accepted the axiom that the individual aiming only at his properly understood interests tended to promote the public good. Government and other institutions that interfere with the smooth operation of the natural order are bound to defeat their own end. Yet, the economics of Adam Smith encompassed only a small phase of the whole range of human action, only "economic action." Economics dealt with individual action as it was affected by the profit motive and economic selfishness. From Adam Smith to John Maynard Keynes, economics was a philosophy of the "economic side of man."

Professor Mises widened the scientific horizon and greatly enlarged the field of economics. On the foundation of classical economics and the teaching of his Austrian predecessors he presented a general theory of choice and preference in all human action, a more universal science which he called "praxeology."

Praxeology is a theoretical science which

either deduces the ends from the application of certain means or, inversely, the means from the attainment of chosen ends. It shows man how he must act in order to attain definite ends. Praxeology thus derives substantive truths about man and his work. It is the science of every kind of human action. It applies to all ends and all means, both material and ideal, the sublime and the base, the noble and ignoble. Man arranges them in a single row, and subjects them to his preferences, to his individual scale of gradation and choice. Catallactic chores (i.e., exchanges) are embedded in this arrangement. No treating of economic problems proper can avoid starting from acts of choice; economics is merely a part, although the best developed part of the more universal science, praxeology.

Unfortunately, most economists still are blind to the general theory of human action. Like the Medieval philosophers and Mercantilistic economists before them, they continue to search either for the ultimate destiny of mankind or for the perfect society as they envision it. They do not search for the principle of praxeology which corrects old creeds, sweeps away erroneous notions, and discloses universal laws. □

Dr. Sennholz is president of The Foundation for Economic Education.

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THE FREEMAN

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Individual Liberty and the Media

The task in this issue of *The Freeman* has been to bring together some good discussions of the relationship between individual liberty and the nature and conduct of the media. It was tempting to go beyond this rather narrow focus because of the media's many dimensions.

Poor reporting vis-à-vis science, religion, and politics is legion and much space could be devoted to the subject of journalistic ethics alone. Editorial and business decisions also deserve scrutiny.

The task here, however, was narrower. We decided to explore the ways in which various members and institutions of the media treat the free marketplace as a reflection of their regard for individual liberty.

A few additional observations are in order.

First, the printed press itself is a fairly special case of the media, although broadcast news programs and magazines show similarities. Print journalists are completely protected from government regulation, unlike, say, doctors or auto mechanics. Indeed, it is arguable that government (at various levels) discriminates against a great many professionals in our country—except those who work for the press. Yet, curiously, those folks generally lack any concern for any threat to the liberty of other professionals. One need but read the transcripts of press conferences with powerful politicians to discover that members of the press are not much concerned with freedom. Instead, as a group, they pretty much embrace the urgent need for more and more government regulation of all other facets of our culture, except, of course, the press.

Second, with so many organs of the media located near centers of political power, the press is inclined to champion public policies that further shift “the action” to governments. Washington, Albany, Sacramento, and other capitals are where journalists work and live and where they can draw on cheap raw materials for their productive

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purposes, namely, politicians and bureaucrats. The Sunday morning news programs on the major networks rarely if ever feature commentators from Shreveport, Louisiana, or Bowling Green, Ohio. The same folks who write for the major weeklies or the dailies are the ones who show up to offer their comments on world and national affairs, week after week. It is pretty inconsistent for a group of professionals so committed to egalitarian principles to almost never call upon commentators from beyond the Washington, D.C., Beltway.

Given the inclination of the press and the special protection it enjoys, it is fairly clear that there is a serious threat to human liberty. It would certainly be a wonderful sign of progress if at least some of the top journalists recognized this and made some attempt to remedy matters, not by calling for regulation and censorship of the press but by advocating greater freedom for other professionals who now do not enjoy protections comparable to the First Amendment.

Finally, it never hurts to stress a familiar point about freedom and the media, one that defenders of freedom of expression—speech, art, entertainment, news, scholarship, and the rest—tend to forget: the intimate connection between the right to property and the right to free expression.

This is especially germane because of the current growth of the Internet and other sorts of electronic communication and information storage.

A significant problem with the Internet, for example, is the muddiness of its ownership status. There is a parallel between the way corporate commerce started in history, namely, within the framework of mercantilist political economic systems, and how

the Internet was established by the Department of Defense. The historical origin of corporate commerce has given many foes of freedom the chance to advocate government control by reference to the “creature of the State” argument. People who want to censor the Internet now make similar arguments.

In the defense of all types of liberty, the freedom to privately own and use property is crucial. The freedom of the media itself depends, ironically, on something about which the media’s professionals ignore: the right to private property!

—TIBOR R. MACHAN
Guest Editor

Specific Forms of Liberty

Freedom of speech and of the press are specific forms of liberty, with special relevance for the work of intellectuals; but there is no valid distinction in importance between these and other forms of liberty. Intellectual freedom is necessary because man needs knowledge of reality, and such knowledge is the product of independent minds. But material goods are no less important, and they too are the products of independent minds. An intellectual properly objects when he is prevented from speaking because someone else does not like the content of his thought. But exactly the same injustice occurs when a businessman is prevented from offering a new product, or completing a merger, or firing a worker. He is being prevented from translating an idea into reality because someone else does not like the content of his thought; he is being prevented from using his mind freely.

—DAVID KELLEY
The Freeman, October 1975

Must the News Media Be Inimical to Freedom?

by Sheldon Richman

It would be easy to conclude that there is an intrinsic conflict of interest between the news media and liberty. Whether intended or not, news coverage by and large seems consistently to undermine the classical liberal premise that society essentially runs itself without central direction. There are multiple explanations for that phenomenon.

It has long been observed that people who like business go into business, and people who dislike business go into (among other opinion-molding professions) journalism. That creates a problem for those concerned with making the intellectual case for free enterprise. The people providing lay citizens with their daily diet of news about the economy, policy-making, and politics tend to be prejudiced against enterprise. There have been some notable exceptions, but the key word here is *exceptions*.

There is another reason for news coverage biased against the market process. The reason goes back to one of Frederic Bastiat's astute observations in his justly famous essay "What Is Seen and What Is Unseen." The essence of the market is invisible. Like justice, you can't see it. If Smith gives Jones a watch, you cannot tell by simple obser-

vation that what is going on is just. Maybe Smith is returning Jones's watch. But maybe Jones told Smith that if he didn't hand over the watch, he'd kill Smith's wife and kids. Something more than a gross examination is necessary to understand the full story.

Understanding the market is similar. When you walk into the New York Stock Exchange you see quite a bit of action. People are waving their arms and shouting. Lights are flashing with arcane letters and numbers. What does it all mean? You cannot tell what is happening just by watching, despite Yogi Berra's maxim that you can observe a lot just by looking. At the stock exchange people are trading things they own. You can't see ownership or title. And they are not exchanging chairs or watches or even titles to physical things. They are exchanging titles to unspecific shares of companies. (A corporate shareholder has no claim on a particular copy machine or desk.)

The news media, however, are visually oriented, and that is as true of radio and newspapers as of television. What counts is not the medium but the people covering the news. They tend to be attracted to salient events, because those are easier to describe. When we add that fact to the general ignorance about the market process, we shouldn't be surprised that the news is dominated by stories that at best ignore

Mr. Richman, a former newspaper reporter, is vice president of policy affairs at The Future of Freedom Foundation and author of Separating School and State: How to Liberate America's Families.

the contributions of the market and at worst disparage enterprise.

The Subtlety of the Market

Media people stumble where most people do. The market process is based on a phenomenon that is not obvious: unplanned order. Even when it's explained, many people balk at the idea that there can be order without design. The idea violates their everyday experience. The examples of order they are likely to think about are the result of some planning: their households, their work places, and so on. Asking them to accept the existence of unplanned order is like asking them to believe that a vase will remain above the floor when the table supporting it is removed.

If reporters see order, or coordination, they presume it was planned, either by government or by someone else, but planned nonetheless. And if they see what looks like disorder, they conclude it is from a lack of planning. They will further conclude that planning is needed, usually by government officials. In that sense, reporters are like the government officials themselves.

Let's look at some common examples. When news people see a plant close and many people put out of their jobs, they jump, for it has all the elements of a good story. It is highly visual and lends itself to vivid description, even for newspapers. If the product that used to be made in the closed plant is now being sold in America by Japanese manufacturers, the story gets better. Scenes of cargo ships heading toward American ports and Americans buying the Japanese product can be clearly shown or described. Those scenes are easily juxtaposed with scenes of laid-off workers at the unemployment office or interviews with the families of those workers talking about the struggle to keep afloat. The implicit, or explicit, moral of the story is that foreigners and free trade cause hardship to Americans.

What rarely is shown are the new jobs that came into existence by virtue of the market process and foreign trade. For ex-

ample, the media will tend to be ignorant of the fact that if the Japanese are selling goods here, they have dollars with which to buy American products or to invest in American firms. Moreover, if the Japanese are now selling a less expensive version of what the closed American factory was making, it will not occur to most reporters to interview the American manufacturers and workers who are more efficient because they use the Japanese machine. They are even less likely to interview consumers who are enjoying a higher standard of living because products are cheaper. (The consumers themselves may not know the reason.)

Missing the Real Story

This issue of the unseen is well illustrated by a real-world case. There is a textile manufacturer in the South who is a big backer of restrictions on foreign textiles and apparel. At the same time, he opposes restrictions on the machines used to make textiles and apparel. He naturally wants to keep his costs down. So he would rather buy a less expensive foreign machine than a more expensive American machine. By doing so, he can be more competitive with his foreign competitors. If he can't get cheaper machines, he will lose sales to foreign firms that can.

Most reporters would not think those facts newsworthy. (At most, they'd say the textile maker is a hypocrite.) Yet those facts reveal the real story underlying the trade issue. Americans who make textile machines would disagree with that textile maker about the need for restrictions on foreign machines. If they had their way, the textile maker and his employees would be harmed. If the textile maker had his way, the domestic machine makers might have to find other work.

The story shows that the fight over trade restrictions is not, as it is usually portrayed, between Americans and foreigners. It is between two or more groups of Americans. All trade restrictions are of that nature. Would you learn that from the news media? It's unlikely because the unobvious is the

unnoticed. Yet it is the key to the whole story.

Trade is not the only issue where we see this problem. The connection between government regulation of industry and stagnating wages or sluggish innovation is well-established in economic theory. But you won't find it the subject of many news stories. Why? Because the connections are not palpable, and reporters respond mostly to what jumps out and bites them. You might see a story about how robots are displacing workers. But you are unlikely to see one explaining that the resulting less expensive products leave money in the pockets of consumers who are then able to buy things they couldn't afford before—creating brand-new jobs that might pay better than the old ones. It is not a visual story.

Similarly, the connection between a minimum-wage law and out-of-work unskilled workers is not grasped visually. It requires an understanding of things that are beneath the surface, such as the laws of human action, specifically, the law of demand. Reporters operating purely at the visual level would only see “well-meaning” politicians voting to raise the minimum wage and unemployed people victimized by cruel capitalists who refuse to pay them a living wage. What other explanation could there be? What's missing from the picture? Supply and demand, well-paid union workers who fear competition from the unskilled, and political demagoguery.

The issue of corporate downsizing has provided many examples of the shallowness of the media. Typical was a seven-part series in the *New York Times* in March 1996 entitled “The Downsizing of America.” The articles focused almost exclusively on the displacement and adjustment of workers, but said little about the benefits to consumers and other workers. This passage in the first article is about all the reporter had to say about that: “Some contend that through these adjustments American companies will recapture their past dominance in world markets, and once again be in a position to deliver higher income to most workers.

Others predict that creating such fungible workforces will leave businesses with dispirited and disloyal employees who will be less productive. And many economists and chief executives think the job shuffling may be a permanent fixture, always with us, as if the nation had caught a chronic, rasping cough.”

USA Today had a similar series in April. While it referred to the creation of new jobs, the relatively low unemployment rate, and the coming productivity gains (even quoting the director of a “left-of-center research group” in support), the overall theme was that an “implicit deal between U.S. workers and employers that has existed since the end of World War II” has ended.

Economic news is not the only area in which the real story is usually missed or, at best, underplayed. The bias of the media toward predicted calamities, particularly in environmental and technological matters, has been noted often. One quick example should suffice. On April 11, the *New York Times* reported that there is no evidence cellular phones are unhealthy (“Study: Cellular Phones Don't Raise Death Rates”). The story did not run on page one. Where do you think the *Times* would have placed a story about a study indicating that cellular phones are dangerous?

Objectivity and the News

The long-running debate about objective news coverage inevitably intrudes itself on this discussion. I've argued that the source of the problem with the news coverage of economic and social matters is that the important things are invisible. But is lack of objectivity the actual problem? I submit that these are elements of a single problem. The failure to grasp essential, unobvious facts about a situation is a lapse in objectivity. That failure and that lapse may not be intentional (in most cases it probably isn't), but that does not alter the consequences.

What is objectivity? It is both a commitment and a state of affairs. It is the commitment to understand something about the

world and the resultant understanding. We can sum up that commitment by saying that it is an effort never to confuse thinking and wishful thinking. Wanting something to be true does not make it so.

Two important concepts in the matter of objectivity, Ayn Rand taught, are essence and context. There are an infinite number of facts about any phenomenon. But not all of them are essential in a particular context. A news account therefore need not become an endless list of facts. In the coverage of a presidential campaign, the eye color of the candidates is not essential, whereas his position on sending Americans to war on foreign soil is.

Telling the essential from the nonessential is not always easy. Disagreements are inevitable. But in principle, investigation and rational discussion can resolve disagreements. I bring this up because people who discuss news objectivity often assume that true objectivity is impossible because it means reporting every fact. It does not.

Another alleged count against the possibility of objectivity is that, being human, reporters can't really separate their values and opinions from their perception of facts. Here the philosophical muddle gets thick. The underlying assumption is that values and opinions have nothing to do with objectivity. Can this be?

Lately there have been stories about the existence of chattel slavery in Sudan and other African countries. You cannot read those stories without getting the sense that the reporters think slavery is a bad thing. (Why else is it being reported?) Is there a lapse of objectivity there? Have the reporters let their opinions intrude on their relating of facts? No. It is certainly true that the reporters hold the opinion that slavery is bad. But it is also a *fact* that slavery is bad. Thus the opinion, or value judgment, that slavery is bad is objective. It comports with the facts. Values are not outside the realm of objectivity, because good and evil are real aspects of the world. (The best case for that position is to be found in Rand's work, particularly, "The Objectivist Ethics," in her collection *The Virtue of Selfishness*.)

The problem with how the news is covered is not that it contains explicit or implicit value judgments. That is inevitable; the very selection of what to report involves value judgments. Moreover, value-free reporting would be uninteresting. (Rand said there are two fundamental questions: What and so what?) The problem is not that value judgments enter news stories. It is that the value judgments are usually wrong. But there's another problem.

Objectivity and Detachment

Objectivity often gets confused with detachment. It is generally believed that reporters should leave explicit value judgments to others, at least in controversial matters. When a reporter violates that rule and makes an explicit value judgment in his own voice, he may be accused of a lapse of objectivity when he is actually guilty of a lapse of detachment. He, however, will tend to be criticized only if his judgment is dissident. Stating the establishment view will not get him into hot water. That double standard gives credence to the common charge that the media have a "liberal" (actually, statist) bias.

Let's look at an example. Imagine that Congress increases the minimum wage to \$5.25 an hour. Two reporters from two newspapers write their lead paragraphs as follows:

1. Congress yesterday raised the minimum wage to \$5.25 an hour, increasing the incomes of millions of low-wage workers throughout the United States.

2. Congress yesterday raised the minimum wage to \$5.25 an hour, threatening millions of low-income workers with unemployment.

What can we say about those reports? The first contains a fallacy. The second is correct. But both lack detachment. In each, the reporter draws conclusions in his own voice. The model of news reporting that most people (including professors of journalism) hold frowns on that. Reporters are supposed to have some "authority" draw the conclusions. That is one of the defining

differences between news reporting and commentary. A commentator's job is to draw conclusions.

But here's where the double standard kicks in. The writer of the first paragraph most likely would get little criticism from establishment media watchers because his conclusion is consistent with theirs. The writer of the second would be heavily criticized for obvious reasons.

Look at this recent example of the lack of detachment from an Associated Press report published March 27, 1996. The story was about a new kind of contraband being smuggled into the United States, freon for automobile air conditioners. Under pressure from the environmental lobby, freon, a chlorofluorocarbon, has been banned here under the Montreal Protocol. But it is being sneaked into the United States in high quantities from India, where it is still manufactured. The AP dispatch began this way: "Smuggled CFC gas from India has been seeping into the United States by the ton, allowing some motorists to stay cool for less this summer but prolonging the threat to the Earth's ozone shield."

The reporter refers to the ozone threat as though it were an undisputed fact. Look what a difference it would have made had he written, "prolonging what some see as a threat to the Earth's ozone shield." The difference may not seem large. But at least it tells readers that the "threat" is in dispute. There is a significant literature that argues that the ozone is not disappearing at all and that the "thinning" at the South Pole is peculiar to that region. You would not know that from the opening paragraph or, indeed, from any other part of the story. The writer did a disservice to his readers.

What offense did the writer commit? He presented as uncontroversial fact something that is in dispute among scientists. Since his conclusion was in agreement with the environmental establishment, he is probably not even aware of what he did. He also violated the principle of detachment. He presented the scientific conclusion in his own voice. That reinforced the implication that it is uncontroversial. Note that had he

observed the detachment rule the report would not have seemed so biased. Had he quoted someone saying that freon threatens the ozone, he might have thought to quote someone who disagrees. But even if he did not balance his authorities, at least readers might have had the sense that the threat is the view of one scientist rather than the view of all scientists. Scientists carry weight in news reporting. But an unadorned statement by a reporter, offered as though everyone believes it, might carry even more weight.

Is the detachment rule a good rule? That's a complex question. Earlier in American history, newspapers did not embrace the rule. Newspapers openly identified with one or another political party in the days when ideology sharply separated the parties. In the nineteenth century, an openly Democratic newspaper was for free trade and personal liberty: it opposed the tariff and prohibition. Republican papers were the voice of big business, supported the tariff, and backed prohibition. There was nothing intrinsically wrong with that arrangement. When you bought a particular paper, you knew what you were getting. If you wanted both (or more) sides, you bought two (or more) newspapers.

Things are different now and are not likely to revert to the old ways. There are advantages to the detachment rule. While no guarantee of fair reporting, it could mitigate some of the worst bias routinely found in news reporting.

But we are still left with the question: are the news media an intrinsic impediment to the achievement of a free society?

Can We Have a Free Society and a Free Press?

Thomas Jefferson once remarked that he would rather have newspapers and no government than government and no newspapers. That's not the choice confronting us. The question is, can we have liberty and newspapers? Given the discussion above, the case for pessimism seems strong. But things are not as bad as they appear. Despite

the news media, understanding of the importance of liberty and the danger of power has grown remarkably in the last 30 years. At times the media have even been helpful. In recent years there have been more stories than ever before on the failures of government as a problem solver. There are probably more reporters of a truly liberal bent than at any time in the last 100 years. That trend should continue on its upward trajectory because many young libertarians are attracted to electronic and print journalism.

At the same time, we should understand that the news media will not be the leading edge of freedom's intellectual revolution. Nor should they be expected to be. Despite the increasing frequency of news articles and television reports supportive of liberty, the real work in spreading the ideas of liberty will come through other channels, as

it always has. The newspaper opinion, or op-ed, page is one such channel. Excellent pro-freedom material appears on those pages throughout the country nearly every day. Television news also has shown some improvement, though not nearly as much. John Stossel's work for ABC demonstrates the potential for presenting good, hard television analysis of the failings of government. (The vituperative response to his work also shows the pitfalls.)

The bottom line is that the news media make the selling of liberty hard but not impossible. As understanding of the market process and unplanned order spreads, it will perhaps create a new generation of reporters who won't be drawn to the purely visual. When that happens, the media may be more helpful in maintaining freedom, even if they are of little help in establishing it. □

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Freedom and Language

by Aeon James Skoble

Fifty years ago, the world emerged from a military conflict with substantial intellectual ramifications. Nazism and fascism were ideologies that needed to be defeated along with the military powers that wielded them. During the ensuing “cold” war, communism and socialism emerged as ideologies that called for intellectual confrontation. Of course, the United States also fought its first war over ideology—the war for independence, based on the principles of government by consent and individual freedom, and the idea that the rights of the individual trump the divine right of kings. But from the ’30s to the ’50s, the ideal of individual freedom came under attack anew. The fascists and the communists represented new challenges to the philosophies of classical liberalism.

By the ’90s, it may seem that fascism and communism have disappeared as intellectual opponents to liberty and individualism. But things aren’t always as they seem. In one sense, there are no fascists, and there are no socialists. Of course, what that statement means is that no one will identify himself as a fascist, and hardly anyone, except in universities, will identify himself as a socialist. But therein lies a potential problem. With the words “fascist” and “socialist” off the table, the wicked and the incautious may find it easier to promote policies that are harmful to freedom, but at the same time use the rhetoric of freedom.

George Orwell made the observation long ago that political language has deteriorated to the point where political labels with once-specific meanings now only signify the emotive attitude of the speaker. In his 1948 essay “Politics and the English Language,” Orwell observed that “democracy” has come to refer to any system considered good by the speaker. Since everyone in politics benefits from the decadence of language, attempts at precision are resisted by all.

In the 1930s, one could say “I don’t like liberal democracy; I think fascism is a more appropriate system for organizing society.” To say that today would be unthinkable, but nevertheless one may actively promote the same policies that distinguish fascism from liberalism, as long as one calls them “democratic” instead of “fascist.” Government “partnerships” with industry, protective tariffs, price supports—these are all key components of a fascist (or national socialist) economic program, and antithetical to laissez-faire capitalist thought. But as long as they are presented as democratic programs, they have a good chance of succeeding.

Similarly, the sort of government intrusion into citizens’ personal lives favored by national socialists and communists may be promoted in modern-day America, but only if described as “democratic.” For any collectivist ideology, the individual is subordinate (ontologically as well as politically) to the State, where the State is conceived as an organic entity greater than the sum of its parts. So if it serves a State interest that no

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individual have access to subversive literature, that is sufficient justification for censorship.

Contemporary communitarian thinkers, such as Amitai Etzioni and Alasdair MacIntyre, often argue this way, but in mainstream politics, censorship is always rationalized in the language of liberal democracy, as when the local school board decides that Mark Twain is too offensive to “prevailing community standards.” That description makes censorship sound like democracy in action. Of course, unchecked democracy is not consistent with individual liberty to begin with. But a constitutional democracy is designed to protect individual freedom from majoritarian abuse.

Ignoring the Past

Many trends against freedom stem from a failure to learn from the past. For instance, in any discussion of the merits of drug legalization, one party is likely to say “drug prohibition is just like liquor prohibition in the ’20s,” which in many respects it is. Most of the problems that arise from drug prohibition are completely predictable based on past experience with prohibition: a black market, the participation of organized crime, dangerous chemical impurities compounding the intrinsic harms, and corruption in the law-enforcement community.

The justification for various forms of prohibition is the same—the substance is bad for you, and it’s the government’s job to protect you from yourself. Few realize the extent of the dangers to individual freedom that arise on that slippery slope. But unlike the rhetoric of the ’20s, the arguments supporting today’s prohibition are not explicitly presented on the grounds of State paternalism, but on the grounds that “our community doesn’t want the harmful effects of this trade,” which sounds like a much more democratic rationale.

The most up-to-date example of this is the controversy about Internet censorship. Like a Hollywood remake of an old TV show, the basic story is the same, but the special effects are better. The main concern

is that the rapid communication and widespread availability of anything on the ’Net pose a danger to the safety of the republic, because terrorists can use it, and to the safety of children, because of all the pornography. Again, the objections are phrased in terms of democratic theory, rather than State paternalism. When a powerful senator calls for censorship of the Internet, it is seen not as heavy-handed State intrusion, but as the will of the people, because he will invoke the safety of children, and we all care about children.

Woody by Words

Both the “left” and the “right” are currently amenable to anti-individualist rhetoric. One side urges an end to selfishness, resulting in a broad redistribution of resources, as well as a skepticism about entrepreneurial capitalism. The other also urges an end to selfishness, resulting in eroded individual liberty in the arenas of criminal law and freedom of expression. After all, what is the root of an insistence on search warrants and a resistance to taxation but the attempt to preserve individual freedom against the claims of the community?

Given a looseness about language, both sides have become quite adept at employing the language of rights and freedom to promote their causes, while couching anti-individualist programs not in the language of the fascist or the socialist, but in the language of democracy. Hence a trend towards theories based on the “rights” of the community, which are always invoked to justify an abrogation of some person’s rights. Hence the currently fashionable “freedom not to be offended,” which is always invoked by the censorious to suppress freedom of expression.

The gravest threat to freedom, one might argue, is not any particular illiberal scheme, but, as Orwell predicted, the corruption of political language. It is easy to note the irony of an incredibly repressive regime deciding to call itself “The Democratic People’s Republic of Freedomia,” but the same

corruption is evident when both major American parties refer to the pro-freedom ideas of the other party as selfish, and to their own anti-freedom ideas as democratic.

A perhaps more subtle corruption of language can be found in, of all places, the mainstream news media. I do not attribute this to any sort of conspiracy, but to their interests in catering to an audience whose critical faculties are on the wane. For instance, consider news reports about the Montana "Freemen" (no connection to this magazine). These reports always refer to "the anti-government Freemen group." Not "the violently anti-Semitic Freemen group," or the "fraudulent check-kiting Freemen group," or "the white separatist, would-be kidnapper Freemen group," but always "the anti-government Freemen group." The clear implication is that simply being critical of the government is somehow evidence of an unbalanced mind, or violently criminal intentions. By consistently associating this epithet with violent criminals, legitimate concerns about the scope of government power are undermined.

A similar pattern was evident in UNABOM reporting. How did authorities close in on the suspect? According to news reports, "the FBI says that they discovered anti-government writings." Not "pro-violence writings," or "writings which rationalize killing innocent people with package bombs," but simply "anti-government writings." Again, by continued association of the label "anti-government" with the violent and the unbalanced, the news reports create the sense that there is something wrong with reasoned opposition to the power and policies of Leviathan.

The erosion of personal responsibility in the legal system and in economics poses a threat to the underpinnings of the classical liberal case for freedom. Calls for censorship and government regulation of some activities seem to be on the rise, in the name of communitarianism or democracy (or "political correctness"). "National service," the fashionable label for conscription, is a pet project of both major political parties.

Restoring the Integrity of Language

A successful strategy for countering these negative trends should involve, among other things, an insistence on linguistic integrity. Restoring freedom means, in part at least, restoring the integrity of language, particularly the language of classical liberalism. Classical liberals should insist on referring to socialist or mercantilist or fascist proposals by their correct names, and insist also on defending pro-freedom proposals on the grounds that they are in accord with the principle of liberty, which ought to be sufficient justification.

Linguistic integrity and precision depend, in part, on a repudiation of currently fashionable relativism, which holds that words have no fixed meanings, and no opinion is more right or wrong than any other. In order to argue that individual liberty ought to be the paramount political value, there has to be such a thing as a paramount value. The prospects for freedom are good, but liberty, as the saying goes, requires vigilance, and that must include a vigilance about clear language and clear thinking. □

Two Cases of Press Malpractice

by Tibor R. Machan

1. The Wells Fargo Affair

In late January, Wells Fargo Bank acquired First Interstate Bank of California in what the press so gleefully calls a hostile takeover. I was in California, driving from one place to another for various speaking engagements, so I had the opportunity to listen to innumerable news reports that discussed the purchase. In particular, I listened to KCBS radio, the all-news station in San Francisco, which reported the merger several times during my drive north from Santa Barbara to the Bay Area.

Invariably, the broadcasters gave an account of this major economic event in terms of how thousands of First Interstate employees would probably lose their jobs in Wells Fargo's efforts to consolidate its services and to secure a more profitable operation for the resulting huge enterprise. Employees were interviewed, and journalists pretending to some measure of economic and business expertise gave their take on what occurred. In all cases the emphasis was placed on just how this major buyout would hurt people, even consumers (because the reduction in the work force surely isn't good for customers).

Not one reporter even advanced the idea that such a merger will probably enrich a

great many of the Wells Fargo and First Interstate stockholders—that these people will now be able to invest more money into their children's education, health care, clothing, ballet lessons, and other efforts to make a better life for themselves. And all of this will very likely lead to more demand for labor which eventually will give those who leave the employ of First Interstate Bank another opportunity for productive employment.

None of this is certain, of course, but neither is it certain that those laid off from the merger will remain unemployed. Yet the media experts immediately focused on the possible downside, indicating nothing worthwhile that might come of what occurred. The only benefit mentioned—the possible profitability of the merger—came as a snide remark. It was clear that the pundits thought of profit as a crass motive for doing such terrible things as consolidating two giant financial institutions. Profit-making—seeking prosperity—was once again consigned to the cultural status of a pernicious virus that merely hurts people.

Such narrow-mindedness seems to characterize nearly all news-reporting, with only a few exceptions in such outlets as the *Wall Street Journal*, *Investor's Business Daily*, *Forbes*, and *Barron's*. If there were such a thing as a tradition of class-action malpractice suits initiated against the press, no doubt one could make a very strong case against all reporters whose only aim seems to be to denigrate business and incite public fear.

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What can be done? Well, it would be nice if business schools and other educational institutions made some effort to teach basic economics to journalism majors. But that will not be enough, since economists typically try to avoid giving a moral defense of the market. What is really necessary is the moral education of the public, including the press, about how prosperity is a worthy objective and that those who pursue it are doing the right thing.

Is this going to happen soon in our educational system? I doubt it.

2. Paying Management for Downsizing

A *60 Minutes* segment in the spring of 1996 featured various executives and other professionals who have been laid off in various efforts by firms to trim their operations. A reporter confronted the president of AT&T because of his hefty compensation while AT&T was undergoing downsizing in connection with its failed efforts to enter the PC market. Once again, sentimentality triumphed over journalistic integrity.

In the first segment, one of the people interviewed expressed outrage at the fact that he was laid off while higher management was receiving pay increases. The reporter provided sympathy and support but never bothered to raise any questions as to whether higher management may have made a good decision in pursuing the policy of downsizing as far as their primary duty to the stockholders is concerned. Any journalist who knows economics should realize that one sign of good management is making a company profitable. Those who own the company's stock and depend on its remaining profitable hire management and reward it precisely for making difficult decisions.

The second segment exhibited further economic ignorance. This time the reporter tried to get the president of AT&T to confess to being a supremely greedy man for having received a very good deal indeed in the wake of probably saving AT&T from taking a major economic hit via its failing

PC division (which it had acquired in an earlier unwise purchase of NCR). By quickly moving to abandon the PC market, AT&T probably saved the jobs of thousands of employees and the investment of millions of stockholders. But, of course, *60 Minutes* was clueless. It opted for the typical rich-bashing favored by politicians and the popular press.

Responsible economic reporting would have made it clear that in all fields of employment there are times when downsizing must occur. Without such restructuring employers will fail their investors. Football teams, orchestras, faculties at universities, hospitals, television broadcasters, and every other kind of employer can find that without trimming costs, there will be no future left for itself.

Who's to Blame?

If there is any culprit to be held responsible for downsizing, it is the consuming public. But consumers are not culpable either since they do not owe loyalty to any firm, product, or service. They owe loyalty to their own aspirations, goals, wants, and hopes. That is what should dictate their purchasing practices. But by doing so, they will often stop buying certain kinds of goods and services, adversely affecting employees of less favored firms.

CBS, which produces *60 Minutes*, may well experience some downsizing itself, at least if competing networks have anything to say about it. The company has been steadily falling in the ratings. Some changes are already being made at the program—with the addition of face-offs between Molly Ivins and Stanley Crouch and P. J. O'Rourke—and it may have to be scrapped entirely.

In the meantime, celebrity newscasters and viewers should familiarize themselves with the realities of the business world. One such reality is that a firm does not exist primarily for the sake of making its loyal employees happy, secure, and satisfied. It exists to further the goals of those who invest in it, who own it, so they can send

their kids to college, take vacations, provide for the future, and eat healthy meals. Employees can never become complacent.

In the United States, there is now too much complacency about security. People are being told by too many commentators that they are owed a living, that they have "a right to a job," "a right to a living wage," and "a right to health care and social security." So it is no wonder that laid-off employees are baffled, their self-esteem damaged—they think they are being cheated

when the market can no longer sustain them in their preferred line of work.

In other systems we see illusory security and then, when the roof caves in, disappointment and disillusionment. In a free-market economy, one is never deceived about security, and can make preparations, take precautions, take out insurance, set aside resources for times of economic hardship.

There is no such thing as a risk-free economic system. □

Overcoming Media Bias

In a country that values press freedom, can anything be done to offset the problem of biased reporting? It can, if critics of the practice retain respect for liberty, fair-mindedness, and even a sense of humor. It's also important to remember that while we can't always rely on the popular mass media for an unbiased outlook, we can find additional facts and opinions in the great variety of publications that are available to us. In other words, where liberty of the press is maintained and protected, the problem of media bias will be self-correcting.

Be wary and skeptical of what you read and hear in the mass media. But be more on guard against those who would use your discontent to destroy liberty. In the commercial field, consumer dissatisfaction with some products and services became the pretext for destroying a great deal of personal freedom under the guise of regulation. This was a far worse bargain for the public than a few customers might have been getting in the marketplace.

Today many of us are unhappy with the media, which works in the marketplace for information and ideas. While we cannot rely on the media completely for an unbiased political outlook, we can rely on our own common sense and love of liberty to deal constructively with the media bias. If there's a good general understanding and acceptance of liberty, there will also be sufficient checks and balances in the information marketplace to correct any amount of biased coverage.

—MELVIN D. BARGER

Excerpted from Cliches of Politics (Foundation for Economic Education, 1994).



Reviving a Civil Society

“Taxes,” said Oliver Wendell Holmes, Jr., “are what we pay for civilized society.” But as my fellow *Freeman* columnist Mark Skousen explained in his remarkable monograph “Persuasion vs. Force,” a much better case can be made that taxation is actually the price we pay for the *lack* of civilization. If people took better care of themselves, their families, and those in need around them, government would shrink and society would be stronger as a result.

Skousen put it well when he stated in a recent interview with the Acton Institute for the Study of Religion and Liberty, “[E]very time we pass another law or regulation, every time we raise taxes, every time we go to war, we are admitting failure of individuals to govern themselves. When we persuade citizens to do the right thing, we can claim victory. But when we force people to do the right thing, we have failed.” The triumph of persuasion over force, people helping people because they want to and not because government tells them they must, is the sign of a civilized people and a civil society.

For all people interested in the advancement and enrichment of our culture, this is a crucial observation with far-reaching implications. Cultural progress should not be defined as taking more and more of what

other people have earned and spending it on “good” things through a government bureaucracy. Genuine cultural progress occurs when individuals solve problems without resorting to politicians or the police and bureaucrats they employ.

When the French social commentator Alexis de Tocqueville visited a young, bustling America in the 1830s, he cited the vibrancy of civil society as one of this country’s greatest assets. He was amazed that Americans were constantly forming “associations” to advance the arts, build libraries and hospitals, and meet social needs of every kind. If something good needed doing, it rarely occurred to our ancestors to expect politicians and bureaucrats, who were distant in both space and spirit, to do it for them. “Amongst the laws which rule human nature,” wrote Tocqueville in *Democracy in America*, “there is none which seems to be more precise and clear than all others. If men are to remain civilized, or to become more so, the art of associating together must grow and improve.”

It ought to be obvious today, with government at all levels consuming a whopping 41 percent of personal income, that many Americans don’t think, act, and vote the way their forebears did in Tocqueville’s day. So how can we restore and strengthen the attitudes and institutions that formed the foundation of American civil society?

Certainly, we can never do so by blindly embracing government programs that

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crowd out private initiatives or by impugning the motives of those who raise legitimate questions about those government programs. We cannot restore civil society if we have no confidence in ourselves and believe that government has a monopoly on compassion. We'll never get there if we tax away 41 percent of people's earnings and then, like children who never learned their arithmetic, complain that people can't afford to meet certain needs.

We can advance civil society only when people get serious about replacing government programs with private initiative, when discussion gets beyond such infantile reasoning as, "If you want to cut government subsidies for Meals on Wheels, you must be in favor of starving the elderly." Civil society will blossom when we understand that "hiring" the expensive middleman of government is not the best way to "do good," that it often breaks the connection between people in need and caring people who want to help. We'll make progress when the "government is the answer" cure is recognized for what it is—false charity, a "cop-out," a simplistic non-answer that doesn't get the job done well, even though it makes its advocates smug with self-righteous satisfaction.

Restoring civil society won't be easy. Bad habits and short-term thinking die hard. It is especially difficult to get the civil society message through the major news media's filter unscathed. A recent editorial in a major Michigan newspaper is a good case in point. In arguing against suggested cuts in the state's budget, the editorial equated the restoration of civil society with subjecting human life "to the largesse of the highest bidder in the marketplace." What a shame that so many newspapers will routinely lament the superficiality of political campaigns and then employ bumper-sticker slogans when it comes to serious proposals to remove the bane of Big Government from our lives.

That editorial did not feed, clothe, or house a single needy person. It probably did very little to comfort the afflicted. It did

not inspire a single act of voluntarism on behalf of a troubled family. It may, however, have lulled some readers into a deeper sleep of complacency. Government, after all, is taking care of things and that, the editorial implied, is as it should be.

Meanwhile, more thoughtful writers are noticing encouraging trends in the country. A remarkable article in the January 29, 1996, issue of *U.S. News & World Report* trumpeted the "revival of civic life." Among the examples it cited was that of Frankford, Pennsylvania. Frankford had become a highly taxed, depressed, and government-dependent community desperate for answers. A spark of civil society was lit, and now people are solving problems themselves. "When a record 30 inches of snow was dumped on the city, . . . Frankford didn't stand around moaning about the inefficiency of city workers. Residents rented snowplows and split the cost," the article noted.

Perhaps if Tocqueville were to visit this little Pennsylvania town today, he would see a glimmer of America's greatness in the 1830s. He would be impressed with the spirit of the community and might even suggest that Americans everywhere should take note. The citizens, Tocqueville might remark, are not sitting back, bemoaning their plight, and editorializing about how the politicians should save them. "Once you get past the resentment of the government not doing it for you, you get it done yourself," one local resident put it.

We can learn a whole lot more from the Frankfords of the world than from those who think charity means spending someone else's money or just pontificating about social needs from behind a word processor. Restoring civil society requires that we "Just Say No" to shirking our personal responsibilities and expecting government to do for us what we can and should do on our own, within our personal lives, our families, and our local communities. It requires us to think creatively about stimulating private initiative, and then just *doing* it. □

Obscenity: The Case for a Free Market in Free Speech

by T. Franklin Harris, Jr.

Despite the unambiguous language of the First Amendment, speech—of all kinds—has been regulated by government—at all levels—throughout the history of the United States. The first federal attempt to circumvent the First Amendment’s prohibition of laws “abridging the freedom of speech, or of the press” was the Sedition Act of 1798, which, among other things, made criminal the utterance or publication of any false, scandalous, and malicious “writing or writings against the government of the United States, or either house of Congress of the United States, or the President . . . , with the intent to defame . . . , or to bring them, or either of them, into contempt or disrepute; . . .” The government’s more recent attempts to control speech have included the Children’s Television Act of 1990,¹ and various content-related provisions of this year’s Telecommunications Act.

Many, if not most, of these speech restrictions have been struck down by the courts—particularly restrictions upon expressly *political* speech (e.g., the Sedition Act, which the Supreme Court declared unconstitutional in 1964—long after it expired of its own accord). Nonpolitical speech, on the other hand, has had to struggle for respectability.

Works of fiction have been a favorite

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target of censors. A cursory reading of Anne Haight and Chandler Grannis’s *Banned Books: 387 B.C. to 1978 A.D.* reveals that such authors as Oscar Wilde, H.G. Wells, and Sinclair Lewis all had works that bore the infamous label “banned in Boston.”² Today, cultural traditionalists get upset when the works of such authors are absent from high school curriculum.

The expressed purpose of art censors generally has been to protect public morality. In particular, censors have tended to object to anything with sexual content. Hence, all kinds of literature from *Fanny Hill* to the works of D.H. Lawrence to Henry Miller’s *Tropic of Cancer* have come under fire for depicting sexual relations in ways that offend the sensibilities of one group or another.

Eventually, however, a series of Supreme Court rulings began to extend First Amendment protections to most works with strong sexual content. The commonly cited distinction between “indecent” and “obscene” speech had its roots in the 1957 *Roth v. United States* decision, which declared that obscenity is not constitutionally protected. Along with the 1973 decision in the case of *Miller v. California*, *Roth* helped establish the three-prong test presently used to draw the line between protected but indecent speech and allegedly nonprotected obscene speech.

According to the *Miller* decision, a work

is obscene if (1) “the average person, applying contemporary community standards, would find that the work, taken as a whole, appeals to the prurient interest . . . ,” (2) “the work depicts or describes, in a patently offensive way, sexual conduct specifically defined by state law,” and (3) “the work, taken as a whole, lacks serious literary, artistic, political or scientific value.”

While the *Miller* decision tries to limit the context in which censorship is a constitutionally valid practice, the very standards *Miller* sets up are largely, if not entirely, subjective. Indeed, the “community standards” argument itself is a half-hearted acknowledgment that artistic value admits no easy, objective criteria. The end result of *Miller* has been censorship run amok.³

The First Amendment

There are, of course, those legal scholars who are unworried by the prospect of “censorship run amok.” Ignoring the text of the Constitution itself and instead relying upon the doctrine of “original intent,” jurists such as the early Robert Bork claim that the First Amendment protects only *political* speech. All other speech potentially is fair game.

If original intent is a valid form of constitutional interpretation, there is something to be said for the legitimacy of many forms of governmental censorship. After all, in the newly free United States of the time of the Constitutional Convention and the ensuing ratification debates, political matters had been, naturally, first and foremost in the public mind. But is original intent valid?

There is ample evidence to suggest that at least some of America’s founders would have wanted free speech protection extended even to artistic works deemed obscene under the “community standards” of the Colonial era. As Nat Hentoff notes, “James Madison, the principal creator of the First Amendment, and a very studious man, was also known for his considerable reservoir of Rabelaisian anecdotes.” He continues:

In the libraries of many of the framers, as well as those of the other colonists, were such erotic classics of the time—some of them likely to get their sellers busted two centuries later—as John Cleland’s *Memoirs of a Woman of Pleasure*, Ovid’s *Art of Love*, the stories of Rabelais, and especially two sexually graphic works by Frammer Benjamin Franklin, *Advice to a Young Man on Choosing a Mistress* and *Polly Baker*. (Thomas Jefferson wrote approvingly of *Polly Baker*.)⁴

At about the same time that the Bill of Rights was being ratified in the United States, the Marquis de Sade was having his first works banned in France. Clearly, if the Framers intended government to regulate offensive speech, they could have said so. Nevertheless, at the time of the founding, only Puritan Massachusetts had any obscenity statutes at all, and that state’s one law dealt with religious obscenity—i.e., blasphemy—not sexual obscenity.⁵

Ultimately, it is perhaps best to assume that the First Amendment means what it says: Congress (and now, thanks to the Fourteenth Amendment, government in general) may make no law abridging the freedom of speech, or of the press. Still, such a conclusion is merely a *legal* defense of absolute free speech. It doesn’t touch the issue of what our attitude toward free speech *ought* to be.

Are there practical and moral reasons for opposition to the censorship of obscenity? The Supreme Court’s decisions in the *Roth* and *Miller* cases were partial concessions to the fact that different people have different levels of tolerance when it comes to depictions of sexual acts and situations. Rather than attempt to lay down an objective standard for obscenity, the Court left the authority to judge in the hands of “communities.” Thus, the Court recognized no collective, national standard for obscenity.

Yet local communities are made up of disparate individuals as well. If the Supreme Court should not force its artistic standards upon a diverse citizenry, why should mayors and city councilmen—or perhaps special censorship boards—have the ability to do so?

The community standard rule enshrines in law a purely arbitrary majoritarianism. Thus, one majority in one community (or their elected representatives) can enact one standard, while a majority next door (or across the country) can enact an entirely different standard. The result is a legal practice that violates two cornerstones of justice: the Rule of Law and equality before the law.

While the concepts of a Rule of Law and of equality under the law are different—the Rule of Law is a much richer concept—the first subsumes the second. The Rule of Law in a general sense is violated, as F. A. Hayek notes, whenever arbitrariness enters into the equation. Only when “the rule is laid down in ignorance of the particular case and no man’s will decides the coercion used to enforce it [is] the law . . . not arbitrary.”⁶ Yet, because the community standard rationale for censorship proceeds without a prior definition of what is or is not obscene, it cannot help but be arbitrary. Not only do standards change over time, but the enforcement of the community-based censorship rule also will differ depending upon the standards of the individual censors. (In practice, the individual standards in question usually are those of the police who initiate the “bust,” the district attorneys who decide whether or not to prosecute, and the people serving as jurors at the time.)

Not only is the definition of what is obscene arbitrary, but the definition of what makes up the community whose standards supposedly count is arbitrary as well. Is, after all, a community a city or town? Is it a county or parish? Is it a state? The only thing the Supreme Court has made clear is that the community is *not* the United States—a rather odd notion since the First Amendment is a law of the *American* community, insofar as the Amendment governs the entire nation.

Equality under the law in a narrow sense fares no better than does the Rule of Law generally. Hayek explains that equality under the law is the best protection of general liberty:

The chief safeguard is that the rules must apply to those who lay them down and those who apply them—that is, to the government as well as the governed—and nobody has the power to grant exceptions. If all that is prohibited and enjoined is prohibited and enjoined for all without exception . . . and if even authority has no special powers except that of enforcing the law, little that anybody may reasonably wish to do is likely to be prohibited.⁷

In short, equality before the law is the surest protection against political tyranny because it subjects the rulers to the law as much as it subjects the ruled. Thus, one can easily see why legal equality is a valued part of the American legal tradition. Yet censorship blatantly violates the principle of legal equality in a way no other type of law enforcement can, for at least the censors themselves must view the material that is allegedly unfit for viewing.

First, Do No Harm

The three-prong test the Supreme Court laid down in its vague attempt to define obscenity includes an exemption protecting some works from censorship. To be obscene, a “work, taken as a whole, [must lack] serious literary, artistic, political or scientific value.” The Supreme Court’s 1987 *Pope v. Illinois* decision modifies this test somewhat, substituting a “reasonable person” standard for the community standard. “But again,” as Clint Bolick notes, “the Court’s test inevitably will substitute a particular value judgment—whether of a judge, state legislature, jury, or community—for the judgment the First Amendment entrusts to each individual.”⁸ Bolick might also add that the reasonable-man test places judges and juries in the absurd position of playing art and literary critics, scientists, and philosophers. Moreover, “reasonable person” remains as ill-defined as does obscenity.

Nevertheless, one wonders why artistic (or political, or scientific) merit matters at all. Although people may joke about doing so, no one really advocates censoring a work because it lacks artistic merit. The reason for censorship—allegedly—is to pro-

tect an unsuspecting public and its children (and perhaps the mentally incompetent) from harm—principally, moral corruption. Yet a work can have artistic (or other) merit while still being just as likely to corrupt impressionable minds as is any given artless effort. The aforementioned Marquis de Sade probably is unrivaled in his ability to offend unsuspecting sensibilities, yet his works contain philosophical insights (whatever their merit) that influenced artists and intellectuals from Nietzsche to D.H. Lawrence. So, why spare dangerously explicit works just because they have some value in the eyes of an abstract “reasonable man”?

The Supreme Court, however, rejects the idea of censoring messages that, unlike yelling fire in a crowded theater (in the absence of a fire, of course), do not pose a clear and present danger. Indeed, even the rights of the most outrageous proponents of the most dangerous *political* ideas are seldom if ever questioned.

When certain talk-radio conspiracy theorists came under fire for allegedly provoking last year’s terrorist bombing in Oklahoma City, they were simply criticized. Never were they threatened with censorship.

Only sex—and to a lesser but growing extent, violence—in art is deemed worthy of censorship on the basis of purported harm. This is true even though the demonstrable harm of certain ill-founded political ideas (e.g., Marxism and fascism) has been far greater than any amount of harm ever attributed to sexually explicit material.

Of course, one might object that obscene material can be censored because sex simply is not as important as politics. If government censors unpopular political speech, the result is tyranny without the possibility of dissent. Even if sexual speech is outlawed, however, dissidents can still talk about the *political* injustice of censorship.

Furthermore, the potential censor might object that sexually explicit materials that contain some educational value are fine, while those that are just “for fun” are not. (Indeed, the Supreme Court’s test recognizes this possibility.) This objection, however, is self-defeating. Sexual explicitness

can arouse regardless of context, and if sexual arousal is somehow intrinsically harmful to the public’s moral character, how does context matter? Indeed, if the public outcry over televised condom television commercials and some forms of sex education is any indication, most potential censors are uninterested in purported informational merit.

Finally, one could propose some sort of utilitarian cost/benefit analysis to attempt to determine the trade-offs between the good and the harm brought about by sexually explicit displays. Yet how such a calculus would be performed is hardly clear. The tradeoffs seem impossible to calculate because the requisite data exist only as the subjective evaluations of diverse individuals. The contention, after all, that we *ought* to perform such an analysis assumes that we *can*.

Even the question of whether or not any particular sexually obscene depiction is harmful admits no easy answers. Such questions are ultimately moral, and moral inquiries must include all available information.

Making Moral Judgments

How do we, as a society, know what is or is not obscene? First we must know *how we know* before we can even begin to draw moral distinctions. In the case of obscenity, we must know something *about* obscenity; we must be able to *study* examples of materials that others before us have deemed obscene.

The proposition that obscenity is immoral to begin with depends upon an intimate knowledge of obscenity; it depends upon freedom of speech and expression. It is hardly surprising that the anti-pornography works of Catherine MacKinnon and Andrea Dworkin are filled with the very obscenities they condemn. Evidence is needed to present a case: when one U.S. senator fought to enact the Internet indecency provisions of the Telecommunications Bill, he used a blue spiral notebook filled with “indecent” photographs in order to gain the support of his colleagues.

Changing Channels

Television is more of a negative than positive experience for many of today's viewers—especially the young ones—and I would agree that some changes are in order. However, I believe the legions of well-meaning child and family advocates who are begging the government to impose substantial restrictions on the industry are seriously misguided.

Even with regard to the naive, vulnerable, and highly impressionable little ones, the chances have been there all along. Popeye was beating up Brains and mangling the English language long before the Teenage Mutant Ninja Turtles emerged from the sewer. And Captain Kangaroo was instilling self-esteem, encouraging responsibility, and building preschool skills when Sesame Street was still a dirt road.

Consequently, those who call for government control and censorship—as well as those who recommend turning off the tube completely and permanently—risk throwing the baby out with the bath water.

When it comes to addressing the potentially destructive influence of television, it is clear that concentrating on content is counterproductive and misses the point. The primary problem today is that too many children watch too much television, and that problem is exacerbated by the fact that they routinely watch television by themselves or with other children instead of with an adult. As a result, too many kids are getting an overdose of the worst television has to offer, and they are processing the messages sent via the airwaves—good, bad, and neutral—without strong and persistent parental input to interpret, elaborate, buffer, and contradict what they see and hear on the tube.

Therefore, the obvious solution is that mothers and fathers should limit the amount of television their children watch. In addition, parents should watch television with their kids on a regular basis so they can supply suitable commentary, explore relevant issues, and answer queries if necessary.

—MICHAEL K. MEYERHOFF

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If human beings are to be fully realized moral agents, they must be free to make moral decisions on the basis of all available evidence. To deprive adults of the ability to make their own judgments is to turn the government into a nanny state and reduce adults to the moral equivalents of children.

If obscenity is evil, it can be declared evil without its being made illegal. If obscenity is illegal, however, law-abiding citizens will be unable to make their own judgments. Instead, they will be like the parishioners of medieval churches: illiterate, without their own copy of text to interpret and discuss with others—and forced to rely upon blind faith in authority.

Saving Children Through Market Forces

Children, unlike adults, are not full moral agents. Rather they are in the process of becoming, principally through parental instruction, such agents. Do not parents have an obvious interest in seeing that their children's impressionable minds are shielded, at least for a time, from harmful influences?

Parents certainly have a responsibility to try at least to pass on their values. Fortunately, it is quite possible for parents to protect their children without government help—if parents are so inclined.

Cable television companies provide spe-

cial "lock boxes" that, with the turn of a key, can black out channels parents wish their children not to view. Turn a key, and the problem is solved.

What about record and video stores allowing minors to rent or purchase indecent material? A responsible parent can simply return the offensive material for a refund and then punish the child for having done something wrong. The object of parenting, after all, is to instill values in one's children, not in store clerks.

In the early 1990s, local authorities brought charges against a comic-book store in Florida for selling a "mature readers" comic, published by an imprint of DC Comics, to a 14-year-old. The child in question, however, was accompanied by his mother—who apparently did not bother to pay any attention to her child's purchase. The judge ruled in favor of the store owner.

Of course, most parents are more responsible, and responsible parents find the free market quite willing to accommodate their child-rearing decisions. The Internet, for example, is a new and rapidly growing institution. Yet smart entrepreneurs are already latching onto the profit potential to be found in marketing Internet indecency filters.

Television, on the other hand, presents other challenges. The U.S. Congress has proposed the mandatory installation of "V-chips" in all new television sets. Parents could program these chips to block out programming preceded by an electronic trigger signal indicating that a program contains objectionable material. It is difficult to see how such a system would function, however, without the government ultimately deciding which kinds of programs merit what kinds of ratings.

Fortunately, the freer telecommunications becomes, the more non-governmental options parents have. As George Gilder—hardly a defender of "smut"—has noted, the proliferation of television channels will result in less *broadcasting* and more *narrowcasting*.⁹ Deregulation of the electronic media has caused the number of channels to

skyrocket. Where once only three networks tried to reach the lowest common denominator, now hundreds of specialized channels aim at science fiction enthusiasts, history buffs, world travelers, country music fans, people who want their MTV, and people who pray for their EWTN. Channel proliferation means that material parents are likely to find objectionable (programs on, say, MTV or the Playboy Channel), will be confined to a few distinct channels for which parents can either refuse to pay, or that they can block out with existing technology.

And if technology is not enough, individuals can exert pressure on businesses even without the coercive power of government. Firms conscious of the bottom line are in no hurry to offend large numbers of their customers. When the film "Showgirls" was released in the United States, it was absent from a great number of theaters, not because of censorship, but because of public outcry against the film. Theater owners simply did not want the hassle of angry demonstrators.

No system is perfect. Young boys, as always, hide away with dirty magazines irrespective of whether or not there is censorship in force. But the free market—not government censorship—is providing concerned parents with answers. The market treats adults as adults and allows parents to treat children as children. Censorship, however, allows the government to make children of us all. □

1. See my "Children's Television Shouldn't Be Regulated," *The Freeman* (January 1991), pp. 29–30.

2. Ann Lyon Haight and Chandler B. Grannis, *Banned Books: 387 B.C. to 1978 A.D.* Fourth Edition (New York: R.R. Bowker Company, 1978).

3. Censorship in Alabama, for instance, has gotten so out of hand that in March of this year the state attorney general's office was forced to dismiss charges against 32 "pornography peddlers" because the office lacked the resources to prosecute all the cases. Some 700 other obscenity cases, in one county alone, were settled for similar reasons.

4. Nat Hentoff, *Free Speech for Me—But Not for Thee: How the American Left and Right Relentlessly Censor Each Other* (New York: Harper Collins, 1992), p. 317.

5. Laurence Tribe quoted in Hentoff, *ibid.*

6. Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960), p. 153.

7. Hayek, *op. cit.*, p. 155.

8. Clint Bolick, *Grassroots Tyranny: The Limits of Federalism* (Washington, D.C.: Cato Institute, 1993), pp. 127–128.

9. George Gilder, *Life After Television* (New York: Norton, 1992).

Who Put the E in E-Mail?

by A. M. Rogers

I'm Enthusiastic about mail. I'm like the woman the Essayist J.B. Priestley wrote about who would have committed suicide Except she was Expecting a letter in the next day's post.

I not only love mail but I'm also a fervent Epistolarian. An Ever-diminishing breed, I know. Nonetheless, my Christmas cards were in the mail in Early December Each with a personal handwritten letter. No computer-generated replications for me. The reason for getting them out Early was to motivate less Enthusiastic writers. It was also to Ensure they'd have sufficient time to prepare their own Excellent compositions. Alas. Most cards I received were note-less. The remaining had a "to whom it may concern" biographical summation of the year's events. Bold, slashing brushstrokes, true, but lacking the details that make a picture interesting, not to mention Entertaining. Afterwards, I felt like the woman who considered committing suicide . . . though this time with no hope of any future mail. My vision was of a mailbox forever Empty.

E-mail then Entered my life.

Though hardly an Explorer, I had no choice. It became apparent that if I was to increase the pathetic flow of my mail, I was going to have to Evolve. I was going to have to Expand my horizons. I was going to have to get Electronic. The occasional letters I received from a law school friend who had

written despite moves from Massachusetts to North Carolina to Mississippi in barely a half dozen years had Ended altogether when she went on line. It had reached the point that the only person who wrote to me regularly was my mother. I had been getting America On Line's disks in the mail. I finally installed one in my home computer.

The installation part was Easy and took about five minutes. Learning the E-mail how-tos was another matter. Evidentially, you click on "compose mail." But figuring out my E-mail address was the first problem (it's your America On Line name in small letters without spaces, followed by "@aol.com"). The second problem was how to send it. My husband who is a far more proficient hacker than I am kept proclaiming this whole E-mail business a cinch and then proceeded to send several files of Johnny Depp our daughter had downloaded into the computer along with our E-mail letter to one of my friends. Eventually we figured it out.

Now Each workday, I come home for lunch and retrieve my mail at the mailbox and if there's nothing there, who cares? Because the next thing I do, Even before preparing lunch, is to log on to America On Line. My computer is as Elated as I am. "You've got mail," it announces.

And I do.

I get mail almost Every day. Enjoyable mail. I write to my law school friend in Mississippi and she writes back almost Every day. My sister-in-law in Ohio writes to me from work during her lunch hour and

Ms. Rogers is an attorney in Ormond Beach, Florida.

I write back during mine. And my nephew has E-mailed me from California.

Though E-mail doesn't have as much spontaneity as the telephone, it certainly has more spontaneity than regular mail. Sometimes I send a letter in the morning before I leave for work and come back home for lunch to find the answer. It's possible to write back and forth as many times a day or night as you'd like. It is less costly than a stamp and more Economical than a phone call. For America On Line's approximately \$10 a month charge, you can send Endless E-mails. Not Enough reasons for you?

There are more. You choose the time to retrieve your messages and you choose the time to send them. No more meals interrupted by phone calls. You're in control now.

And glory bE! You can Even get mail on Sundays.

Isn't it Exciting? Technology will do what so many of us have wanted and what the post office had promised. A mail not delayed by rain or sleet or snow. An Electronic mailman who delivers mail to us mail-lovers Each and Every second of the day.

Eureka!

□

"A Never-Ending Worldwide Conversation . . ."

The Internet is a far more speech-enhancing medium than print, the village green, or the mails. . . . Speech on the Internet can be unfiltered, unpolished, and unconventional, even emotionally charged, sexually explicit and vulgar—in a word "indecent" in many communities. But we should expect such speech to occur in a medium in which citizens from all walks of life have a voice. We should also protect the autonomy that such a medium confers to ordinary people as well as media magnates. . . . the Internet may well be regarded as a never-ending worldwide conversation. The government may not, through the CDA, interrupt that conversation. As the most participatory form of mass speech yet developed, the Internet deserves the highest protection from governmental intrusion. . . . the strength of our liberty depends on the chaos and cacophony of the unfettered speech the First Amendment protects."

—JUDGE STEWART DALZELL

U.S. District Court, Eastern Pennsylvania

June 12, 1996

Excerpted from Judge Dalzell's decision regarding the Communications Decency Act (CDA).

Is the Public Served by the Public Interest Standard?

by Adam D. Thierer

The so-called “public interest standard” has governed communications policy decision-making at the Federal Communications Commission (FCC) for more than 70 years. It is time to question whether this “standard” does indeed serve the public, or if it has instead served only the interests of regulators and companies that stand to gain via the regulatory process.

Ever since the passage of the Radio Act of 1927, federal regulators have been given the power to regulate if they found it was in the “public interest, convenience, or necessity.” This meant that regulators were given broad authority and discretion to regulate in the name of communications consumers. Unfortunately, in practice, this has resulted in the public truly having no voice in this marketplace.

Why is this so? Precisely because Congress has never defined what exactly is “in the public interest.” As Nobel Laureate economist Ronald Coase noted over 35 years ago, “The phrase . . . lacks any definite meaning. Furthermore, the many inconsistencies in commission decisions have made it impossible for the phrase to acquire a definite meaning in the process of regulation.”¹ More recently, critics have pointed out that regulation “in the public interest” has come to mean whatever is in the interest

of regulators to do at a given time.² Hence, the “public interest” or “public trustee” model of regulation that sprang up 70 years ago gave regulators the ability to exert unusual influence and require special demands be fulfilled, especially as a condition of broadcast spectrum license renewal.³ In effect, therefore, the standard is a non-standard: it has no fixed meaning.

Over time, FCC actions taken “in the public interest” have had less than desirable results. Consider:

- To supposedly serve the “the public interest,” the FCC instituted in 1949 the inappropriately named “fairness doctrine.” The doctrine required radio and television broadcasters to “afford reasonable opportunity for the discussion of conflicting views of public importance.”⁴ Instead of promoting the discussion of conflicting views and free speech in general, the fairness doctrine stifled it. In fact, over the span of its 40-year existence the doctrine was used as a tool of blatant political intimidation and influence by threatening license revocation for failure to comply with the political whims of the day.⁵ The Reagan administration FCC wisely repealed the doctrine in 1987, citing First Amendment concerns and the fact that program diversity (informational, educational, religious, and entertainment fare) had increased steadily over time.

- To promote “the public interest” in the

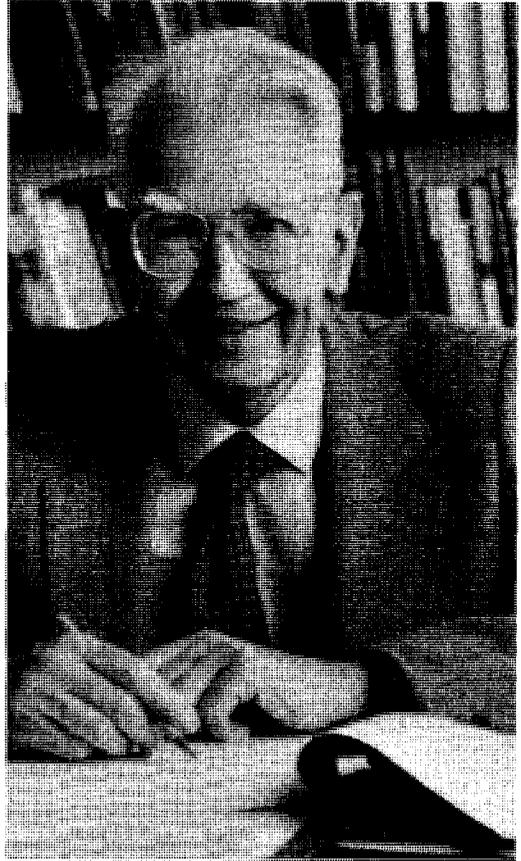
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early 1960s, the FCC restricted the development of cable television at the request of broadcasters who felt their turf was being threatened. As telecommunications scholars Michael K. Kellogg, John Thorne, and Peter W. Huber note, "For many years the FCC's principal objective was to suppress the cable industry by preventing direct competition between cable, and over-the-air broadcasting. It did so quite successfully. . . ."⁶ Essentially, the commission did not allow the entrepreneurial cable industry to offer innovative service options to consumers since it posed a threat to the survival of some local broadcasters. This regulatory setback delayed the onset of video competition for over a decade.⁷ Despite no clear justification of how this served "the public interest," the FCC carried these anti-competitive policies, even though no explicit grant of Congressional authority had been given to do so.⁸

- More recently, the FCC has attempted to serve "the public interest" by using the Children's Television Act of 1990 as a tool of blatant regulatory extortion. The FCC went beyond the statutory language of the act and used the law to demand a specific, quantitative minimum number of hours of children's programming⁹ in exchange for other business freedoms. For example, after CBS and Westinghouse announced their intention to merge, FCC regulators (who have the power to block such alliances) forced the companies to promise that certain quantitative programming requirements would be honored as a condition of merger approval. Several other firms have faced similar threats from the FCC as a condition of normal business operation.

Fewer Choices, Less Freedom of Speech

Two things should be obvious from these examples of the public interest standard in action. First, the public interest or public trustee model of regulation often does not serve the public in any constructive way. Industry competition and innovation is often discouraged because of the standard,



Nobel Laureate Ronald Coase of the University of Chicago. In his 1959 article, "The Federal Communications Commission," Professor Coase commented that the phrase "in the public interest" "lacks any definite meaning."

meaning the public has fewer and poorer quality choices available to them.

Secondly, the public interest standard makes a mockery out of the First Amendment, especially in the realm of electronic wireless communication. Ever since the adoption of the Radio Act of 1927, Congress and the FCC have bought into the mistaken notion that the supposed scarcity of spectrum, or potential interference within the spectrum, justifies asymmetrical First Amendment treatment of electronic communications providers.

As Thomas G. Krattenmaker and Lucas A. Powe, authors of *Regulating Broadcast Programming* argue, "[B]y adopting public ownership of the spectrum and administrative control over its uses, Congress chose a legal regime for broadcasting that differs

radically from the law that governs every other mass communications medium in the United States. Congress thus put its imprimatur on the twin myths that scarcity and interference are phenomenon unique to broadcasting and that scarcity and interference necessitate administrative control of the quality of broadcasts."¹⁰

Ironically, regulation itself created artificial scarcity and interference within the spectrum. Because the government enforced an extremely inefficient licensing policy in the early days of spectrum management and then rejected the imposition of a more orderly property-rights regime to govern the spectrum, scarcity and interference resulted. Instead of solving the problem by instituting property rights and private ownership, which solved the problems of land scarcity and trespass centuries ago, Congress and the FCC instead opted for an inefficient system of public management with "the public interest standard" as its guiding star.

The rest, as they say, is history. But it is a history we should not and cannot forget since we are still living with its adverse consequences. The FCC still uses the public interest standard to restrict beneficial industry advances that, in turn, deny new services to the public. It also inhibits the free flow of information and free speech in general.

How, then, can "the public interest" be truly served? By encouraging vigorous market competition—and by rejecting misguided social compacts and vague regulatory standards flowing from Washington. □

1. Ronald H. Coase, "The Federal Communications Commission," *The Journal of Law and Economics*, Vol. 2 (October 1959), pp. 8–9.

2. See, William T. Mayton, "The Illegitimacy of the Public Interest Standard at the FCC," 38 *Emory Law Journal* 715 (1989), pp. 715–769; Mark S. Fowler and Daniel L. Brenner, "A Marketplace Approach to Broadcast Deregulation," *Texas*

Law Review, Vol. 60 (1 1982–1983), pp. 207–257; Thomas G. Krattenmaker and Lucas A. Powe, *Regulating Broadcast Programming* (London: The MIT Press, 1994), pp. 173–174; Adam D. Thierer, "A Report Card on the Pressler Telecommunications Plan (S.652)," *Heritage Foundation Issue Bulletin* No. 209, May 5, 1995, pp. 14–15.

3. This does not mean, however, that broadcasters put up a serious fight to end the public trustee paradigm. On one hand they speak of its importance to ensure that viable competitors are kept out of their market, while on the other, they cite its intrusiveness as an excuse to produce mediocre programming. As Henry Geller, fellow at the Markle Foundation notes, "A broadcaster loves to be considered a public interest figure. Broadcasters generally want the economic benefits of being a public fiduciary without having to meet the burden of adhering to public interest content regulation." See Henry Geller, "Broadcasting and the Public Trustee Notion: A Failed Promise," *Harvard Journal of Law and Public Policy*, Vol. 10, No. 1 (Winter 1987), p. 90.

4. FCC Report, Editorializing by Broadcast Licensees, 13 F.C.C. 1246, (1949).

5. For more information see Adam D. Thierer, "Why the Fairness Doctrine is Anything But Fair," *Heritage Foundation Executive Memorandum* No. 368, October 29, 1993; E. Brandt Gustavson, "The Fairness Doctrine: Once and Future Threat to Speech, Religion," in *Speaking Freely: The Public Interest in Unfettered Speech* (Washington, D.C.: The Media Institute, 1995), pp. 87–106; "The Hush Rush Law," *The Wall Street Journal*, September 1, 1993, p. A14; John Corry, "Fairness Most Foul," *The American Spectator*, November 1993, pp. 50–51; Thomas W. Hazlett, "The Fairness Doctrine and the First Amendment," *The Public Interest*, Summer 1989, pp. 103–116; Jonathan W. Emord, "Toward a Free Broadcast Press," *Freedom Technology, and the First Amendment* (San Francisco: Pacific Research Institute, 1991), pp. 233–248; Krattenmaker and Powe, "The Fairness Doctrine," in *op.cit.*, pp. 237–275; Ford Rowan, *Broadcast Fairness: Doctrine, Practice, Prospects* (New York: Longman, 1984).

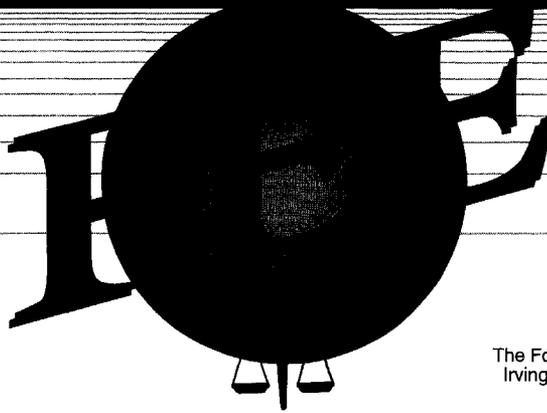
6. Michael K. Kellogg, John Thorne, and Peter W. Huber, *Federal Telecommunications Law* (Boston: Little, Brown, 1992), p. 689.

7. See Jonathan W. Emord, *Freedom, Technology, and the First Amendment* (San Francisco: Pacific Research Institute for Public Policy, 1991), pp. 252–254.

8. See Thomas W. Hazlett, "Station Brakes: The Government's Campaign Against Cable Television," *Reason*, February 1995, pp. 41–47. Hazlett notes that when cable television (or "CATV" as it was known then) was developing between 1950 and 1972, "Cable television was then officially judged a menace to society, and the [FCC] had launched a regulatory jihad against it. Like all holy wars, this offensive was undertaken in the 'public interest.'" Hazlett dramatically illustrates the FCC's protectionist policies in action by quoting from a 1966 Commission report on cable. The Commission stated: "We must thoroughly examine the question of CATV entry into the major markets, and authorize such entry only upon a hearing record giving reasonable assurance that the consequences of such entry will not thwart the achievement of Congressional goals. We cannot sit back and let CATV move signals about as it wishes."

9. For more information see Adam D. Thierer, "Who Will Mind the Children? The Regulation of Children's Programming in the Information Age," in *Speaking Freely: The Public Interest in Unfettered Speech* (Washington, D.C.: The Media Institute, 1995), pp. 47–66.

10. Krattenmaker and Powe, *op.cit.*, p. 18 [emphasis added].



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Growing Income Disparity

No matter how you may gather the data, the gap between the most affluent Americans and everyone else is widening. According to a Census Bureau report, the share of national income going to the top 20 percent of households increased from 40.5 percent to 46.9 percent between 1968 and 1994. Since 1994 the trend has even accelerated. At the present rate of growth, the top 20 percent of households may soon earn more than one-half of national income.

Most legislators and regulators are puzzled and alarmed by this widening income disparity. It's the very opposite of what they hoped to achieve. They spent trillions of dollars since President Franklin Delano Roosevelt found "one-third of a nation ill-housed, ill-clad, and ill-nourished" and President Lyndon B. Johnson declared "war on poverty." President Bill Clinton discovered that "the rich are not paying their fair share," which in 1993 led to stiff tax increases for upper-income Americans. Yet, the gap continues to widen.

It is ironic that the spenders create the very pressures that cause interest rates to rise and capital income to soar. They incur huge budgetary deficits which crowd out business investments, consume capital, and raise interest rates. Simultaneously, they cause wage rates to stagnate or even

fall. After all, it is the amount of capital invested that determines productivity and wage rates; to consume capital is to destroy jobs and depress wage rates. The U.S. government is consuming capital en masse, which makes it a driving force for the growing inequality.

The United States enjoys a great stock of productive capital created in the past. But it is one of the worst cases of current saving in the industrial world. U.S. net savings, which are the sum of personal savings and retained business earnings minus total public-sector deficits, amount to less than two percent of gross domestic product. This compares with some seven percent until the late 1970s when the federal deficits were relatively small.

Consequently, interest rates have risen steadily as has capital income. Thirty-year treasury bonds now yield more than seven percent, mortgages and mortgage-backed securities more than eight percent.

The Federal Reserve System is adding its weight to the disparity. For several years it conducted easy money policies that pushed stock and bond prices to dizzying heights and created a financial bubble, perhaps the biggest ever. While real hourly wages have fallen since the mid-1970s and many high-paying jobs in manufacturing have disappeared, stock

market investors have reaped extraordinary profits. The lion's share of these profits obviously went to the top 20 percent of households. As long as the bubble lasts they are likely to enjoy the disparity.

The rising burden of corporate taxation and regulation has the same effect. It makes it rather difficult to build plants and factories, stores and warehouses, office buildings and other structures. It forces corporations to embark upon a course of downsizing which consists primarily of labor shedding, asset shuffling, and mergers. It depresses wage rates while it provides profit bonanzas. Moreover, when government makes expansion well-nigh impossible business may struggle to remain profitable by computerizing operations and releasing unneeded labor. The phenomenal advances of computer-assisted technology using much high-skilled and highly educated labor have contributed to the income disparity.

A demographic change, finally, may have contributed its share to the growing inequality in household incomes. As labor incomes decline many wives and mothers feel compelled to enter the labor market and supplement the family income. Many are well-educated and highly-skilled. Being married to well-educated professional men, they form households with very high incomes. They have increased the income gap between affluent Americans and all others.

No matter how we may look at the growing disparity of incomes, it confirms a well-known economic principle: political intervention in economic life is bound to make matters worse. It usually brings about the very opposite of what the legis-

lators and regulators had in mind. In order to attain greater economic and social equality they burden the more affluent members of society. But the extractions consume productive capital, which reduces labor productivity and wage rates while it raises interest rates and the returns on capital owned by the rich. Both effects increase the inequality.

Any policy that seeks to deny or defy human nature is bound to disappoint. Designed to reduce or even eradicate economic equality, it must come to grief at the vast differences in human nature. Some individuals are highly productive, rendering extraordinary services to their fellowmen as scientists, inventors, poets, composers, entertainers, athletes, and entrepreneurs; others may be unable or unwilling to render valuable services. In economic terms, some have million-dollar productivity, others have little or none at all. In a competitive economic system, they all tend to earn incomes directly proportionate to the value of their services. Government may forcibly interfere with this process through tax-and-spend "redistribution," but human nature tends to adjust to the force. Making its appearance in the laws and principles of the market, it enlarges the income disparity in order to restore the natural inequality. In recent years, the growing disparity has become another example of the supremacy of economic principle over political force.



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The Virtues of Free Speech

by Mark Turiano

Any persuasive argument for liberty must involve a connection between liberty and human excellence. The reason for this is clear. An argument for liberty is an argument for its goodness. The ultimate context for all human evaluation of good news is human life. To ask if liberty is good is to seek a connection between it and human goodness or excellence.

Does freedom of speech have any value if we take human excellence seriously? I think so. First of all, freedom of speech has a value in the realm of political economy. The ability to speak one's mind concerning matters of common interest is useful insofar as it helps preserve a more general freedom. A power that is not open to the scrutiny and conscientious objections of those over whom it is exercised is almost certain to be exercised irrationally. The price of liberty, to paraphrase John Philpot Curran, is eternal vigilance. Freedom of speech in this political sense preserves a sphere for the exercise of that vigilance. Freedom of speech is of instrumental value to a jealous love of liberty, without which, freedom of speech is completely impotent. Freedom of speech concerning political matters is worth preserving because it acts as a check against the arbitrary use of power.

Preserving Nonpolitical Speech

However, considered merely as a political tool, freedom of speech is quite limited. It

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can only be understood to have a bearing on matters that are of common concern. This is quite compatible with a severe repression of speech about private matters. Freedom of speech in this sense could involve my freedom to exhort my neighbors into barring the opening of an X-rated theater in our neighborhood, or in the suppression of the use of foul language. The question then is can there be a justification for expanding freedom of speech to these other areas? Such a justification must show that the protection of certain types of speech in other, non-political, areas (e.g., the arts and sciences) has a connection to human excellence. And it seems that it does; scientific and artistic achievement seem to be fostered by freedom.

How far ought this freedom to extend? The description of sexual function by biologists can be clearly connected to the advancement of learning and maybe even to the curing of disease or preservation of life. The depiction of violence in some artworks might be justified for its cathartic effect. When, for example, Mel Gibson is being disemboweled in *Braveheart* and refuses to submit as an act of defiance to tyranny, this serves primarily as a representation of fortitude and strength of spirit, and only secondarily as a depiction of human cruelty. The cruelty is conquered by the virtue and is overshadowed by it.

What then of the obscene ranting of rap musicians glorifying disregard for law and common decency? Or books and films in which people are senselessly murdered by the sociopathic protagonists, or those which amount to character assassinations of well

“If all mankind minus one, were of one opinion, and only one person were of the contrary opinion, mankind would be no more justified in silencing that one person, than he, if he had the power, would be justified in silencing mankind.”
—JOHN STUART MILL, *On Liberty*

known individuals based on outright lies and half-truths? Can there be any justification of these things?

Two arguments can be made. First, human excellence is most fully manifest in what we might call a morally mature person. This is a person who manifests all of the classical virtues, including courage, prudence, and justice. Now virtue, as such, cannot be compelled, though people can be compelled (that is, forced against their own judgment) to behave in the same way that a virtuous person would. Such behavior is not an expression of virtue. Virtue requires freedom to act in light of one's own judgment. Granted, certain types of self-expression are defective, but to prohibit them, and thus force people to behave as if they were virtuous, will not make them actually virtuous, since the element of judgment and choice is removed.

There are cases where we are justified in compelling people to behave as if they were virtuous. Parents do this to their children in the hope that the children will, by so acting, become virtuous. This is the moral equivalent of putting training wheels on a bicycle.

To treat an adult this way is to treat him as if he were not only without virtue but so defective in this regard that force rather than reason is required. Someone who is less than completely virtuous can be persuaded and shamed into behaving and may, given time, actually develop virtue. For example, someone who desires to produce a movie which plausibly presents his fantasies as if they were true, and in so doing dishonors the memory and reputation of a former president, might be dissuaded by means of reason or shame. Using such means is an acknowledgment of a capacity for virtue and is the best means of inculcating it. If because of

irrationality or shamelessness, he persists, stronger measures might be called for. Such measures would be in place particularly if significant and foreseeable harm was caused.

The bottom line is that since moral maturity requires the freedom to act according to one's judgment, such freedom should be granted except in extreme cases. The authority of virtue is quite different from the authority of strength. Forcing someone to do or refrain from doing something tends to obscure the beauty of the same action when it is done from virtue. Because freedom, including freedom of speech, favors the development of virtue, it is valuable and ought to be preserved.

There is another persuasive argument that can be made in favor of freedom of speech. Though this is more of a cultural than a political argument, it is based on the vast difference between being moral and being a moralist. The morally mature person—the virtuous individual—seeks always to do that which is noble and praiseworthy. In doing so, he becomes the standard of moral excellence. The moralist is the person who, in lieu of noble and praiseworthy actions, seeks merely to condemn the base and shameful. The moral man only condemns vice insofar as virtue requires it, the moralist only acts virtuously (or seems to) in order to retain the right to condemn vice.

Toleration is an attitude that acts as a check against moralism. It should be noted that toleration is not the morally skeptical refusal to make judgments and to condemn certain types of behavior or speech. Rather, it is the recognition that such judgments should be made only when and to the extent that some good may come of them. Whereas a moralist takes pleasure in the mere con-

demnation of shameful behavior, a tolerant person finds such condemnation distasteful and can only make it palatable to himself if he can combine it with some noble action. The moralist is mean-spirited, the man of virtue is magnanimous. A tolerant culture is one which encourages the virtue of magnanimity or greatness of mind.

To Tolerate or Not?

It is not possible from one's armchair to say exactly what types of speech would be tolerated in such a culture, and it is probably not even possible to arrive at universal criteria for which types of speech should be tolerated. The types of sexually explicit material, for example, that ought to be tolerated in New York City are probably not the same as those that should be tolerated in Opelika, Alabama. The point is that whatever they are, such forms of speech would be *tolerated*, i.e., they would be put up with although they are acknowledged to be base or defective in some way. This

toleration would not be based on the hidden, subjective value of what is tolerated, on some moral skepticism which relativizes all values, or on some right to express oneself. Instead, it would be based on the recognition that to use force to restrain such speech would be pointless or ineffective for inculcating virtue and would be out of proportion to the smallness of the act. It would be out of revulsion at the mean-spiritedness involved in such a use of force that it would be tolerated.

It seems then that freedom of speech is connected to human excellence in several ways. Politically, freedom of speech is useful for the protection of freedom to act in as much as it acts as a check against arbitrary power. As one type of freedom it can also aid in the development of virtue by opening up a sphere in which one can act according to one's judgment. Such freedom is necessary for virtue. It is culturally useful for the development of the arts and sciences, and, finally, because it requires toleration, it fosters greatness of soul.

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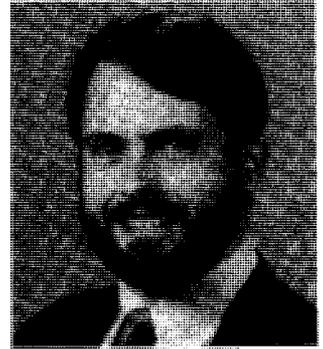
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In Service of a Boondoggle



Service has a long and venerable history in America. And so it continues today. Three-quarters of American households give to charity. An incredible 90 million adults volunteer, the value of their time approaches \$200 billion.

However, some people have long desired to involve government. Eight decades ago William James wrote of the need for a “moral equivalent of war,” in which all young men would be conscripted to work for the community. He argued that “the martial virtues, although originally gained by the race through war, are absolute and permanent human goods,” and that national service would provide a method for instilling those same values in peacetime. Anachronistic though his vision may seem today, his rhetoric has become the touchstone for national service advocates. In succeeding decades a host of philosophers, policy analysts, and politicians proffered their own proposals for either voluntary or mandatory national service.

Some of these initiatives have been turned into law, most recently the National and Community Service Trust Act, which established the Corporation for National and Community Service. So far it has survived the supposed wave of budget-cutting in Washington.

*Doug Bandow is a senior fellow at the Cato Institute and a nationally syndicated columnist. He is the author and editor of several books, including *The Politics of Envy: Statism as Theology* (Transaction).*

Service is obviously a good thing, which is why so many people give time and money. The issue, however, is service to whom and organized by whom?

Americans have worked in their communities since the nation’s founding and opportunities for similar kinds of service today abound. Much more could be done, of course. But what makes service in America so vital is that it is decentralized, privately organized, centered around perceived needs, and an outgrowth of people’s sense of duty and compassion. Mandating service risks teaching that the duty of giving, and the job of organizing giving (deciding who is worthy to receive public grants and, indirectly, private groups’ services) belongs to government rather than to average people throughout society. This is, in fact, the explicit goal of advocates of mandatory service programs, who would create a duty to the State rather than the supposed beneficiaries.

Some participants in service organizations share this fear. David King of the Ohio-West Virginia YMCA has warned: “The national service movement and the National Corporation are not about encouraging volunteering or community service. The national service movement is about institutionalizing federal funding for national and community service. It is about changing the language and understanding of service to eliminate the words ‘volunteer’ and ‘community service’ and in their place implant the idea that service

is something paid for by the government.”

A second problem is that government service programs treat “public” service as inherently better than private service. This bias is reflected in the fact that 2,800 of the first 20,000 AmeriCorps participants were assigned to federal agencies. For instance, the Department of the Interior used AmeriCorps workers to “update geological and hydrological information for the U.S. Geological Survey” and restore wetlands and wildlife habitat. However respectable such work, it is like any other government employment and is not likely to promote volunteerism around the country.

Equally important is the concern over whether taxpayers are likely to get their money’s worth from the service provided. No doubt some good work has been done by AmeriCorps volunteers; it is hard for even the government to spend hundreds of millions of dollars without doing some good. But there is no guarantee that taxpayer-funded “service” will be worth its cost.

Even attractive-sounding jobs won’t necessarily produce much social benefit. The Corporation and its supporters speak grandly of meeting current “unmet social needs.” But as long as human wants are unlimited, the real number of unfilled social “needs,” as well as unmet business “needs,” is infinite. Labor, however, is not a free resource. Thus, it simply isn’t worthwhile to satisfy most of these “unmet” needs. Trade-offs must be made, yet national service treats some jobs, especially public ones, as sacrosanct while ignoring other, disfavored tasks.

Of course, much worthwhile service work remains to be done across the country. But government often stands in the way of private individuals and groups who want to help. Minimum-wage laws effectively forbid the hiring of dedicated but unskilled people. Restrictions on paratransit operations limit private transportation for the disabled. Government regulations also harm other forms of volunteerism. Health department codes prevent restaurants in Los Angeles and elsewhere from donating food to the hungry,

for instance. In short, many important needs are left unmet precisely because of perverse government policy.

To the extent that serious social problems remain, narrowly targeted responses will likely be the most effective. That is, it would be better to find a way to attract a few people to help care for the terminally ill than to lump that task in with teaching, changing light bulbs, administrative work, private fundraising, political organizing, and the multitude of other jobs now performed by tens of thousands of AmeriCorps employees. So far the program has had decidedly mixed results. Among the dubious successes and apparent flops: in California, English classes were canceled for lack of interest and a health-care fair was badly bungled; volunteers in one Florida program complained that they were used for publicity purposes; AmeriCorps members involved with the Georgia Peach Corps spent much of their time training, traveling, and playing computer games; participants in one Baltimore program provided condom education; Northeastern University won money for an initiative to promote athletics; the Green Corps devoted 55 participants to “training the next generation of environmental leaders”; and more.

Corporation personnel also may be more interested in working off a school debt than “serving.” AmeriCorps members typically receive benefits of roughly \$13,000—actually a bit higher in effect, since the educational voucher and other fringe benefits are not taxed. As a result, “service” is a better financial deal than many entry-level jobs. Some participants admit that they see national service as a financially remunerative job option, not a unique opportunity to help the community. Indeed, much of President Clinton’s pitch during the 1992 campaign was framed in terms of naked self-interest: earning credit towards college tuition.

The Corporation has also politicized the notion of service. It funded the ACORN housing program, inextricably linked with ACORN, a partisan, left-wing organization. In Denver, the Cole Coalition forced AmeriCorps members to draft and distribute

political fliers. Federally funded "volunteers" were bused to an Earth Day rally in Havre de Grace, Maryland, last year. The Arizona Border Volunteer Corps used an AmeriCorps-funded newsletter to encourage its members to lobby for the program.

What we need instead of government-funded "service" is a renewed commitment to individual service. People, in community with one another, need to help meet the many serious social problems that beset us. There is a role for government: officials

should commit themselves to a strategy of "first, do not harm." We need to eliminate public programs that discourage personal independence and self-responsibility, disrupt and destroy communities and families, and hinder the attempts of people and groups to respond to problems around them. But the private activism that follows needs neither oversight nor subsidy from Uncle Sam. America's strength is its combination of humanitarian impulses, private association, and diversity. We need service, not "national" service. □

The Price of Freedom

Freedom is a costly thing, and we cannot keep it unless we are willing to pay the price. It is required of each one of us that we firmly adhere to the processes of freedom, even when we can barely stand some of the products of freedom—the products being what people do when given their "druthers." The freer the society the more things people will do that we might find distasteful; this is one of the consequences of freedom, and we have to school ourselves to accept it. This we have learned to do in two important areas—freedom of the press and freedom of worship. We must learn to be equally tolerant in the areas of business, industry, and trade.

How fares the written word when the masses are relatively literate and free to pick their own reading material, where they themselves select the men and women who will do their writing for them? The highest paid writers may be those whose subliterate efforts jam the boob tube. The magazines and newspapers of largest circulation may be those which cater to our prurient interests. Best-selling novels are forgotten by next year. But as much as anyone might deplore the decline of reading and the low estate of publishing—now that the press is free—no one with any sense would wish to add a Department of Censorship to the already overgrown government bureaucracy. To put the press under a Ministry of Information and Propaganda would be disastrous. Freedom of the press may give every idiocy a voice; authors may not reap a monetary reward commensurate with their literary talents, so be it, we say; it's the price we pay willingly for freedom of the press. Freedom merely allows the budding genius the elbow room he needs to live, and breathe, and write. And books of solid scholarly competence still appear regularly for the small audience which needs the nourishment only the word can provide.

My mind goes back to an observation of Ralph Waldo Emerson. "There are not in the world at any one time more than a dozen persons who read and understand Plato.—never enough to pay for an edition of his works; yet to every generation those [works] come duly down, for the sake of those few persons."

—EDMUND A. OPITZ

Excerpted from "Ethics and Business," *The Freeman*, March 1993.

The Entrepreneur as a Defender of Liberty

by Felix R. Livingston

Entrepreneurs have the unparalleled ability to satisfy our material wants and needs. To seek and win customer approval on a daily basis, market competitors must continually offer improved quality and lower prices.

Our well-being is also profoundly affected by another entrepreneurial function that is less understood. It is a task that echoes the feats of self-assertion of barons, landed gentry, and others in centuries past who defended their private rights against encroachments by kings, emperors, monarchs, and parliaments. Such actions were frequently associated with the expansion of freedom. Similarly, it is the entrepreneur's dogged pursuit of private interests in a competitive environment that can create new industries and engender a greater liberty.

Many developments in the political life of the eighteenth century reflected John Locke's proscriptions for limiting power.¹ Guided by the wisdom of Locke and other philosophers, including David Hume, James Harrington, Montesquieu, and Adam Smith,² America's Founders created peaceful, constitutional methods for defending life, liberty, and property.³ When Chief Justice John Marshall successfully insti-

tuted a procedure in 1803 by which legislative measures believed unconstitutional can be overturned, entrepreneurs gained the right to challenge confiscatory statutes in court.⁴

Entrepreneurs have defended their property using several constitutional provisions including the "contract clause" of Article 1, Section 10, and the "due process" and "takings" clauses of the Fifth and Fourteenth Amendments. During the first three decades of the nineteenth century, entrepreneurs made substantial use of the "contract clause," which forbids states from enacting any law "impairing the obligation of contracts." Constitutional rulings under the "contract clause" prevented states from breaching their contracts with individuals, from repealing corporate charters, and from nullifying certain tax exemptions extended to prior owners of property.⁵ The importance of the "contract clause" in the defense of property diminished when states discovered they could get around it by adding their own clauses to legislation reserving powers to repeal or modify statutes.

The next constitutional provision to gain ascendancy in the defense of property was the "due process clause" of the Fifth Amendment. Inherited from the Magna Carta and ratified in 1791 as part of the Bill of Rights, it declares that "no person shall . . . be deprived of life, liberty, or property, without due process of law." Initially ap-

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plicable to federal legislation, its scope was broadened to encompass state legislation with adoption of the Fourteenth Amendment in 1868. By the end of the nineteenth century, entrepreneurs were using this clause to curb regulation that restrained economic activity.⁶ The Court would evaluate a challenged law by comparing its effects to a legislature's intent. The Court would overturn a statute if it was considered excessively harsh or unrelated to the legislature's stated purpose. This interpretation of "due process" resulted in nullification of many state regulations from the late 1800s to the middle 1930s with the written opinions of Justices staunchly supporting economic liberty and individual freedom.⁷

During much of President Franklin Roosevelt's first term, the Court used the "due process clause" as justification for striking down New Deal legislation. But the court began to slip away from its mooring. When it abandoned the "due process" protection of property in 1936, a regulatory leviathan began to grow. For the next half-century, entrepreneurs were consistently defeated in Court decisions that applied a double standard of constitutional review. While the Court accorded substantial protection to nonmaterial civil or human rights, it simultaneously ignored the material rights of private property.⁸

When "due process" protection of economic rights was lost, America became vulnerable to the confiscatory acts of public officials. Corporations must now spend more than four times as much for compliance costs as they pay in taxes.⁹ The unabated growth of regulation will continue to weaken property rights until there is nothing left but a title to ownership and an obligation to pay taxes.

To destroy the Trojan horse of tyranny, a battle for economic rights must be waged on many fronts. Entrepreneurs must fight these officials and other regulators in the courts, through public discourse, and at the ballot box. Strategies to strengthen property rights include requiring government to compensate property owners for regulatory "takings,"¹⁰ reform of legal liability laws,¹¹ and

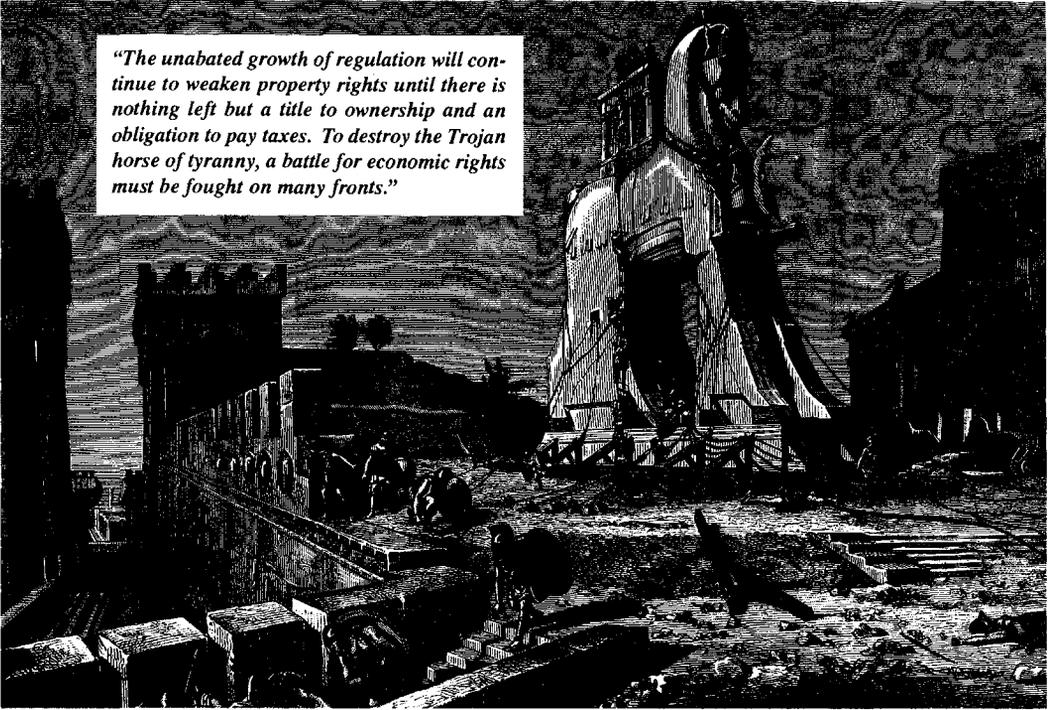
forcing public authorities to compare a proposed regulation's costs and benefits.¹²

Defending Property Rights

Recent Court interpretations of the "takings clause" of the Fifth and Fourteenth Amendments have offered hope to entrepreneurs in their defense of property. This clause, declaring "nor shall private property be taken for public use, without just compensation," was applied for the first time to a regulatory "taking" in 1992.¹³ In *Lucas v. South Carolina Coastal Council*, the state was forced to pay a contractor for a "taking" after regulation had effectively reduced his property value to zero. In a more recent case, the High Court ruled in favor of an entrepreneur who had resisted the confiscatory actions of a town that would only give her a license to expand her business if she forfeited ten percent of her property for public use. In a ruling that strengthened property rights and untied the hands of entrepreneurs, Chief Justice Rehnquist wrote: "We can see no reason why the Takings Clause of the Fifth Amendment, as much a part of the Bill of Rights as the First Amendment or the Fourth Amendment, should be relegated to the status of a poor relation."¹⁴ Because of these rulings, the "takings clause" is now the entrepreneur's most important constitutional means of defending property.

A principled defense of property rights requires the intellectual virtue of knowledge about liberty's "first principles." It also demands the moral virtue of courage. If the genius of markets is that entrepreneurs are not required to possess much information beyond factors directly affecting their products or services,¹⁵ then absence of knowledge about economics as a science of human action poses no immediate threat to profitability. Such ignorance, however, makes sustained action advancing liberty impossible because of unavoidable missteps in the wilderness of political permutations. For example, when entrepreneurs seek preferences they expect that advantages gained as producers will outweigh their consumers'

"The unabated growth of regulation will continue to weaken property rights until there is nothing left but a title to ownership and an obligation to pay taxes. To destroy the Trojan horse of tyranny, a battle for economic rights must be fought on many fronts."



losses. They are oblivious to the long-run consequences of their acts; consumer losses will equal or exceed producer gains and the standard of living and productivity will fall precipitously.¹⁶

Ignorance also leads entrepreneurs to sometimes assert that their privileges are compatible with the public good.¹⁷ Nothing could be further from the truth. Privilege-seeking flies in the face of ethical behavior, blurs the distinction between justice and injustice, and fosters widespread legal theft.¹⁸ Plundered groups gaining political ascendancy seek reprisal resulting in an abrogation of the "rule of law" and universal plunder.

The majority of people in a democracy cannot or will not think through the problems of private property and liberty. It is particularly important that business leaders who possess the means of challenging political authority understand the "first principles" of freedom and use this knowledge to light the path toward a principled defense of their property.

A second virtue required by the defenders of property is that of courage. In ancient civilizations, courage was honored when

nobles and aristocrats followed rules that tended to preserve the society in which they lived.¹⁹ For example, military valor was the primary means by which the medieval nobility could earn honor. This was a natural consequence of an aristocracy that owed its very existence to war. In Rome, courage was so highly valued that the word virtue, in Latin, came to mean courage.²⁰ This reflected the requirements of a nation bent on conquering the world.

Resisting privilege and fighting the encroachments of government in a constitutional democracy requires courage and sacrifice and deserves to be honored. Those who challenge political authority run the risk of being labeled antisocial in an age when legislative acts are believed to be reflections of the people's will. Similarly, resisting preferential legislation that others unabashedly pursue may result in lower revenues. And the costs of defending property in the courts and in the legislative arena may be high. It is honorable for entrepreneurs to defend their economic rights against an acquisitive political authority because these acts satisfy requirements of the free society. It is dishonorable to seek

preferences and privilege because doing so undermines social cooperation and facilitates the movement toward unlimited democracy. Freedom does not require entrepreneurs to be altruistic. It does demand that in the pursuit of profit they prevent a separation of the honorable and the useful. So it has always been: Cicero considered this to be the main problem of ethics.²¹

Threats to liberty are ever present as utopian dreamers advocate state coercion to carry out their notions of the good, misguided citizens clamor for government to solve the so-called "problems" of the hour, and individuals seek preferential legislation at the expense of others. We must learn to recognize the fallacies of statist policies and understand the courageous role of the entrepreneur in promoting and extending liberty.²² As Mises reminded us: "The struggle for freedom . . . is not the struggle of the many against the few but of minorities—sometimes of a minority of but one man—against the majority."²³ □

1. Bertrand de Jouvenel, *On Power: The Natural History of Its Growth*, Liberty Press Edition (Indianapolis: Liberty Fund Inc., 1993), p. 316.

2. The Framers continually quoted or paraphrased these philosophers in their correspondence and at the Constitutional Convention. Forrest McDonald, *Novus Ordo Seclorum* (Lawrence, Kan.: University Press of Kansas, 1985), p. 7.

3. Ludwig von Mises considered peaceful changes made possible by constitutional democracies as this form of government's "main excellence and worth." Ludwig von Mises, *Theory and History: An Interpretation of Social and Economic Evolution* (Auburn, Ala.: The Ludwig von Mises Institute, 1985), p. 372.

4. In *Marbury v. Madison*, 1 Cranch 137, 163 (1803), Justice Marshall wrote "The very essence of civil liberty certainly consists in the right of every individual to claim the protection of the laws, whenever he receives an injury."

5. James W. Ely, Jr., *The Guardian of Every Other Right: A Constitutional History of Property Rights* (New York: Oxford University Press, 1992), pp. 62–68.

6. *Ibid.*, pp. 87–100.

7. Bernard H. Siegan, *Economic Liberties and the Constitution* (Chicago: University of Chicago Press, 1980), pp. 110–155.

8. *Ibid.*, pp. 184–246.

9. *Clichés of Politics*, ed. Mark Spangler (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, Inc., 1994), p. 2.

10. The argument that regulation is a partial confiscation of property may be found in Richard A. Epstein, *Takings: Private Property and the Power of Eminent Domain* (Cambridge: Harvard University Press, 1985), pp. 93–104.

11. For example, "retroactive, strict, joint and several liability" gives the Environmental Protection Agency authority to make a company pay for violating a standard that may have been adopted after it departed from a site. A single company with "deep pockets" can be forced to fund an entire cleanup even though its contribution to pollution on the site was marginal. This is why a third of the \$30 billion spent on 200 Superfund sites has been for litigation expenses with each site taking an average of twelve years to clean up. James M. Strock, "Wizards of Ooze," *Policy Review* (Winter 1994), p. 42.

12. This measure would presumably disqualify regulations such as the Occupational Safety and Health Administration standard for Benzene that costs \$23 million per life saved and the Arsenic standard costing \$24 million. John Hood, "OSHA's Trivial Pursuit," *Policy Review* 73 (Summer 1995), p. 60.

13. *Lucas v. South Carolina Coastal Council*, 112 U.S. 2886 (1992).

14. *Dolan v. City of Tigard*, 129 L. Ed 2d 304, (U.S. 1994).

15. See Friedrich A. Hayek, "The Price System as a Mechanism for using Knowledge," *American Economic Review* 35 (September 1945).

16. Mises, pp. 32–33.

17. Assertions of fairness and justice may also represent a conscious attempt to deceive the public. The outcome of preference seeking is the same whether or not the entrepreneur is sincere in his public declarations.

18. Seeking preferences and privilege necessarily violates a principle of ethics expressed by Immanuel Kant thusly: "Act in conformity with that maxim and that maxim only which you can at the same time will to be universal law."

19. For a discussion of courage and honor see Alexis de Tocqueville, *Democracy in America*, ed. J. P. Mayer, trans. George Lawrence (Garden City, N.Y.: Anchor Books Edition of Doubleday & Company, Inc., 1969), pp. 616–627.

20. See the life of Coriolanus in Plutarch, *Plutarch's Lives of the Noble Grecians and Romans*, vol. 1, ed. A. H. Clough, trans. John Dryden (New York: Modern Library Edition, 1992), p. 291.

21. See Cicero, *On Duties*, eds. M. T. Griffin and E. M. Atkins (New York: Cambridge University Press, 1991).

22. "It is as true today as it was ten thousand years ago that a Power from which the magic virtue has gone out, falls." Jouvenel, p. 87.

23. Mises, pp. 66–67.

Charles James Fox, Valiant Voice for Liberty

by Jim Powell

War-time provides the toughest test for a defender of liberty. That's when governments everywhere tend to censor, jail, and even execute opponents. Charles James Fox became a legend for defending liberty during not one but two major wars. Uniquely among great British political figures, he spent almost his entire Parliamentary career—38 years—in the Opposition.

"It was the task of Mr. Fox," noted John Russell, one of his ideological successors, "to vindicate, with partial success, but with brilliant ability, the cause of freedom and the interests of mankind. He resisted the mad perseverance of Lord North in the project of subduing America. He opposed the war undertaken by Mr. Pitt against France, as unnecessary and unjust. He proved himself at all times the friend of religious liberty, and endeavoured to free both the Protestant and Roman Catholic dissenter from disabilities on account of their religious faith. He denounced the slave trade. He supported at all times a reform of the House of Commons."

Thomas Babington Macaulay, the eloquent English historian, referred to Fox as "the great man whose mighty efforts in the cause of peace, of truth, and of liberty,

have made that name immortal." Macaulay called Fox quite simply "the greatest parliamentary defender of civil and religious liberty."

Fox gained influence, in part, because he made friends easily. He was cheerful, affectionate, generous, and kind. "I have passed two evenings with him," wrote Tory wit George Selwyn, "and never was anybody so agreeable, and the more so from his having no pretensions to it." Edward Gibbon, famed chronicler of ancient Rome's decline, remarked about Fox: "Perhaps no human being was ever more perfectly exempt from the taint of malevolence, vanity, or falsehood."

More than most men of his time, Fox was generous toward women. As biographer George Otto Trevelyan explained, "His notion of true gallantry was to treat women as beings who stood on the same intellectual tableland as himself; to give them the very best of his thoughts and his knowledge, as well as of his humour and his eloquence; to invite, and weigh, their advice in seasons of difficulty; and if ever they urged him to steps which his judgment or his conscience disapproved, not to elude them with half-contemptuous banter, but to convince them by plain-spoken and serious remonstrance. . . . There have been few better husbands than Fox, and probably none so delightful; for no man ever devoted such power of pleasing to the single end of making a wife happy."

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If it weren't for his dissolute ways, Fox might well have headed a ministry and had more direct influence on events rather than spend so many years in the Opposition. During his early manhood, Fox drank to excess, and reportedly even pawned his gold watch for a beer. He managed, though, to stay sober enough for gambling. He became a skilled handicapper at the race tracks. The problem was he lost even more money at cards. He borrowed money from friends and from Jewish moneylenders. His losses exceeded £140,000, an astounding sum. At one point, creditors seized his furniture.

Fox made costly political mistakes, too. His worst was in February 1783 when he formed a coalition with Frederick North, King George III's docile Prime Minister and front man during the American Revolution, whom Fox had long denounced in the harshest terms. Fox joined North because the alternative at the time was a coalition with a man he opposed even more, but the move thoroughly undermined his credibility. A little later, Fox undermined his standing as an advocate of frugal government when he agreed to a proposal that Parliament grant the Prince of Wales a £100,000 annual allowance.

A Frenchman asked William Pitt the Younger how his rival Fox could have achieved such influence despite all the mistakes. "You have not been under the wand of the magician," Pitt replied.

Fox was among the most famous—and frequently caricatured—English faces of his generation. "It was impossible to contemplate the lineaments of his countenance," recalled one observer, "without instantly perceiving the marks of genius. His features in themselves dark, harsh and saturnine . . . derived a sort of majesty from the addition of two black and shaggy eyebrows which sometimes concealed but more frequently developed the workings of his mind. Even these features, however, did not readily assume the expressions of anger or enmity. They frequently and naturally relaxed into a smile, the effect of which became irresistible because it appeared to be the index of a

benevolent and complacent disposition. His figure, broad, heavy and inclined to corpulence, appeared destitute of elegance or grace, except the portion conferred on it by the emanations of intellect, which at times diffused over his whole person, when he was speaking, the most impassioned animation."

It's hard to believe every superlative showered on Fox, but they surely suggest that he had a remarkable ability to touch people's hearts. Henry Brougham, who joined Fox's crusade against slavery, considered him "if not the greatest orator, certainly the most accomplished debater, that ever appeared upon the theatre of public affairs in any age of the world." And Macaulay gushed that Fox was "the most brilliant and powerful debater who ever lived."

Early Years

Charles James Fox was born at 9 Conduit Street, Westminster, London, January 24, 1749. He was the third son of courageous and corrupt Henry Fox, who enriched himself as Paymaster-General during an expensive war, quite possibly the most lucrative post in the British government. Charles's mother was an aristocrat, Georgiana Caroline Lennox. Because her parents objected to her marrying Henry, a commoner, the young couple eloped and scandalized everybody.

Education started with three years of tutoring at home, which was called Holland House. After that, he was off to the Wadsworth School for a year, and he opted for prestigious Eton in June 1758. Meanwhile, his indulgent father had taken him to Paris for experience with ladies and gaming tables.

Fox entered Hertford College, Oxford, in October 1764. During his two years there, he acquired a love of reading classic literature which was to refresh him till his dying days. After Oxford, Fox spent two years traveling through Europe. On the way back, he stopped in Geneva to visit Voltaire, who recommended some books.

Concerned about his son's directionless

drifting, Henry Fox arranged for him to get elected a Member of Parliament from Midhurst, one of many "pocket boroughs" controlled by a few aristocrats—Parliament was very much an exclusive club with 558 members intent on protecting their privileges. Charles took his seat November 1768.

For a while, Fox echoed his father's establishment line, defending Parliamentary prerogatives. The most stubborn challenger was the witty, wild printer John Wilkes, who relentlessly criticized the government. Middlesex voters elected Wilkes to Parliament four times in the 1760s, and four times Parliament refused to seat him. "Wilkes and Liberty" became the rallying cry of people who had no voice in government. Fox urged Parliament to disregard the "the imaginary infallibility of the people" and keep Wilkes out.

Because of his speaking skills, Fox briefly held a minor post in Lord North's ministry, but he soon proved too much of a maverick and was dismissed in 1774. He turned for excitement to his favorite bars and casinos. For instance, recalled his contemporary Horace Walpole, "He had sat up playing hazard at Almack's from Tuesday evening, the 4th, till five in the Afternoon of Wednesday the 5th. An hour before, he had recovered £12,000 that he had lost, and by dinner, which was at 5 o'clock, he had ended losing £11,000. On the Thursday he spoke in this debate; went to dinner at past 11 at night; from thence to White's where he drank till seven the next morning; thence to Almack's, where he won £6,000; and between three and four in the afternoon he set off for Newmarket [race track]."

Family Woes

Fox began maturing with the shocks of family tragedies. In July 1774, his father died after having paid more than £100,000 of Charles's gambling debts. He showed some remorse as he wrote his mother: "That my extreme imprudence and dissipation has given both of you uneasiness is what I have long known . . . to flatter myself that, particularly with you, and in a great degree with

my father, I had regained that sort of confidence which was once the greatest pride of my life." By the end of July, his mother was dead. His older brother Stephen died in November. Charles was left with a £900 annual income and a £20,000 inheritance, which he soon lost at the gaming tables.

Fox resolved to buck the establishment, especially because George III was attempting to reassert the supremacy of the throne. Whig aristocrats had dominated Parliament and the British government since the Revolution of 1688, serving as a watchdog against a possible takeover by the Catholic Stuart dynasty, based in sullen Scotland. But the last Stuart uprising had been crushed in 1745. Whig aristocrats had lost their calling and become corrupt long before George III was crowned king at age 22 in 1760. The florid, slow-witted king was determined to take the power of appointing ministers away from Parliament and to make them his personal agents.

Resisting both George III and the patronage-driven Whigs, Fox sought to revive the original Whig principles of 1688. This made him a compatriot of reformer Charles Wentworth, Lord Rockingham.

Fox was inspired by Lord Rockingham's Dublin-born private secretary, Edmund Burke, two decades his senior. Burke's father was a Protestant attorney, his mother was Catholic, and his most unforgettable teacher was a Quaker. Burke wasn't a great orator—indeed, his speeches, which were sometimes three hours long, emptied the seats in Parliament. But Burke had acquired deep knowledge of history which gave him valuable perspective, and he developed a passionate pen. He urged religious toleration for Irish Catholics. He supported freer trade. He favored ending the secrecy of Parliamentary proceedings. He expressed his outrage when a mob murdered two men convicted of homosexual contact. He defended the right of Middlesex voters to choose their representative, radical John Wilkes.

Then came the epic debate about how to pay off the £70 million of debts from the Seven Years War (1756–1763). The purpose

of this war had been to defend the American colonies from the French, but the colonists—there were about two million at the time—saw proposed taxes as tribute to the British Empire whose major feature was the aggravating mercantilist system in which British merchants reserved the colonies as their exclusive territory. If somebody in Rhode Island wanted to buy hats from Virginia, they had to go through British merchants. The result of such restrictions, naturally, was widespread smuggling. In addition, each of the colonies had their own elected assemblies and didn't accept the supremacy of Parliament over their affairs.

Burke opposed schemes to tax the American colonists because he believed proposed taxes were unjust, they would yield little revenue, and trigger rebellion. After the schemes were enacted, Burke called for repeal. Chancellor of the Exchequer George Grenville's Stamp Duty (1765)—some 50 taxes on newspapers and legal documents—had provoked such a storm of protest that it was repealed in a year. Then in 1767 came Chancellor of the Exchequer Charles Townshend's taxes on tea and other articles, provoking the "Boston Tea Party," which led to the British blockade of Boston, opposed by Burke.

Fox worked to become the most powerful orator and debater in the House of Commons. He refined his skills by speaking at least once every day. He rejected the traditional style of speaking with flowery metaphors, extensive quotations, and allusions to ancient Greece and Rome—a style practiced by William Pitt, who had been an influential Member of Parliament for three decades. Fox never gave a set speech. He was spontaneous, passionate, and direct. He built a case with dramatic facts and established an emotional connection with his audience.

Again and again, Fox hammered the ministry of Lord North. In 1775, Fox denounced the suspension of Habeas Corpus, a bulwark of civil liberties. On February 2, 1777, he warned that Britain would lose the war and that sending over more troops could leave Britain defenseless against France. Two

years later, French and Spanish fleets cruised menacingly through the English Channel. After the British surrender at Yorktown, Fox insisted that recognition of American independence must be given unconditionally, not made a price of peace.

A Formidable Foe

George III viewed Fox as perhaps his most dangerous adversary, saying he had "cast off every principle of common honour and honesty . . . as contemptible as he is odious . . . aversion to all restraints." Literary lion Samuel Johnson wondered "whether the nation should be ruled by the sceptre of George III or the tongue of Fox."

Dressed in a blue frock-coat and a yellow waistcoat—colors later adopted by the Whig party as well as the Whig journal *Edinburgh Review*—Fox championed liberal reform during the 1780s. For example, he advocated complete religious toleration. This meant expanding the Toleration Act (1689), which required that to legally serve as a clergyman a religious Dissenter must acknowledge the divinity of Christ—a measure specifically aimed at Unitarians. Fox also favored abolishing religious tests to exclude Dissenters from political office.

Although Fox seemed to embrace the Church of England, he opposed using coercion to support it. As he declared in 1787: "It was an irreverent and impious opinion to maintain, that the church must depend for support as an engine or ally of the state, and not on the evidence of its doctrines, to be found by searching the scriptures, and the moral effects which it produced on the minds of those whom it was the duty to instruct."

Fox supported the campaign of fellow Member William Wilberforce to abolish the slave trade. Fox opposed proposals that it be continued under government regulation. According to one summary of the debate in Parliament, May 1789: "he knew of no such thing as a regulation of robbery or a restriction of murder. There was no medium; the legislature must either abolish the trade or avow their own criminality." But for the

moment, proposals to abolish the slave trade went nowhere.

Fox's leading adversary was Prime Minister William Pitt the Younger who served as Prime Minister from 1784 to 1802. Loyal to the king, Pitt displayed more integrity than most politicians, declining easy opportunities to enrich himself in government. He was self-disciplined, utterly devoted to his work, stiffly formal, cool amidst a crisis, and he seldom forgot past grudges, including differences with Fox about candidates for a ministry. During the 1780s, Pitt had favored reducing tariffs, taxes, and the armed forces. Fox was generally more uncompromising in the defense of liberty, and they moved poles apart later when Britain and France were at war.

The two men presented a dramatic contrast as they debated in the House of Commons. "Fox, with his harsh, thrilling voice and rapid delivery," reported biographer Edward Lascelles, "poured out his arguments in an impetuous torrent of urgency, while Pitt presented his case with faultless precision and complete self-possession." As an observer recalled: "Mr. Pitt conceives his sentences before he utters them. Mr. Fox throws himself into the middle of his, and leaves it to God Almighty to get him out again."

Meanwhile, Fox had fallen in love with a tall, elegant woman two years younger than he. She called herself "Mrs. Armistead," although there seems never to have been a Mr. Armistead. She was reportedly linked to a "notorious establishment" in London and later became the mistress of a duke. During the early 1770s, she and Fox settled down to contented domesticity. They were secretly married on September 28, 1795, and she signed the register as "Elizabeth B. Cane." They lived on her 30-acre spread called St. Anne's Hill, just south of the Thames River in Surrey.

The French Revolution

Political constellations began to move after July 14, 1789, when angry mobs stormed the Bastille, the beginning of the

French Revolution. In January 1790, Burke rose in the House of Commons to launch his first salvos against "the excesses of an irrational, unprincipled, proscribing, confiscating, plundering, ferocious, bloody, and tyrannical democracy." He denounced the Declaration of the Rights of Man and the Citizen as a "digest of anarchy." Fox responded discreetly, hoping to avoid a painful break with Burke. Fox affirmed that he had "learnt more from his right honourable friend than from all the men with whom he had ever conversed." He went on to emphasize he was "the enemy of all absolute forms of government, whether an absolute monarchy, an absolute aristocracy, or an absolute democracy." Burke welcomed these conciliatory words, but some of Fox's allies like Robert Brinsley Sheridan weren't as tactful, and they split from Burke.

Fox continued promoting liberty, but Burke resisted any change. Fox was for reforming Parliament; Burke was against. Fox revived a proposal to end the requirement that candidates for political office swear allegiance to the Church of England; Burke was against—many Protestant Dissenters were "men of factious and dangerous principles," he explained.

Fox held his tongue because he knew Burke was at work on a potentially explosive pamphlet. Published in November 1790 as *Reflections on the Revolution in France*, it denounced the "swinish multitude." Burke declared that before the Revolution France "had the elements of a constitution very nearly as good as could be wished," and he added that Parliament, rife with "pocket boroughs," had proven "perfectly adequate to all the purposes for which a representation of the people can be desired or devised."

Fox versus Burke

Burke began beating the drums for Britain to declare war against France and stop the contagion of revolution. At first, few Englishmen were interested, although Prime Minister Pitt was contemplating war to stop Russia from expanding in Turkey. In 1791,

Fox exclaimed that the new French Constitution, in which staunch defenders of liberty like the Marquis de Lafayette and the Marquis de Condorcet had a hand, was "the most stupendous and glorious edifice of liberty which has been erected on the foundation of human integrity in any time or country." Burke launched into a fresh attack on the French Declaration of the Rights of Man and the Citizen, on the Jacobins, and on the way the French treated their king.

Burke complained that Fox "had ripped up the whole course and tenour of his private and public life, with a considerable degree of asperity." Fox whispered across to Burke that he still cherished their friendship, and Burke responded by telling Parliament that "their friendship was over." Fox was in tears, shocked that Burke would suddenly and publicly renounce their friendship, which had endured for a quarter-century. Fox expressed regret at his own "rash and imprudent words," and he offered to "keep out of his right honourable friend's way." Burke bored on, saying he "sincerely hoped that no member of that House would ever barter the Constitution of this country, that eternal jewel of his soul, for a wild and visionary system which could only lead to confusion and disorder." Fox attempted a reconciliation when Burke lay dying in July 1797, but Burke had his wife turn him away.

Fox continued to fight for liberty. He had long been concerned about freedom of speech, especially restrictions imposed by libel law. The burden of proof was on the defendant. Judges, not juries, had the power to decide whether a libel had occurred, and since judges were connected with government and the established church, they generally considered attacks on either to be libelous. As Chief Justice John Holt had remarked, "it is very necessary that the people should have a good opinion of it [government]."

Fox believed the burden of proof should be on government, so he wanted to make it more difficult to win a conviction for libel. Accordingly, in May 1791, he introduced his libel bill, which would give juries the power

to decide not only the facts about whether something had been published but also whether a libel had occurred. The bill provided that "the jury sworn to try the issue may give a general verdict of guilty or not guilty upon the whole matter." Asked for their opinions soon after the bill was introduced, judges were unanimously opposed, and perhaps their vehemence led Parliament to reaffirm traditional confidence in juries, even amidst hysteria about the French Revolution.

Fox's libel bill sailed through the House of Commons but opponents stopped it in the House of Lords. The bill was reconsidered there, passed and signed by the king sometime after June 1, 1792. Determined to silence dissidents, the government filed more libel cases in the two years following passage of Fox's libel bill than had been filed during the entire eighteenth century. Juries saved many defendants from the gallows or banishment to Australia.

Fox's generous hopes for France came crashing down as the Revolution turned into tyranny. By September 1792, the French central government was controlled by the Convention, an assembly which operated without effective checks or balances. Its Jacobin leaders ignited war by offering to help people throughout Europe who shared their revolutionary aspirations. By late 1792, French soldiers occupied Belgium (then known as the Austrian Netherlands), Savoy (ruled by the king of Sardinia, an Austrian ally), plus a number of German cities along the Rhine. Prime Minister Pitt objected to French expansion and explored an alliance with Austria and Prussia, which brought war with France on February 1, 1793. War accelerated the trend toward unlimited centralization in France, climaxing with the Reign of Terror that killed an estimated 40,000 people.

Despite Burke's dire warnings, there wasn't much evidence of revolutionary unrest in Britain, but war hysteria led Pitt to make a major assault on civil liberties. In 1794, Parliament passed the Act Suspending Habeas Corpus, empowering "his majesty to secure and detain such persons as his

majesty shall suspect are conspiring against his person and government." The next year, Parliament passed the Treasonable and Seditious Practices Act which, among other things made it unlawful to "declare any words or sentences to excite or stir up the people to hatred or contempt to the person of his majesty, his heirs, or successors, or the government. . . ." Finally, Parliament passed the Seditious Assemblies Act which effectively banned meetings of more than 50 people who wanted to petition the government "for alteration of matters established in church or state, or for the purpose or on the pretext of deliberating upon any grievance in church or state." Fox led the opposition to these measures every step of the way.

Supposedly to protect Britain against oppression from abroad, the government pursued oppression at home. It shut down publications and prosecuted editors considered a threat to the nation. The government harassed Nonconformist Protestant preachers. It imprisoned suspected traitors like shoemaker Thomas Hardy, a founder of the radical Corresponding Society. Police looked the other way as mobs assaulted people suspected of favoring republican ideas—in Birmingham, for instance, mobs burned every house belonging to a known Nonconformist.

Fox continued to defend free speech in Parliament. "To deny to the people the right of discussion," he was reported as saying in one debate, "because upon some occasions that right had been exercised by indiscreet or bad men, was what he could not subscribe to. The right of popular discussion was a salutary and an essential privilege of the subject . . . the best security for the due maintenance of the constitution was in the strict and incessant vigilance of the people over parliament itself. Meetings of the people, therefore, for the discussion of public objects were not merely legal, but laudable." The proper policy, Fox declared, was less government intervention, not more.

By May 1797, an overwhelming majority had lined up behind Pitt's war policies. Fox's supporters in Parliament had dwindle

dled to about 25, compared with about 55 in 1794 and 90 during the 1780s. Fox stopped going to Parliament, but he looked back with pride. "It is a great comfort to me to reflect how steadily I have opposed this war, for the miseries it seems likely to produce are without end."

He spent his time mainly at St. Anne's Hill, reading and gardening. "In summer," recalled his secretary John Trotter, "he rose between six and seven; in winter before eight. . . . After breakfast, which took place between eight and nine in summer, and at a little after nine in winter, he usually read some Italian author with Mrs. Fox, and then spent the time preceding dinner at his literary studies, in which the great poets bore a principal part. A frugal and plentiful dinner took place at three, or half-past two, in summer, and at four, in winter; and a few glasses of wine were followed by coffee. The evening was dedicated to walking and conversation till tea-time, when reading aloud, in history, commenced, and continued till near ten. A light supper of fruit, pastry, or something very trifling, finished the day; and at half-past ten the family were gone to rest. . . ."

Fox returned to Parliament long enough for a final blaze of glory. After the death of William Pitt on January 23, 1806, Fox stood as the leading political figure of the era, and he could no longer be excluded from a ministry. He accepted the post of Secretary of State. Working with Wilberforce and others, Fox developed a strategy to overcome years of delaying abolition of the slave trade.

First, a neutral Member introduced a bill that would make it illegal for a British citizen to trade in slaves under a foreign flag or to fit a foreign slave ship in a British port. Enacted in the spring of 1806, this measure had the potential of wiping out three-quarters of the British slave trade.

Second, Fox sought a parliamentary commitment for total abolition. On June 10, 1806, he offered his resolution: "this House, conceiving the African slave trade to be contrary to the principles of justice, humanity, and sound policy, will, with all practi-

cable expedition, proceed to take effectual measures for abolishing the said trade. . . .” The House of Commons voted 114 to 15 in favor. The House of Lords assented on June 25. “If, during the almost forty years that I have now had the honour of a seat in Parliament,” Fox remarked, “I had been so fortunate as to accomplish that, and that only, I should think I had done enough, and could retire from public life with comfort, and conscious satisfaction, that I had done my duty.”

The next step would have been to introduce an abolition bill, but Fox’s health deteriorated during the summer of 1806, and others had to carry on. His arms and legs swelled up, and he suffered chronic exhaustion. He was persuaded to let doctors do a couple of painful “taps,” presumably efforts to drain the excess fluids. For days, at St. Anne’s Hill, he lay listlessly in a lounge

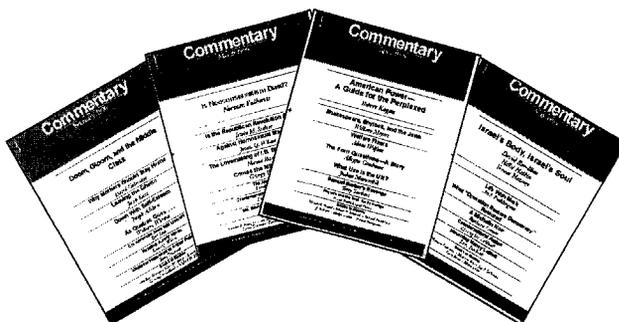
chair as his wife read aloud from Virgil, John Dryden, Jonathan Swift, and other favorite authors. Well-wishers gathered outside in the street, awaiting the latest news. On September 13, 1806, he got out a few puzzling words, “It don’t signify, my dearest, dearest Liz.” He died about 40 minutes after five that afternoon. He was buried October 10 next to William Pitt in Westminster Abbey.

As the valiant voice of the Opposition nearly all his career, Fox saw few of his dreams come true, yet he struck mighty blows for liberty. He kept the spirit of liberty alive when government was determined to crush it. He won some important victories. He inspired the Whig and Liberal parties, which did much to make the nineteenth century the most peaceful period in human history. He affirmed that people who stubbornly speak out can be free. □

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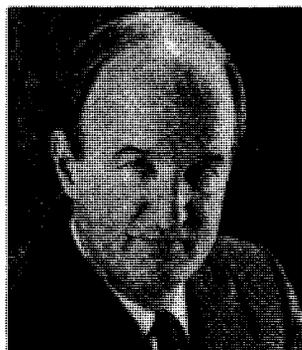
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New Keynesians Finally Reject Keynes's "General" Theory



"When people attempt to save more, the actual result may be only a lower level of output . . ."

—Paul A. Samuelson¹

"Higher saving leads to faster growth . . ."

—N. Gregory Mankiw²

The two quotations above dramatically demonstrate the stark contrast between the "old" Keynesians and the "new." Samuelson and the old-style Keynesians start with the "general" theory of unemployment equilibrium and end with the classical model of full employment as a "special" case. As long as there are unemployed resources—which, according to the old Keynesians, is most of the time—thriftiness is bad and expansionary monetary and fiscal policy (i.e., inflation and deficit spending) are good. For 50 years, this "demand-management" model has been the standard approach in college economics.

The New Keynesian Revolution

Now along comes a new generation of economists, known as "new" Keynesians, who have wisely changed their way of thinking. In the most popular textbook

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, and editor of Forecasts & Strategies, one of the largest investment newsletters in the country. For more information about his newsletter and book, Economics on Trial, contact Phillips Publishing Inc. at (800) 777-5005.

on macroeconomics, author N. Gregory Mankiw reverses the standard Keynesian pedagogy. Mankiw, you may recall, is the young Harvard economist who was paid a \$1.4 million advance last year to write the next "Samuelson" textbook. (See my column, *The Freeman*, October 1995.)

His mammoth advance was due, in part, to the success of his previous textbook on macroeconomics, last published in 1994. *Macroeconomics* may be a harbinger of what's to come. In a brilliant move, he begins with the classical model and ends with the Keynesian model, just the opposite of Samuelson & Company. Mankiw states in the preface, "in the aftermath of the Keynesian revolution, too many economists forgot that classical economics provides the right answers to many fundamental questions."

Under Mankiw's long-run "general equilibrium" model, what are the effects of an increase in government spending? Crowding out of private capital. "The increase in government purchases must be met by an equal decrease in investment. . . . Government borrowing reduces national saving" (p. 62).

Economic growth is discussed up front, not at the end, as most textbooks do. Using the Solow growth model, Mankiw takes a strong pro-saving approach. He maintains that "the saving rate is a key determinant of the steady-state capital stock. If the saving rate is high, the economy will have a large capital stock and a high level of out-

put. If the saving rate is low, the economy will have a small capital stock and a low level of output” (p. 86). What is the effect of higher savings? It’s positive. “An increase in the rate of saving raises growth until the economy reaches the new steady state,” although the law of diminishing returns suggests that “it will not maintain a high rate of growth forever” (p. 86). Mankiw writes favorably toward those nations with high rates of saving and capital investment, and even includes a case study on the miracles of Japanese and German growth (examples virtually ignored in Samuelson’s textbook). He supports efforts to increase the rate of saving and capital formation in the United States, including the possibility of altering Social Security from a pay-as-you-go system to a fully funded plan, though he does not discuss outright privatization (pp. 103–4).

The cause of unemployment? Relying on the “natural” rate of unemployment hypothesis, Mankiw suggests that unemployment insurance and similar labor legisla-

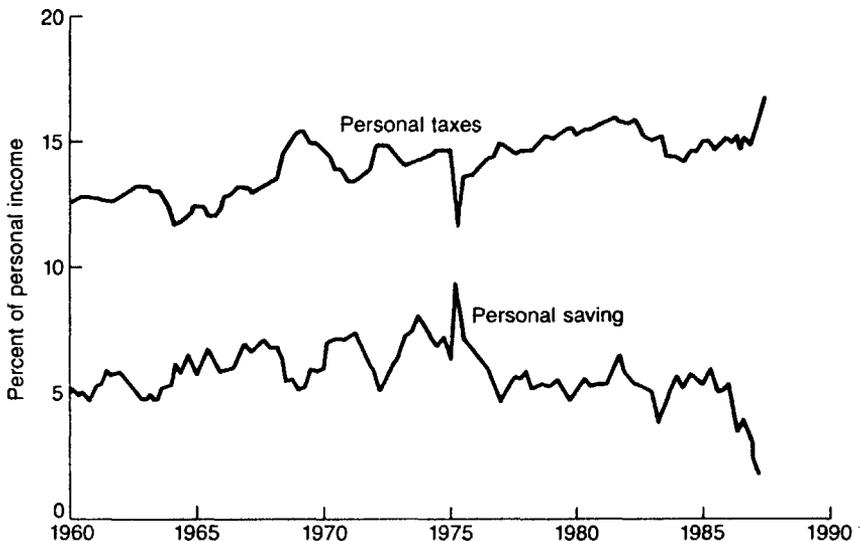
tion reduce incentives for the unemployed to find jobs (pp. 121–5). He provides evidence that unionizing labor and adopting minimum-wage laws increases the unemployment rate (pp. 127–30). He offers a case study on Henry Ford’s famous \$5 workday as an example of wages determined by productivity.

He approvingly quotes Milton Friedman on monetary theory: “Inflation is always and everywhere a monetary phenomenon.” Mankiw uses numerous examples, including hyperinflation in Interwar Germany, to confirm the social costs of inflation (pp. 161–9).

Sins of Omission

Not all is right with Mankiw, however. In Mankiw’s model, tax cuts have the same effect as deficit spending—by raising consumption, it “crowds out investment and raises the interest rate,” he says (p. 64). However, he fails to realize that tax cuts also stimulate savings, as the graph (below)

FIGURE 13–5
Inverse Relationship between Taxes and Savings



from Dolan and Lindsey clearly demonstrates. Not all tax cuts will be spent on consumer goods.

Further more, Mankiw apparently assumes that government spending remains the same when tax cuts are put into effect, thus raising the deficit. He repeats the common historical error that the Reagan tax cuts enlarged the deficit, and thereby raised interest rates and lowered national savings. (p. 65) In fact, while marginal tax rates declined, tax revenues rose during every year of the Reagan presidency. Tax cuts didn't cause expanding deficits, excessive federal spending did.

The second half of Mankiw's textbook introduces all the standard tools of Keynesian modeling—aggregate supply (AS) and aggregate demand (AD), the multiplier and accelerator, and IS-LM model. The author presents real business cycle theory, wage rigidity, money neutrality and the Ricardian

Equivalence Theorem, all in a bewildering effort to explain economic fluctuations "in the short run." Although he includes a section on Robert Lucas, Jr., and the Rational Expectations School, he has virtually nothing to say about the supply-siders and the Austrians, a major omission. These two schools could have cleared up a lot of confusion about macroeconomic theory and policy.

Still, free-market economists should celebrate in knowing that the profession is slowly moving in the right direction— toward fundamentally sound economics.

That's quite a feat for a man (Mankiw) who named his dog "Keynes."

1. Paul A. Samuelson and William D. Nordhaus, *Economics*, 15th ed. (New York: McGraw Hill, 1995), p. 357. Similar anti-saving statements have existed in all previous editions of Samuelson's *Economics*.
2. N. Gregory Mankiw, *Macroeconomics*, 2nd ed. (Worth Publishers, 1994), p. 86.

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Endorsed by syndicated columnist Joe Sobran

BOOKS

Restoring Hope in America: The Social Security Solution

by Sam Beard

Institute for Contemporary Studies • 1996 • 220 pages • \$14.95 paperback

Let's Get Rid of Social Security: How Americans Can Take Charge of Their Own Future

by E. J. Myers

Prometheus Books • 1996 • 273 pages • \$25.95

Reviewed by John Attarian

Most Americans now realize that when the huge Baby Boom generation retires, supported by a slower-growing Baby Bust taxpaying workforce, Social Security will go broke. Proposals are emerging to avert disaster, with most, like those here reviewed, entailing some privatization.

National Development Council chairman Sam Beard proposes to create "100 million millionaires" through "the magic of compound interest." He would retain Social Security's mandatory tax-based character, but bifurcate the payroll tax. "Tier 1" would contain "most of your Social Security taxes," and pay benefits to current retirees. "Tier 2" would be set aside in personal investment and retirement accounts. Americans earning \$10,000 or more will pay \$1,240 per year into Social Security—and can become millionaires. Investing \$30 weekly from payroll taxes, at 8 percent compound interest, will in 45 years amass \$1,291,433 for retirement. Problem solved.

Or is it? Beard's plan is flawed at the core by double-counting these taxes. Putting \$30 weekly into Tier 2 comes to \$1,560—all the taxes on \$12,580. Indeed, Beard repeatedly writes as if all taxes would go into Tier 2. But to pay current retirees present-law benefits, which Beard, kowtowing to the American

Association of Retired Persons myth of Social Security as a "sacred contract," insists on doing, "most of your Social Security taxes" would indeed have to remain in Tier 1, and hence be unavailable for investment.

So much for payroll taxes and "the magic of compound interest" creating 100 million millionaires—who are only nominal anyway. Adjusted for inflation, the magician's rabbit turns mangy; \$1,291,433 shrinks, Beard admits, to \$229,935. Then, too, he wants mandatory participation through taxes, which he deems "exciting." Anybody excited about being coerced?

More positively, Beard furnishes handy descriptions of Chile's privatized retirement insurance and the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) plan, and makes a good case for turning defined-benefit pensions into immediately vested, portable, defined-contribution plans *à la* TIAA-CREF.

Texas businessman Edwin J. Myers has a similar plan. His chatty, digressive, and repetitive book narrates how Social Security metastasized from the modest supplemental pension that Franklin Roosevelt originally intended into a vast demographically doomed entitlement, which the elderly now look to for primary retirement income. He also explains how private defined-benefit pension plans developed; the widespread underfunding of pension plans; the renegeing on pension promises following takeovers and buyouts; the Pension Benefit Guaranty Corporation; and federal and state government pension plans. While students of Social Security and pensions will learn little from Myers's exposition, its accessible level and informal style make it useful for ordinary Americans.

Drawing on the successful pension plan set up for county employees of Galveston, Texas, when they opted out of Social Security, Myers proposes Individual Security Retirement Accounts (ISRAs), financed with the worker's share of payroll taxes. Pooled into a huge mutual fund, these accounts would, through compound interest,

generate huge (nominal-dollar) nest eggs yielding far better payouts than Social Security. All workers under 37 years old would participate. Workers aged 37–45 could either opt for an ISRA or stay in Social Security.

To finance current Social Security, Myers would use the employer's share of the payroll tax, plus the payroll taxes of workers aged 37–45 who choose to remain in Social Security. To balance outlays and revenues, Myers proposes either means testing current retirees' benefits or using the interest payments to the trust funds to pay benefits.

Unfortunately, Myers, like Beard, ignores the implications of his proposals. If ISRAs so greatly outperform Social Security, leaving Social Security will be 37–45-year-old workers' rational choice—which would create a huge revenue shortfall. This in turn would make payment of current retiree benefits problematic. He evidently assumes that these workers will be ignorant or fatuous enough to stay in a system offering them far worse returns than they could get elsewhere. Like Beard, he overpromises and leans on weak reeds.

He also shares Beard's inattentive boosterism. Shortly after proposing means testing whereby current retirees with retirement incomes of \$60,000–\$69,000 would lose 40 percent of benefits, and those making over \$99,999 would lose 80 percent, Myers asserts that “no one, from the young to the elderly, will be penalized. . . . No one will lose a cent.” How's that again?

These books helpfully highlight the need for Social Security reform (its abolition would be best), but their untenable promised “win-win” solutions are very dangerous. They appeal mightily to Americans' weakness for wishful thinking and painless solutions. Worth a look? Yes—but remember the saying, “If something sounds too good to be true, it probably is.” □

Dr. Attarian is a free-lance writer in Ann Arbor, Michigan.

Founding Father: Rediscovering George Washington

by Richard Brookhiser

The Free Press • 1996 • 230 pages • \$25.00

Reviewed by Clarence B. Carson

Near the close of this book, the author quotes John Marshall speaking to the House of Representatives shortly after Washington's death as saying: “Our WASHINGTON is no more! the hero . . . lives now only in his own great actions, and in the hearts of an affectionate and afflicted people.” Richard Brookhiser is concerned that Washington no longer lives in our hearts and our affections. “He is in our textbooks and our wallets,” Brookhiser writes, “but not our hearts.” This book is an effort to correct that situation, not by “humanizing” him down to the Oprah level, say, but by drawing our conception up to the level of his remarkable achievements. In the main, he has done a good job of that.

This is not a full-fledged biography, but more nearly a series of essays on the general subject of George Washington. It focuses upon Washington's career, his character, and his place in the minds and hearts of Americans. Some of his emphases I especially liked and some I had not heard or thought of before. For example, his liking for the theater had never been brought out to me before, nor that he subscribed to ten newspapers. Washington was strong, courageous, brave, a good listener, a leader, had great dignity, was conscious of doing the honorable thing, and a patriot.

Many of the events of his life I had known before reading this book but it was good to read of them again, told, as they are, with zest and flair. For instance, Brookhiser gives the account of how insistent Washington was on secrecy at the Constitutional Convention. Someone had dropped a copy of some resolutions being considered where outsiders could have taken it. Washington retrieved the copy, lectured the Convention on the necessity for secrecy, then threw the paper down on the table, and invited who-



ever owned it to take it. The delegate was apparently so in awe of Washington that he never dared to claim it.

It is good to emphasize, too, as Brookhiser does, that Washington was a man of ideas as well as of action. I remember how impressed I was when I noticed Washington's library. He had nearly a thousand volumes—not in Jefferson's league, but then whose was? Not only was he familiar with the well-traveled ideas of his time, he was given to asking those about him for their opinions and understanding, such as the need to restrain government lest it trample individual rights. He listened and learned much. There was a balance to his ideas that set him apart from most thinkers.

The weakest section of the book is the one dealing with "The Founding Father." That Washington was *father* of his country is a metaphor which captures some of the truth and much of my feelings about the matter. He did indeed tenaciously lead the country through the war which effected our separation from Britain and independence of her. He chaired the Constitutional Convention that produced the document on which our union stands. And he piloted us safely through the perilous and tenuous early years of the Republic. But the metaphor will not bear close and extensive analysis; it falls from so much weight.

But the whole is a worthy testament to the greatness of Washington. Anyone who is inclined with so many in this misbegotten age to believe that Washington is just a dead white male who kept slaves should read of his principled refusal to sell any of his slaves "down the river," and the provisions he made for freeing those who were able to earn their own keep, and providing a fund to take care of those too old or infirm to provide for themselves. He was a man of his time, as all of us tend to be even in ways of which we are not aware, but he was much better than many of his contemporaries. □

Dr. Carson, a contributing editor of The Freeman, has written and taught extensively, specializing in American intellectual history. America in Gridlock, 1985–1995, the sixth volume in his

Basic History of the United States, will be published later this year.

The Flat Tax: Freedom, Fairness, Jobs, and Growth

by Daniel Mitchell

Regnery Publishing, Inc. • 1996 • 62 pages • \$3.95 paperback

Reviewed by William H. Peterson

Mounting taxes push the Tax Foundation's "Tax Freedom Day" out to May 6, a day when presumably John Q. Taxpayer stops working for government—federal, state, and local—and at last starts working for himself. But fiscal expert Grover Norquist and his Washington-based Americans for Tax Reform figure the truer Cost of Government Day occurs on July 3 by taking into account hidden taxes via deficit spending and regulatory burdens. Thus the estimated total cost of government in 1995 came to almost \$3.3 trillion, including \$720 billion in federal regulatory costs. This means working Americans have to toil 52 percent of the year for government.

If this strikes you as a sign of trouble on the tax front, you're right.

Beyond the flat taxers are those who would bravely dump the income tax for a national sales tax. These advocates see solid advantages; no withholding deductions; no more tedious bookkeeping, including filing away receipts and canceled checks; no more IRS audits, penalties, interest charges, levies, liens, threats, and seizures; no more deadly April 15 and quarterly tax deadlines; no more hits on savings and investment—on capital formation, the very sinew of economic growth and job creation. And, hear this, no IRS, period.

In his hard-hitting brief for a flat tax, Heritage Foundation analyst Daniel Mitchell takes note that 12,609 special interests are officially registered to lobby in Washington. Assume three support persons behind each lobbyist, and you have an army of 50,000 pulling strings and making deals—

many seeking special loopholes in the 14,000-page U.S. Internal Tax Code and rulings. So understandably members of the tax-writing House Ways and Means Committee get big PAC contributions, and Ways and Means and Senate Finance memberships are seen as plum assignments.

Dan Mitchell sees the flat tax as a way to end such "soft" political corruption and favoritism—simply cut out myriad tax deductions, preferences, loopholes, credits, and exemptions altogether.

That proposed cut takes guts and a lot of flak. Take the scare tactic used against the flat tax because it would eliminate deductions on home mortgages, supposedly forcing middle-income taxes up and house prices down. But this is *static* analysis, argues Mr. Mitchell. He holds the flat tax wipe-out of capital gains taxes, death taxes, and double taxation of corporate income will spur economic growth, cut interest rates, and boost housing prices by some 50 percent in five years after passage of a flat tax.

Another scare tactic is the alleged hit of flat-tax nondeductibility on contributions to churches, charities, universities, and think-tanks (such as FEE), cutting off their lifeline. Mitchell rebuts again with economic growth, noting that when people make more they give more. His chart shows how closely individual giving and personal income track each other over the years. Says Jack Kemp in the preface: "Only a pro-growth tax code can restore America's confidence at home and her greatness abroad."

Fine words to be sure but the catch here in this otherwise sharp Mitchell minibook is the paucity of argument for privatization, disestablishment, and deregulation of the economy—for greatly chopping down the size of the federal behemoth. Taxes are a drag on growth but the killer is the huge bite—around 42 percent—that government takes out of national income, let alone out of our civil liberties. □

Dr. Peterson, an adjunct scholar for the Heritage Foundation, is Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University in North Carolina.

The Anatomy of an International Monetary Regime: The Classical Gold Standard 1880–1914

by Giulio M. Gallarotti

Oxford University Press • 1995 • 347 pages • \$49.95

Reviewed by Raymond J. Keating

Monetary policy today is guided by little more than government fiat—by the calculations, often mistaken economic theories, and whims of central bankers or, even worse, politicians. Under such a regime, inflation of three or four percent annually has come to be viewed as a stellar monetary performance. However, under a more sound monetary system—i.e., a gold standard—such increases in the general price level would be seen as wildly inflationary.

Over the years, the operations and impact of the gold standard have been subject to a variety of gross misconceptions and misrepresentations. With *The Anatomy of an International Monetary Regime: The Classical Gold Standard 1880–1914*, Giulio M. Gallarotti makes a valuable contribution to the understanding of the impact and operations of the gold standard.

Gallarotti debunks numerous myths. Among them, contrary to much of the prevailing literature on the classical gold standard, one government or central bank did not come to dominate international monetary relations during the classical gold era. Close monetary cooperation between national governments turned out to be the rare exception rather than the rule. In addition, contrary to the long-accepted gold model, the transfer of gold to clear international payments was actually a last resort.

The author shows the gold standard, in reality, to be diffuse and market driven. At the outset, Gallarotti observes: "Outcomes under the classical gold standard were principally conditioned by market processes throughout the period: i.e., outcomes were primarily the resultants of private transactions in the markets for goods and money. Unlike the international monetary regimes

that would follow World War I, very little in the prewar regime was conditioned by the actions of public authorities at the international level."

Indeed, international stability was not a result of intense cooperation among national governments or central banks. Gallarotti painstakingly documents the failure of each of the great international monetary conferences of the era that were held with the purpose of establishing formal cooperation among nations and central banks. Instead, as the author notes, "the various domestic regimes crystallized into a greater international monetary regime."

Gallarotti accurately identifies the intellectual roots of the gold standard as well: "At the very heart of the metallist orthodoxy lay a strong laissez-faire ethic, and this was embodied in the central injunctions calling for the preservation of the purchasing power of the national monetary unit through some rule dictating monetary creation. It was this metallist injunction, by which inflation was to be controlled, that gave preference for stable money a liberal character. The alternative to a metallist rule was a discretionary manipulation of the money supply. This made the purchasing power of money subject to the idiosyncrasies and whims of public authorities. . . . Metallist rules essentially effected a fundamental liberal objective: removing economic processes from central, public, discretionary manipulation."

Gallarotti concludes that the "success of the gold standard was ultimately and inextricably tied to the success of classical liberalism." Classical liberalism's case for freedom of movement (for individuals, factors of production, goods, and money), fiscal prudence, small government, and anti-inflation bias, all strongly buttressed the gold standard.

In the end, few economists objectively can find fault with the overall track record of the economy under the gold standard. The author summarizes the period as follows:

Among that group of nations that eventually gravitated to gold standards in the latter third

of the 19th century . . . , abnormal capital movements . . . , were uncommon, competitive manipulation of exchange rates was rare, international trade showed record growth rates, balance-of-payments problems were few, capital mobility was high (as was mobility of factors and people), few nations that ever adopted gold standards ever suspended convertibility (and of those that did, the most important returned), exchange rates stayed within their respective gold points (i.e., were extremely stable), there were few policy conflicts among nations, speculation was stabilizing . . . , adjustment was quick, liquidity was abundant, public and private confidence in the international monetary system remained high, nations experienced long-term price stability (i.e., predictability) at low levels of inflation, long-term trends in industrial production and income growth were favorable, and unemployment remained fairly low.

What else could one possibly want from a monetary regime?

The Anatomy of an International Monetary Regime occasionally falls into the type of slogging academic writing style that justifies the impression that economists cannot write well. However, it is worth the reader's time to mine through some of this coarse writing because the historical and economic gems eventually discovered truly shine.

Our friends in Europe particularly may find this book of interest as they continue struggling to form a European Monetary Union. Gallarotti cites Ludwig Bamberger, German monetary authority during the late nineteenth century who made the simple point that "a world monetary union would be superfluous if all countries based their currencies on gold."

Gallarotti's book should be read by anyone with an interest in how the gold standard worked in the past and could once again. Indeed, this reviewer sees only huge benefits being derived from a return to classical liberalism and the gold standard. □

Mr. Keating is chief economist with the Small Business Survival Foundation.



The Future of Capitalism

by Lester C. Thurow

William Morrow and Company, Inc. • 1996 •
336 pages • \$25.00

Reviewed by Don Bellante

The late Austrian economist Ludwig Lachmann was fond of saying that the future is not knowable, but it is imaginable. In *The Future of Capitalism*, Lester Thurow has put his imagination to work. His method is to use an analogy to the shifting of the earth's tectonic plates in order to describe the frictions he sees as building up in the United States and the world.

The "shifting plates" are (1) the end of communism and the need to absorb its released labor; (2) technological shifts that make the location of markets, resources, and capital irrelevant to the location of production; (3) an aging population that will put enormous stress on the welfare state; (4) economic globalization, which renders governments impotent; and (5) the development of a "multipolar" world where the United States can no longer exert its will upon the post-communist world order because the rest of the world doesn't accept United States leadership, as it no longer needs U.S. protection.

In the very first sentence of the book, Thurow admits that nothing but capitalism seems to work, in terms of providing goods, services, and (at least until now) increasing standards of living. Despite this grudging admission, the author still cannot accept individualism as a basis for organizing society. Chapter 13, *Democracy Versus the Market*, is where the book's usually sophisticated rhetoric gives way to all of the simpleminded anti-market clichés of the 1960s. There is the usual resentment of wealth and the attribution of capitalism's staying power only to the ameliorating effects of government interventions. Otherwise, contends Thurow, unbridled capitalism would generate ever-increasing inequalities that would collapse the system. As compared to the democratic state, capital-

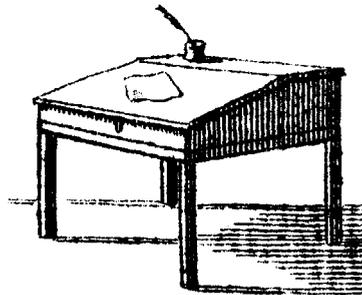
ism is seen as biased toward consumption and against saving and investment, toward the short run and against the future.

Amazingly, the author seems really to believe that elected officials have a longer time horizon that makes up for the supposed shortsightedness of capitalists and consumers. And he seems oblivious to the fact that it is the redistributive and regulatory activities of the democratic welfare states of Western Europe that have prevented any job growth in the last 15 years, and that have relentlessly shifted the composition of output toward present consumption.

In this chapter and elsewhere the author adds more recent standard liberal concerns to the 1960s clichés. These include the myth that the standard of living of working Americans has been declining since 1973. In a chapter on religion and ethnicity, the author seems to connect terrorism with religious fundamentalists using a very broad brush. Readers will be surprised to find (p. 267) that a fundamentalist Christian group is given "credit" for blowing up the federal building in Oklahoma City.

In the final chapter, the author explicitly declines to make a list of policy recommendations. That's not what is important: to Lester Thurow, what is important is "persuading ourselves that the world has changed and that we must change with it." (p. 314) Because this volume thus leads nowhere in particular, it will disappoint even those readers who share the author's philosophical and diagnostic perspective on capitalism. □

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It's No Gamble: The Economic and Social Benefits of Stock Markets

by Lewis D. Johnson and
Bohumir Pazderka

The Fraser Institute • 1995 • 173 pages •
\$19.95 paperback

Reviewed by Robert Batemarco

Theodore Roosevelt once quipped, "There is no moral difference between gambling at cards or in lotteries or on the race track and gambling in the stock market." John Maynard Keynes echoed this view: "When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done."

Every time a new market innovation arises, a similar chorus of catcalls waits in the wings to greet it. Fortunately for all of us who benefit from the capitalist system, financial markets are not without their defenders. Lewis Johnson and Bohumir Pazderka, professors at Canada's Queens University School of Business, boldly take on the critics and deftly demolish most of their arguments. *It's No Gamble* successfully balances recent scholarship (including the authors' own) with a lively discussion that is accessible to those without formal training in finance and economics.

For starters, Johnson and Pazderka explain why a market economy without a stock market is like a ship without a rudder. They detail how the stock market pools funds, spreads risks, and gives owners some modicum of control over management. They also show how much maligned "derivative" securities such as options and futures strengthen the stock market by enhancing liquidity by permitting the management of risk.

Myths about the stock market sprout like weeds. Among the hardest this work seeks to uproot is that the stock market is a zero-sum paper-shuffling game that breeds instability and infects managers with a dangerously short time horizon. Johnson and Pazderka draw from one of their own studies

to make the point that the efforts of management to maximize the value of their company's stock does not force them to eschew long-term considerations. Unfortunately, the authors' data are not quite up to the task. They do, however, provide more persuasive evidence that potential future earnings do play their appropriate role in valuing share prices. They point out, for instance, that stock in companies with no *current* earnings will still sell for a positive price on the basis of their future prospects. The finding that high R&D spending does *not* render a firm more subject to hostile takeovers, as it would if market myopia systematically undervalued its shares, also helps to prove their point.

In their discussion of regulation, the authors rightly reject the notion that the government must step in to counteract stock markets' supposed inability to direct enough capital to "socially desirable investments." Their argument, couched largely in terms of cost-benefit analysis, would have benefited from some allusion to the violation of the property rights of shareholders involved in such schemes, not to mention questioning the presumption that the government should decide what is "socially desirable."

It's No Gamble provides an enlightening discussion of the role stock markets have been playing in the efforts of the various Eastern European countries to privatize. In the following chapter, the authors furnish a clear-headed discussion of the ethical issues involved in such practices as hostile takeovers and insider trading, which takes into account both efficiency and property-rights considerations.

In the final analysis, Johnson and Pazderka succeed in shedding light on an area in which misunderstanding can have serious consequences. Some have said that financial markets are feared because they are misunderstood. To the extent they are correct, *It's No Gamble*, should pull the fear factor down a notch or two. □

Dr. Batemarco, book review editor of The Freeman, is director of analytics at a marketing firm in New York City and teaches economics at Marymount College in Tarrytown, New York.

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A New Beginning for Freedom

In a time when so much rancor and rhetoric fill the air, I would like to bring a contrarian's message—a message about exciting possibilities, a message that is hopeful, optimistic, and yet, I believe, realistic.

I am writing about a new beginning for freedom—not just for America, which is thrilling in itself, but also for the whole world. Because, for the first time in human history, the Free World encompasses more than half of all nations. The map is turning from dark to light. We have it within our grasp to bring alive a shining vision of freedom and prosperity for the whole human family. And, we are strengthening the principles of religion, property rights, and a society of laws and free markets to raise living standards dramatically for millions who have known only poverty and pain. Freedom's economic possibilities are staggering—and it will be very difficult to put the genie back in the bottle.

The recent liberation of Eastern Europe represents the greatest business marketing opportunity since the rebuilding of western Europe after World War II. Industrious and inventive people in the Far East are building a new economic superpower among the nations of the Pacific Rim. Even Latin America, despite the collapse of the Mexican peso, is struggling to move in a new direction. Indeed Latin America is struggling to throw off decades of corrupt statism in favor of less government, freer markets, and new incentives for their people.

In a word, freedom is busting out all over. It's springtime for worldwide liberty.

Perhaps the best proof is right next door. Communist diehard Fidel Castro just trimmed his beard and donned a business suit on his trip to France, as part of his P.R. campaign to persuade the free world to bail out Cuba. Castro said, yes, Cuba will permit some economic freedom because the Cuban

system must, in his words, adapt to the realities of today's world.

Marxist academicians and dictators like Castro used to predict with brash conceit that freedom would be tossed into the dustbin of history. Well, guess whose principles ended up in the trash heap?

Many of our so-called intellectual leaders also predicted that advancing technology would give the State enormous power over its citizens. Television, cameras, and computers would create a "big brother," said George Orwell, watching every move we make, punishing any disobedience to the State. Well, it hasn't quite turned out that way.

Advances in new technologies and instant communications are creating an Information Age that is shrinking the planet with startling speed, and hurtling the world toward a new future—with more freedom, not less. Technology has become the great democratizer—turning the tables on the dictators, giving people information they want to know, without fear of censorship.

Look what's been happening. In Poland, the leaders of Solidarity credited the fax and copy machine as key instruments of their liberation. Once upon a time, you needed a tank to blast through walls. Today, with a computer, modem, or fax, you can pass right through them. You cannot only cross borders, you can dissolve them.

Who would have dreamed that something as small as a computer chip could contribute to knocking down something as big as the Berlin Wall? And, since governments can't jam a VCR like a radio signal, its pictures

can expose the world to a new "home shopping network" of possibilities.

But, none of that would have happened without freedom. Freedom to invent and produce new technologies. Freedom to survive, to succeed, to fail—and move on to the next idea, dream, or venture.

So, yes, freedom is my passion. Because, if I may paraphrase a famous sports legend, Vince Lombardi, freedom isn't everything, it's the only thing. Freedom is the one idea that speaks to the unlimited possibility of the human spirit—and the only idea that has delivered on the promise of human progress. It is the idea that created America, and enabled America to create and defend freedom throughout the world.

I'd like to believe something within us has profoundly changed, and hopefully forever—that we've rid ourselves of our infatuation with so-called charismatic politicians who beguile us with clever promises and beautiful words. We've challenged, directly and defiantly, the fiction that our rights and income originate with Washington, and that government can only expand, never contract. We're learning a hard, bitter truth. Government, by trying to do too much, has undercut the ability of individual people in their communities, businesses, and churches to meet the real needs of America as we have in the past.

—WILLIAM E. SIMON, President
The John M. Olin Foundation

(Excerpted from Mr. Simon's remarks at a dinner at St. Leo College, Tampa, Florida, April 6, 1995.)

The New York City Guide to Destroying an Economy

by Raymond J. Keating

New York City once served as an international beacon of economic opportunity, attracting individuals and entrepreneurs from around the globe. But for several decades, New York's entrepreneurial lights have been dimming, to the point now that they are all but extinguished.

What brought about the demise of this once great city? The answer lies on both sides of the big-government coin: an enormous welfare state and the implementation of some of the most burdensome taxes ever known to man. Indeed, New York City serves as a "how to" guide for destroying an economy.

Mind you, wrecking an economy such as New York City's was no simple feat. New York stood as an economic powerhouse for decades, a wellspring of risk-taking, invention, and creativity in a wide array of industries. City-economics guru Jane Jacobs observed: "Beginning in about 1800, New York enjoyed tremendously high rates of development for twelve or thirteen decades."¹ Later, Jacobs noted that the New York City economy "has been declining since at least the 1940s."²

Mr. Keating is Guest Editor of this issue of The Freeman. He serves as chief economist with the Small Business Survival Foundation, co-authored D.C. By The Numbers: A State of Failure, and just completed his forthcoming book tentatively titled New York By The Numbers: State and City in Perpetual Crisis.

Of course, New York City government lays claim to a long history of excessive expenditures and problems paying its bills. In 1907, for example, New York City Mayor George B. McClellan, Jr., son of the Civil War general, sought a bailout from private bankers—namely J.P. Morgan—when the city could not place its warrants.³ But the fiscal crisis of the early 1930s was the turning point for the entire New York City economy. As the nation sank into depression between 1930 and 1932, the city raised taxes inflicting further economic harm. Indeed, during this period of tax hikes, the city's general revenues *declined* by \$47 million while expenditures grew by almost \$100 million. Eventually, bankers stepped in once again to the rescue, virtually running the city from 1934 to 1938.⁴ Counterproductive tax hikes still continued, though, including the imposition of a city sales tax at 2 percent and a business gross receipts tax of less than 1 percent.

It was during the early Depression that New York City greatly expanded its public welfare web. Public assistance, along with widespread patronage and rising debt service tied to public works projects, pushed city expenditures skyward. A troubled economy ensured that city revenues failed to reach expectations.

While the immediate threat of the early 1930s fiscal crisis eventually was resolved, the fate of the city's economy was sealed.

Higher city spending and taxes became the official governing model in New York City. The pattern of over-spending and a stagnant or declining economy would come to plague New York City time and time again.

Indeed, city government expanded relentlessly for decades. Between 1930 and 1965, for example, real per capita city spending increased by almost 350 percent. Recipients of public assistance in New York City increased from about 300,000 at the end of World War II to over 500,000 in 1965—a two-thirds jump while the city's population hardly grew at all. At the same time, property taxes—the city's prime source of revenues—doubled in real terms.

Albany's Share of the Blame

All of the blame for this expanding levianth cannot be placed solely with New York City elected officials, however. State politicians played their parts as well. In addition to rubber stamping each city tax increase arriving at the Capitol in Albany (beyond property taxes, all general tax increases at the local level must be approved by the state), the state added its own burdens upon the city.

New York was one of the first seven states to levy a personal income tax. In 1919, state legislators claimed that the loss of liquor tax revenues due to Prohibition required the state to impose a tax on personal income. This was done over the protestations of the state's comptroller at the time, Eugene Travis, who saw the new tax as unnecessary.⁵ The personal income tax was imposed in 1919 with a top rate of 3 percent. In the 1930s, the top rate hit 8 percent—7 percent plus a separate 1 percent income tax designed to “help” the state through the Depression (again, in reality only making matters worse). Some temporary state personal income tax relief was provided in the 1940s, but the top rate stood at 7 percent once again by 1954.

An additional tax measure, seemingly specifically designed to further extinguish entrepreneurial activity in New York, was imposed in February 1935. New York insti-

tuted a state unincorporated business tax—i.e., an income tax on income from unincorporated enterprises, in addition to the personal income tax—along with an “emergency” tax on capital gains. A glimpse of sanity could be briefly detected in 1938, however, when state officials at least saw that capital gains were being taxed too heavily, and provided for a 50 percent exclusion from taxation. Therefore, by 1954, the effective top capital gains tax on individuals registered 3.5 percent.

New York State levied its own corporate income tax in 1917. In the late 1950s, the corporate tax rate stood at 5.5 percent. All of these state income-based levies certainly took a toll on New York City, considerably hiking costs on the private sector.

Tragically, though, for all of New York City's tax and spending woes through the end of the 1950s, they soon would seem like child's play compared with the statist onslaught about to be unleashed. Liberal Republicans Nelson Rockefeller (elected New York's governor in 1958) and John Lindsay (elected mayor of New York City in 1965) arguably would turn out to be the two biggest tax-and-spend elected officials at the state and local level in our nation's history, following in the footsteps of another New Yorker, President Franklin Delano Roosevelt, probably the nation's all-time leading taxer-and-spender at the federal level. Indeed, New York carries considerable big government guilt.

At the state level, spending during the Rockefeller era—essentially spanning 1959 to 1975—would rise by 210 percent in real per capita terms. Over this period, real per capita state public welfare spending jumped by an incredible 625 percent. Meanwhile, by the mid-1970s, the state's top personal income tax rate reached 15.375 percent, the corporate tax rate hit a high of 12 percent, the capital gains tax rate topped 9 percent, and the state's unincorporated business tax registered 5.5 percent (a hike from 4 percent in 1968). In addition, Rockefeller imposed a state sales tax of 2 percent in 1965, which quickly jumped to 4 percent by 1971.

A Plague of Taxes

As for the city, Mayor-elect John Lindsay stated in late November 1965 that the imposition of a city income tax was “definitely a last resort.”⁶ A mere four months later, the income tax rested at the center of Lindsay’s first budget proposal and was implemented by June 1966. The “last resort” turned out to be the first resort. City and state elected officials signed off on myriad tax increases that year, including the imposition of a city personal income and capital gains tax with a top rate of 2 percent, a city corporate income tax of 5.5 percent, and a city unincorporated business tax of 4 percent! By the mid-1970s, New York City’s personal income and capital gains tax rate had more than doubled to 4.3 percent and the corporate rate almost doubled to 10.05 percent.

Just over the period of 1965 to 1976, on a real per capita basis, city total expenditures more than doubled and public welfare expenditures increased by almost 335 percent. The city’s debt service climbed 287 percent.

This great expansion of government spending and taxation led to New York City’s great fiscal crisis of the mid-1970s. Sound economic incentives were obliterated at all income levels. The city’s lucrative welfare system made sloth and idleness pay, compared with hard work and human capital investment, fostering government dependency. Indeed, by the mid-1970s, New York City’s public welfare rolls topped 1.2 million in a city whose population was declining from 7.9 million in 1970 to just over 7 million in 1980.

Meanwhile, the tax burden on productive individuals and economic activity was prohibitive in New York City. The combined state and city marginal income tax rate equaled 19.675 percent in 1976, up by 181 percent from the 1959 rate of 7 percent. For entrepreneurs operating enterprises not incorporated, the combined state and city unincorporated business tax of 9.5 percent had to be added—creating a top income tax rate on New York’s entrepreneurs of just under 30 percent! The capital gains tax

reached 13.525 percent—of course, not indexed for inflation so the real rate was substantially higher. On the corporate side, the state and city tax rate topped 22 percent.

Plunder at Its Worst

While all taxes raise costs and distort the economy, no tax does more damage than the income tax. New York City’s sky-high tax rates destroyed incentives for working, investing, and entrepreneurship. Indeed, individuals and businesses were provided with every incentive to leave New York City, and that’s exactly what they did. While the city’s economy certainly was in decline from the Great Depression through the early 1960s, it went into outright free fall in the late 1960s through the 1970s.

Despite the drunken frenzy favoring bigger government in New York City during this period, a few sober individuals could see the city was careening off the road. For example, as a candidate for mayor in 1965, William F. Buckley Jr. saw the city’s woes quite clearly. In his 1966 book, *The Unmaking of a Mayor*, which chronicled his 1965 mayoral contest against Lindsay and Democrat Abraham Beame, Buckley observed quite simply about New York City: “The taxes are high, and the means of collecting them barbarous. . . . Yet no matter how high the taxes soar, things somehow do not appear to improve.” In fact, Buckley went on to note how much worse things got in New York as government’s reach extended ever farther.

Again, Jane Jacobs writing in 1968 recognized that New York’s economic growth had come to a halt, citing many indicators: “absolute declines in the sheer number of enterprises in New York; persistent growth in the number of idle and underemployed poor; remarkable growth of unproductive make-work in the city bureaucracies, make-work which, more and more, is depended on to take up the slack of insufficient useful work for the city’s high school and college graduates; piling up of undone work and unsolved practical problems; lack of new kinds of manufacturing work to compensate

for the losses of old; a seemingly compulsive repetition of existing ways of doing things even though it is evident that what are being compulsively repeated are mistakes; lack of local development capital for new goods and services, accompanied by a surfeit of capital for projects that destroy existing enterprises and jobs, and quantities of capital for export.”⁷ That is, the city suffered a dearth of creativity and entrepreneurship.

The root cause for this debilitating dearth in New York City was a massive public sector. A monstrosity that literally became impossible to finance. Far too burdensome taxes—not to mention regulations—fostered an exodus of labor and capital. The city also could not float any short or long-term debt as the bond market knew that both taxes and debt levels in New York were far too high. The marketplace signaled New York that government was just too big.

Many people today, however, believe that New York City’s great fiscal crisis ended when the city was able to return unassisted to the debt markets in 1979. And for a very brief period, some budget restraint was exhibited. From 1975–76 to 1980–81, for example, city spending *declined* on a real per capita basis by almost 25 percent, and city gross debt dropped by almost 60 percent. Impressive, but it left New York’s spending and debt levels at astronomical heights, still light years ahead of the average for large U.S. cities. And from 1981 into the early 1990s, city spending and debt levels resumed a rather steady and steep ascent. As of 1992 (last year with full comparative data), New York City per capita spending topped the large city (300,000+ population) average by 131 percent, public welfare spending by 353 percent, and debt outstanding by 65 percent.

As for taxes, the city’s personal income and capital gains tax actually rose to 4.73 percent by 1983, slowly declined to 3.4 percent by 1989, but then increased again to 4.46 percent by 1991. A small decline in the city’s corporate tax rate occurred, to 8.85 percent. The 4 percent unincorporated business tax still hampers entrepreneurship.

Some headway was made on the state tax

front after the mid-1970s, but it has been a slow, arduous process riddled with setbacks, such as a state capital gains tax hike of 62 percent in 1987. Tax reductions over these years, though, have brought the state’s personal income and capital gains tax rate down to 6.85 percent (effective in 1997) and the state’s corporate tax down to 10.53 percent in the New York City area and 9 percent elsewhere.

In New York City today, a combined state and city income tax rate on entrepreneurs tops 15 percent and the combined corporate rate reaches higher than 19 percent. The capital gains tax exceeds 11 percent, and again, grows much higher when inflation is factored into the equation. And roughly 2 million New York City residents receive some kind of public assistance.

As a result, New York City’s private sector remains moribund. For example, there were fewer small businesses in New York City in the early 1990s than in 1969. In addition, between 1969 and 1995, total private-sector employment in New York City *declined* by 15 percent. In order to place the city back on an economic growth track, New York must shed its most severe governmental burdens—a massive welfare state paid for in part with high income taxes.

Since taking office in 1994, Mayor Rudolph Giuliani’s spending proposals have only offered restraint or small cuts. For fiscal year 1996–97, he tepidly proposed allowing the city’s personal income tax surcharge to expire—which would have dropped the tax rate from 4.46 percent to 3.91 percent. Even this minor step was opposed by the speaker of the New York City Council, and Giuliani actually retreated by the time he offered his final budget plan—instead pushing a four-year extension of the income tax surcharge! At the state level, Governor George Pataki has pushed for spending restraint and rather smallish tax cuts since his election in 1994.

Bolder actions must be taken. Recent New York history actually provides an example. Hugh Carey served as New York governor from 1975 to 1982. He too offered a little spending restraint—a brief respite



Looking down Wall Street at Broadway's Trinity Church—1866.

COURTESY DOVER BOOKS, INC.

between the big spending eras of Rockefeller and Mario Cuomo—and small cuts in personal and corporate income taxes. However, Carey also accomplished something monumental in New York. He actually got rid of a major tax. Under Carey's reign in the Governor's Mansion, the state *eliminated* its unincorporated business tax of 5.5 percent.

Indeed, "elimination" is the key to New York City's economic revitalization. Nothing less will suffice. The city personal income, capital gains, and corporate income taxes, and the distinctly anti-entrepreneur unincorporated business tax, must be eliminated. After all, few cities levy their *own* income taxes. And the cities imposing the most burdensome income levies possess dismal economic records. After New York City, Philadelphia and the District of Columbia stand out in this regard. Likewise, New York State should be moving to eliminate state personal income, capital gains, and corporate income taxes. Finally, of

course, a state, city, and federal welfare system that destroys lives by fostering government dependency at the expense of individual responsibility also must be eliminated.

New York City's only chance at regaining economic greatness lies with restoring incentives to live, work, invest, and take risks in the city. That means throwing away New York's long-held big-government philosophy and opting instead for free markets, small government, and low taxes. □

1. Jane Jacobs, *The Economy of Cities* (New York: Vintage Books, 1970), original copyright 1960, p. 95.

2. Jane Jacobs, *Cities and the Wealth of Nations: Principles of Economic Life* (New York: Vintage Books, 1985), original copyright 1984, p. 179.

3. Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Atlantic Monthly Press, 1990), p. 126.

4. *Ibid.*, p. 225.

5. Ray B. Smith, *History of New York State: Political and Governmental*, Volume IV, 1896–1920 (Syracuse, N.Y.: The Syracuse Press, Inc., 1922), p. 316.

6. *The Wall Street Journal*, "Personal Income Tax for New York City Called 'Last Resort,'" November 30, 1965.

7. *The Economy of Cities*, pp. 96–97.

Why Laws Backfire

by Marisa Manley

For thousands of years, laws everywhere have backfired.

In ancient Babylon, Sumeria, Egypt, China, Greece, and Rome, for instance, price controls promoted not fairness but famine. During the twentieth century, central banks were supposed to help safeguard economies, but they brought on the worst inflations and depressions. Alcohol and drug prohibition, intended to enforce moral behavior, contributed to escalating violence.

Why do laws tend to have consequences that are the opposite of what was intended?

First, many laws discourage socially useful behavior.

Although everyone needs housing—and politicians bemoan the lack of affordable housing—land use restrictions discourage entrepreneurs from trying to build it.

It is estimated that land use restrictions add \$40,000 to the price of a new house in California. This pushes the median price of a home above \$200,000, drives people out of the market, and discourages builders.

Or consider this. Before the 1942 imposition of rent control, New York City had a housing market one planner called the “envy of the world.” Responding to market demand, developers produced more than 90,000 new units a year. Today, after five decades of rent control, there is little construction of new housing. The city owns 6,645 buildings and an estimated 76,000

dwellings have been abandoned because the owners found this more profitable than paying costs imposed by the city.

As *Barron's* reported, next to bombing, land use restrictions are the most effective way to destroy cities.

Second, laws often backfire by leading people to adopt all kinds of destructive behavior.

In recent years, New York City's policy of providing shelter for all who call themselves “homeless” has induced people to abandon the effort to support themselves, to give up their association with relatives, and to seek handouts. Reportedly, some 70 percent of people applying for shelter come directly from the homes of friends or relatives. City-provided shelter isn't very good, of course, but it's free, so there is a seemingly endless demand for it.

Welfare laws are supposed to help the poor, yet as Charles Murray and others have documented, welfare establishes powerful, perverse incentives for families to break up, since mothers lose government money if a father is present. The poverty rate among families with a single head of household is 600 percent higher than families with two heads of household. Infant mortality is much higher among single-head-of-household families, too.

Third, laws backfire by spreading problems to innocent people.

Consider compulsory school-attendance laws, for instance. They fill government schools with children who don't want to be there. Some students are violent, attack-

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ing—and even killing—teachers and other students. Teachers must lock their classrooms to keep hoodlums at bay in the hallways. Thus, compulsory attendance laws, alleged to promote education, can make it almost impossible.

Private and parochial schools seldom experience violence even though they do not rely on metal detectors and security guards. As Rutgers University criminologist Jackson Toby remarked, “What makes a school safe is youngsters coming to school because they want to learn what teachers want to teach.”

Banking laws backfire, too. The savings and loan crisis developed because in the early 1980s Washington increased deposit insurance to \$100,000 at no cost to individual savers. This encouraged them to put their money wherever it would earn the highest interest, regardless of how unsound a bank’s lending policies might be. The result, of course, was the debacle whose costs soared into the hundreds of billions of dollars. Such costs should have been borne by those who chose to take the risks. Instead they were imposed on innocent taxpayers who never put any money in an S&L.

One effort to deal with this government-induced crisis led to a second crisis. The 1989 Financial Institutions Reform and Recovery Act forced S&Ls to dump their junk bond portfolios. This law backfired because it triggered panic selling of junk bonds, and caused formerly profitable S&Ls to go bankrupt. The junk bond market has since come back, but innocent people who never put their money in an S&L are now stuck with higher burdens than ever.

Fourth, laws backfire by driving away talent and capital.

During the 1950s, the Euromarket got its start because many investors were worried about arbitrary IRS policies. They established bank accounts in London. In the 1960s, Washington enacted laws intended to prevent dollars from flowing out of the United States; but these laws backfired by increasing the demand for dollars already outside the country—and the Euromarket took off like a shot. Today the Euromarket

handles some \$500 billion of new debt annually.

Because tax laws are confiscatory in many countries, perhaps half the world’s money is believed to be deposited in or passes through offshore tax havens. More than 23,500 companies and trusts are registered in the Cayman Islands alone.

New York City’s government relentlessly multiplies the obstacles to enterprise, as if business people had no choice but to stay there. The result, of course, has been to drive away business and jobs. Since 1963, the number of major headquarters located in New York City plunged from 170 to 45—a 74 percent drop.

Similarly, the most oppressive regimes worldwide have experienced the greatest brain drain. There are now an estimated 40 million refugees from violent socialist regimes. This represents a dead loss to these regimes and a benefit for countries like Australia, Canada, and the United States. Refugees, like other immigrants, have a phenomenal record of creating jobs and contributing to economic growth.

Fifth, laws backfire by providing incentives for corruption.

Corruption didn’t start when a New York City Housing official allegedly spent \$337,000 redecorating her office.

Since time immemorial, governments have claimed moral superiority. Yet they use laws to loot the productive wealth of working people and build palaces, pyramids, religious monuments, military forces, and other symbols of their power.

The Soviet Union supposedly established a Marxist-Leninist society of equals, but as the British novelist George Orwell put it long ago, some were more equal than others. Party members could get luxuries officially denied to ordinary people, like caviar, prime beef, access to Black Sea spas, and better education for their children.

Sixth, laws backfire by provoking hatred and violence.

In the United States, affirmative action laws are encouraging an ever-increasing number of officially recognized minorities to escalate their demands for preferential

treatment. But displaced groups resent being victims of these laws. Anecdotal evidence suggests that racial hostility is increasing.

The situation is much worse in other countries where government has even more power over people's lives. Laws determine specifically what is taught in schools, which religion is tolerated, which language is favored, how people can use property, where people can travel, who gets the jobs, and much more.

Consequently, control of government becomes a life-and-death issue, resulting in unending violence. In Northern Ireland, terrorists kill innocent women and children. In India, Hindus slaughter Moslems and Sikhs (each of these, in turn, slaughter Hindus). The former Soviet Union is aboil as Ukrainians, Poles, Rumanians, Georgians, Ossetians, Armenians, Uzbeks, and Russians fight to assert political control over others or escape political control. And of course, the former Yugoslavia has become a graveyard of murdered Serbs, Croats, Slovenes, Albanians, and others.

This violence has no counterpart in the marketplace. People who might not like each other still do business together because it's in their self-interest. Thus, despite mutual resentments, Jews have done business with Christians, Chinese with Malays, Poles with Germans, Hindus with Moslems, and so on.

Seventh, the problems brought about by laws often lead to popular pressure for more laws—and worse problems.

In recent years, the United States has increased its border restrictions. As people seeking better lives for their families continue to evade the tougher barriers, bureaucrats and labor unions clamor for more brutal enforcement.

- Drug prohibition agents have broken into private homes and destroyed private property without compensation.

- U.S. Department of Agriculture officials have destroyed the property of California citrus growers.

- Despite a chronic housing shortage, New York City bureaucrats have ordered the destruction of safe and clean apartments that run afoul of zoning regulations.

In "The Torrent of Laws" (*The Freeman*, January 1979), Henry Hazlitt made the point cogently: "The mere multiplication and proliferation of laws is itself a major evil. Every unnecessary law is itself bound to be pernicious. And almost all laws that interfere with the functioning of the free market tend to delay or prevent necessary readjustments in the balance of production and consumption and to have other consequences opposite to those that the framers intended."

So, enough talk about making laws better. It's past time that we focus singlemindedly on repealing laws. □

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On Keynes as a Practical Economist

by Julian L. Simon

John Maynard Keynes's contemporaries thought that he was the cleverest mortal of the century (putting aside such immortals of physical science as Einstein). Bertrand Russell said of Keynes's intellect that it was "the sharpest and clearest that I have ever known. When I argued with him, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool."¹ Keynes was impressed by his own cleverness, too. In a letter to a friend who named his son "Keynes Don von Eisner," Keynes wrote:

He must undertake that he will not only always pronounce the name rightly himself, but will never allow the slightest mispronunciation on the part of others. Tell him firmly that it rhymes with "brains" and that there is no harm in that.

Friedrich Hayek, a Nobel-prize winner and Keynes's greatest opponent of the

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1930s—but also a personal friend—said of Keynes much later, however, that "He was so convinced that he was cleverer than all the other people that he thought his instinct told him what ought to be done, and he would invent a theory to convince people to do it."²

Let us test Keynes as an economist on the subject of natural resources. In his world-renowned *The Economic Consequences of the Peace*, published just after World War I, Keynes wrote that Europe could not supply itself with food and soon would have nowhere to turn:

[B]y 1914 the domestic requirements of the United States for wheat were approaching their production, and the date was evidently near when there would be an exportable surplus only in years of exceptionally favorable harvest. . . .

Europe's claim on the resources of the New World was becoming precarious; the law of diminishing returns was at last reasserting itself, and was making it necessary year by year for Europe to offer a greater quantity of other commodities to obtain the same amount of bread. . . .

If France and Italy are to make good their own deficiencies in coal from the output of Germany, then Northern Europe, Switzerland, and Austria . . . must be starved of their supplies.³

Could these assertions of impending scarcity have been more wildly in error? Not likely. Keynes was entirely ignorant of the facts and plain wrong in his dogmatic logic. Millions of plain American farmers had a far better grasp of the agricultural reality in the 1920s than did Keynes. So much for Keynes's wisdom as an economist and a seer into the future.

Obviously one can be both "clever" and destructively wrongheaded. □

1. Robert Skidelsky, *John Maynard Keynes: Hopes Betrayed, 1883-1920* (New York: Viking, 1983), p. 124.

2. F.A. Hayek, *Hayek on Hayek—An Autobiographical Dialogue* edited by Stephen Kresge and Leif Wenar (Chicago: University of Chicago Press, 1994), p. 97.

3. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harper and Row, 1971 [1922]), pp. 24, 25, 94.

The Courage to Try

by Frank Orlowski

Every so often, a seemingly mundane event occurs in our lives that ends up affecting us in a profound manner. I'm not speaking of a major life change, like a death or serious illness, but of something that could easily be overlooked or quickly forgotten. Allow me to share one such experience.

Late last fall I was preparing an article for a local business journal; it was a typical update on how businesses were preparing for the upcoming Christmas selling season. While interviewing the store manager of one establishment, the manager had to excuse himself to talk with someone waiting at the counter. A young man and woman were there to speak with him about temporary Christmas-time employment. The young man, probably in his early twenties, was a bit nervous, though his look was serious and intent. He was sharply dressed (probably overdressed for the situation), in what was likely his best suit. He handed the manager his application, which, from a quick glance, appeared to be carefully filled out. He stood before the manager, straight and erect, listening attentively, but unsure just how to respond.

The young man was afflicted with Down's Syndrome. The woman with him explained that she was his sister, and had driven him over to return the application. The manager, who seemed a bit awkward with the situation, politely explained the hiring process,

and asked the young man if he had any questions. Looking down, he nervously shook his head "no." The manager then thanked him for stopping in, and said he would be making a decision on his extra Christmas help in a few days. The young woman thanked him, and the pair left the store. The manager returned to our interview, which we completed, though my thoughts were no longer on the subject of my visit.

As I watched the young man leave the store, I knew he would never get the job. After all, this was a retail store where good communication skills were vital, and I don't believe the young man spoke once during the entire time he was in the store. Still, I was overwhelmed by the courage that young man exhibited by being there. I don't know if this was his first attempt at finding a job, or his hundredth. Either way, he was determined to put his best effort forward and try for a job most of us would consider trivial. I thought about the time and care he put into dressing just right for that four-minute interview—the effort he must have put into filling out that application, to make it as neat and attractive as possible. As a former retail store manager myself, I knew that the typical applicant wouldn't put forth one-tenth of the effort that he obviously had. Yet it wouldn't be enough.

I wanted to ask the manager if there wasn't something he could find for the young man to do—maybe rotating stock, or helping keep the store neat during the busy Christmas rush. I decided against this; it just

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wasn't my place to do so. I quickly tried to think of another job opportunity I'd heard of before they drove away. But they had probably scoured the papers for every possibility already. I thought about how getting this job was likely the young man's most important goal, and about the disappointment he would experience when he was rejected. When the news came, his sister would probably put her arm around his shoulders, smile, and say "Come on, let's try again. I'll drive you."

The Clamor for Entitlements

We live in a time in our nation when citizens feel "entitled" to whatever they feel their needs are. When groups shout and stammer about how they "deserve" something from the society as a whole. When huge protests are organized among the "deserving" if government even suggests a slowdown in the amount of money to be redistributed to them. When politicians can garner votes by pitting group against group, and creating class envy. When the government's taking from one American to give to another is considered fair and righteous. If an individual disagrees with this policy, and wishes to keep more of what he produces and earns, he is branded as greedy.

The young man I encountered on that late autumn day wasn't content to play by those rules. Although he, if anyone, was in need of society's assistance, he and his family decided that his best option was to try and help himself by being a productive, working citizen. And even though he probably had been rejected more times than any of us will ever be, he was putting forth his best effort in trying again. I'd like to think that his perseverance will pay off, that goodness will prevail and he will find his dream job. I know that in the real world, however, that

may not happen, particularly because of minimum-wage laws and other labor regulations that discourage prospective employers from hiring such workers.

That young man touched my life for a mere five minutes, but I doubt I will ever forget him. Every time I see some group ranting in front of a congressional committee about how they deserve more taxpayer dollars, I'll think of him. Every time I hear some able-bodied person complain on camera about how unfair life is, and how government should come to the rescue, I'll think of him. Every time I get depressed about how tough things are for me, and how I might as well quit trying, I'll think of him. I'll always remember the grace with which he took on this task—a simple task to most of us, but one of Herculean proportions to him.

The concept of personal responsibility has lost its luster in recent years. Yet just when it seems that dodging what is right for what is convenient is the universally accepted premise, a simple, profound example of what is right can surface to rekindle our faith.

I have a new hero now. My heroes have never been celebrities or sports figures or politicians. They are simple, hard-working, honorable people, who, striving against life's obstacles, don't always win, but keep up the struggle. People who after succeeding or failing can look in the mirror and see someone who always tried to do the honorable thing. People who, like this young man, have life's odds stacked heavily against them, and struggle to achieve a goal most people take for granted. Courage and honor are the traits real heroes are made of. And courage, friends, takes many forms; it can be found in the least likely places when we least expect it, but need it most. □

Wanted: A Line Between Public and Private



Most people think that government should have limits, that government should do *some* things but not *every* thing. Accordingly, most people would argue that even if government could produce better hamburgers than anyone else, it shouldn't get into the restaurant business because that would compete against—and draw valuable resources and attention away from—its more important missions of protecting life and property. Government, most people believe, should spend public money for public purposes and should rarely spend public money for *private* purposes.

Those assumptions, as reasonable and universal as they seem when stated so generally, sometimes break down when the discussion turns to specific projects near and dear to the hearts of special interests. And if the implications of a recent court ruling in a North Carolina case should spread across the country, just about any special, private interest could become a public purpose at everyone else's expense.

The origin of the case rests in subsidies by state and local governments to private businesses. Public officials are increasingly granting them as part of their economic development strategies to keep companies from leaving or to lure companies away from other locations. Angered by this dubious

use of tax money, North Carolina lawyer William Maready decided to do something about it. In 1995, he filed suit against the city of Winston-Salem and the county of Forsyth.

Maready argued that subsidies violated the provision of the state's constitution which provides that "[t]he power of taxation shall be exercised in a just and equitable manner, for public purposes only." Subsidies, he reasoned, amount to the taxing of existing, local firms to pay for the relocation or expansion of other, often competing businesses. That, Maready claimed, was use of public resources for an overwhelmingly *private*, not public, purpose. A lower court validated Maready's argument, but the defendants appealed.

On March 8, 1996, the Supreme Court of North Carolina overturned the lower court and handed down a 5-2 decision of sweeping significance. It said, in effect, that government can hand out money to anyone so long as the intent of the recipient is to create new jobs with it. By the Court's reasoning, it doesn't matter if no evidence is presented that the subsidy is really needed or even that it would result in a net benefit to the community. Just the intent of doing good with it is justification enough.

Just how sweeping the majority opinion in the Maready case was becomes clear from this analysis by Andrew Cline of the John Locke Foundation in Raleigh, North Carolina: The Court "ruled that if a policy is aimed at helping the community, that policy

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will be considered constitutional whether it actually benefits *or harms* the community!"

In a stinging dissent, Justice Robert Orr lamented the fact that "little remains of the public purpose constitutional restraint on governmental power to spend tax revenues collected from the public. . . . If a potential corporate entity is considering a move to Winston-Salem but will only come if country club memberships are provided for its executives, do we sanction the use of tax revenue to facilitate the move?" According to the Court, that would be perfectly acceptable. In Justice Orr's more thoughtful view, "An activity cannot be for a public purpose unless it is properly the 'business of government,' and it is not a function of government either to engage in private business itself or to aid particular business ventures."

From the history of my state of Michigan comes a lesson that puts a useful perspective on the North Carolina story. Upon achieving statehood in 1837, Michigan jumped into the subsidy business in a big way—offering enticements to private firms to stay or locate here and even "assisting" economic development by starting up state-owned railroads and canals. The legislature approved public handouts for sugar beet producers, silk manufacturers, and sheep raisers, among others, "to increase the home market."

In barely a decade, the state's interventions were widely regarded as colossal, expensive failures—so much so that the state's constitution was rewritten in 1850 to excise state government from virtually all economic development. The relevant passage from the Michigan Constitution of 1850 read, "The State shall not subscribe to

or be interested in (emphasis mine) the stock of any company, association, or corporation . . . [t]he State shall not be a party to or interested in any work of internal improvement, nor engaged in carrying on such work. . . ." In the absence of subsidies, Michigan—surrounded by lakes and once thought of geographically as "the state on the road to nowhere"—went on to develop world-class industries in lumber, furniture, carriages and, ultimately, automobiles.

The clear line between "public" and "private" that Michigan established in 1850 is not so clear any more. Subsequent changes in the Constitution, the passage of new laws, and the creation of programs for "economic development" have blurred it considerably. While today's Michigan Constitution expressly forbids the State from directly subsidizing private *schools*, the State seems increasingly interested in distributing millions of public dollars to private *businesses*. Those dollars—whether for privately owned sports stadiums or for private firms to move here from other states—are always wrapped in the alluring guise of an ostensibly *public* purpose. Strangely, and with few exceptions, the people who cry the loudest against any subsidies to private schools are silent on the matter of subsidies to private businesses.

The Mearney decision tells us where the country as a whole might end up if limits aren't placed on the expenditure of public funds for things like "job creation." We should be asking ourselves and our elected officials this question: *Do we really want to obliterate the line between public and private, so that any seemingly worthwhile purpose can become a rightful claim on the public treasury?* □

The Incredible Regulatory Follies

by Ralph R. Reiland

In a recent *Times-Mirror* poll, 69 percent of Americans said that government “controls too much of our daily lives.” Seemingly not satisfied that they have alienated the bulk of the adult population, the central planners and bureaucrats are now going after America’s kids.

Raymond Raines, a fifth-grader in a St. Louis public school, was placed in detention for a week after committing a faux pas in the school cafeteria. Raymond’s misdeed was bowing his head in prayer and silently saying grace.

School officials, allegedly interested in diversity, invoked shunning to maintain uniformity. Raymond was told he’d have to eat by himself in a separate room until he conformed. No one can explain to this 11-year-old why Congress spends \$210,000 every year for chaplains to begin each day with a prayer and yet he can’t quietly bow his head over a cheeseburger.

In Boston, a kid opening a lemonade stand must get permission from five different government agencies and pay \$335 in fees and licenses. The city also requires the budding entrepreneur to comply with dozens of complex food and building ordinances and carry \$500,000 in liability insurance. “Massachusetts,” wrote Ted Levinson in *The Freeman*, “frowns upon the ramshackle wooden

lemonade stands set upon the lawn that Norman Rockwell would paint.”

A Boy Scout from Chicago, Bobby Graham, got a taste of government red tape when he got separated from his troop and was lost in New Mexico’s Santa Fe National Forest. After two days and nights of searching, police helicopters finally spotted him and requested authorization from the Forest Service to land and bring him back. Citing a regulation that “mechanized vehicles” are prohibited in wilderness areas, the Forest Service denied the rescue helicopter permission to land. The Forest Service also forbids the operation of a “musical instrument near a campfire or adjacent to a body of water.”

Robyn Lerman, a 6-year-old in Highland Park, Illinois, discovered that she couldn’t put her pulled tooth under her pillow without violating Occupational Safety and Health Administration regulations. OSHA, explained her dentist, requires human tissue, including teeth, to be immediately placed in a closed container for proper disposal. The Tooth Fairy became illegal the same month that the Center for Science in the Public Interest declared movie popcorn to be lethal.

For disadvantaged kids in California, the listing of fairy shrimp as an endangered species by the U.S. Fish and Wildlife Service led to eviction from Pastor Bob Raup’s ranch for troubled children and a quick trip

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back to inner-city killing fields. Raup, a chaplain with the Sacramento Sheriff's Office, created a getaway ranch where at-risk kids could ride horses and get counseling. Even though the minuscule fairy shrimp can be found thriving by the hundreds of thousands in railroad ditches and water-filled abandoned tires, the central planners rank endangered kids a step below endangered crustaceans.

Children may not be allowed to sell lemonade, pray, be rescued, take their baby teeth home, or play the guitar next to a lake, but government regulators are working to insure that they'll be able to eat all the clean dirt they can handle. Taxpayers in Columbia, Mississippi, were forced to pay \$20 million to haul dirt away from an old lumber mill site so it would be clean enough for a child to safely eat a teaspoon of dirt every month for 70 years.

Curiouser and Curiouser

Unfortunately, these kids will find out soon enough that the rules don't get any less bizarre when they get older. Under a new no-ogling policy in Minneapolis, it's a firing offense for a city construction worker to stare too long at a passing female.

A city agency in Los Angeles closed the Odd Ball Cabaret, a strip joint, under the Americans with Disabilities Act because a shower stall on stage wasn't accessible to strippers in wheelchairs. It didn't matter that no handicapped strippers had applied for work, just as no blind drivers had complained about a Kansas City bank before regulators ordered the installation of a \$5,000 Braille keypad on an automatic teller machine in the drive-through lane.

After the Equal Employment Opportunity Commission declared obesity to be a protected job disability, a 410-pound applicant for the job of subway train conductor dragged the New York City Transit Authority into court. Unhired and simply too large to fit in the small cab of the train, the applicant claimed the Authority didn't make "reasonable accommodations."

Nothing is too small to become a federal

case. Under OSHA rules, the smoking and gum chewing by America's roofers are matters of national labor policy, while a Florida business was cited for failing to place a warning label on a bottle of Joy dishwashing liquid. For a shoeshine stand in the courthouse lobby, Bergen County in New Jersey issued a full 18 pages of regulations. The smock, only burgundy or dark brown, must be knee length and wrap around, with pockets.

"The Lord's Prayer is 66 words," says policy analyst Thomas D. Hopkins, "while government regulations on the sale of cabbages total 26,911 words." Someone has too much time on his hands. In California, the Department of Fair Employment and Housing ordered newspaper editors to remove "family room" and "master bedroom" from real estate ads. Even "nice neighborhood" was ruled to be insensitive.

The Best Laid Schemes . . .

It was mice and the federal government in California who thwarted John Thorpe's plans to develop the upland portion of his property. Regulators, after discovering salt marsh harvest mice on the lower levels of Thorpe's land, envisioned an apocalypse: global warming might melt the polar ice caps, the Pacific Ocean would rise, and the mice would be forced up Thorpe's hill. No new building was permitted. The fate of California's jobless contractors took a back seat to rodents and science fiction.

All these regulatory follies might be funny if it weren't for the costs. By most estimates, federal regulations impose costs on American workers and consumers of \$500 billion per year, or \$5,000 per family. In terms of lost jobs, the U.S. economy operates with an estimated 10 million fewer jobs because of federal regulations, according to studies by economist William Laffer. In the Northwest, over 30,000 logging jobs were destroyed when federal planners mistakenly theorized that spotted owls could only live in old trees.

Last year, the average American had to

work full-time until July 10 to pay his or her share of the combined costs of taxes, government spending, and federal mandates and regulations, according to a recent Americans for Tax Reform study.

I wonder what our Founding Fathers would say about mice having the right to the top of anyone's property, the government timing of ogling, and kids being shunned into conformity by school bureaucrats or being

left in the woods so no bugs are disturbed in a rescue.

"A wise and frugal government," said Thomas Jefferson, "which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuit of industry and improvement, and shall not take from the mouth of labor the bread it has earned." Sounds like someone who would take a risk on homemade lemonade. □

Ancient Lessons

by James A. Maccaro

The history of ancient Rome repeatedly demonstrates the connection between low taxes and prosperity. It also shows the connection between confiscatory taxes and political and social unrest.

As the Roman empire expanded, so did the emperors' appetites for revenue. Taxes reached the point that most people could not meet their tax burdens out of their incomes and had to liquidate capital assets. They consequently became less productive, which reduced their income and caused them to fall further and further behind.¹

Government confiscation of property to pay taxes was common. In Egypt during the reign of Nero, some farmers found the burden of taxation so great that they abandoned their farms.² Entire villages were depopulated. Abandonment and confiscation became so widespread that one of the most frequently asked questions of temple oracles about a prospective groom was whether he would eventually run away or

have the State take all of his property. The middle class was systematically destroyed as commerce ground to a halt and small landowners gave up their property to work under the protection of the politically connected owners of great estates.³

To relieve the economic pressures, successive emperors debased the currency, which made matters worse because it caused inflation.⁴ Diocletian, emperor from 284 to 305 A.D., attempted to counter the economic instability caused by his policies of high taxation by the unprecedented act of setting fixed prices for all goods and wages. Wheat, barley, rye, pheasant, and even sparrows and mice were among the goods under price control. The penalty for producers who disobeyed the price edict was death. The resulting damage to the economy was disastrous. In the words of Lactantius, a historian who lived during the era of Diocletian, "nothing appeared on the market because of fear, and prices soared much higher."⁵

Diocletian's ruthless policies were continued and even expanded upon by his

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successor, Constantine. According to Libanius of Antioch, a writer contemporary to the time, "those for whom the work of their hands scarcely furnishes a livelihood are crushed beneath the burden." He continued:

The lowest cobbler cannot escape from it. I have seen some who, raising their hands to heaven . . . swore that they would pay nothing more. But their protests did not abate the greed of their cruel oppressors, who pursued them with their threatening shouts and seemed quite ready to devour them.

It is the time when slavery is multiplied, when fathers barter away the liberty of their children, not in order to enrich themselves with the price of the sale, but in order to hand it over to their prosecutors.⁶

To extract money, the authorities routinely tortured and beat taxpayers. Constantine eventually addressed this abuse by issuing an edict banning the use of the rack and scourges to "persuade" reluctant tax-

payers to provide additional money; he also reduced some taxes. However, the tax system continued to routinely employ such punishments as beatings and imprisonment, and rates were much higher than most people could afford.

Historians agree that these foolish fiscal policies greatly contributed to the collapse of the Roman empire. Indeed, some historians consider it to be the primary factor for the fall of Rome. In the words of Michael Grant, "it was a crushing tax system, which ultimately defeated its own purpose, because it destroyed the very people (farmers and merchants) who had to pay the taxes."⁷ □

1. Arthur E.R. Boak and William G. Sinnigen, *A History of Rome to A.D. 565* (New York: Macmillan, 1965), p. 371.

2. *Ibid.*, p. 373.

3. Michael Grant, *Constantine the Great* (New York: Charles Scribner's Sons, 1994), p. 90.

4. Boak and Sinnigen, p. 372.

5. Moses Hadas, *Imperial Rome* (New York: Time-Life Books, 1965), p. 145.

6. Grant, pp. 11, 88.

7. Grant, p. 93.



Thielicke on the Modern Welfare State

by Daniel F. Walker

Helmut Thielicke was a leading Christian theologian of the post-World War II era. Early in his career, Thielicke was removed from his teaching position at the University of Heidelberg because of his criticism of the Nazi regime. Late in the war, he was allowed to preach and informally teach in Stuttgart. Thielicke's lectures and sermons were privately (and illegally) published, bringing a Christian message to thousands of people.

After the war, Thielicke held high positions at the universities of Tübingen and Hamburg, and several published collections of his sermons brought him acclaim in the English-speaking world. What established him as a leading theologian, however, were two multi-volume works: *The Evangelical Faith* and *Theological Ethics*.

In *Theological Ethics*, Thielicke addressed the dangers of governmental paternalism. While Thielicke did accept a role for government in providing a "safety net" for its citizens, he expressed deep alarm at the reach and effects of the modern welfare state.

Thielicke defined the "rationalization" of the welfare state's process as "organizing the effort in such a way that a maximum of production is achieved with a minimum of expenditure," thus infusing impersonaliza-

tion into the welfare process and depersonalizing the participants. Direct, personal caring would be reduced to a minimum, "and even then the final stage will be a welfare office desk or the home mailbox."¹ Forms, computers, and adding machines—not individual love of one's neighbor—would drive the process.

The greater the reliance of the welfare-state machinery upon the depersonalization of givers and recipients, the greater the effects. Unlike many theologians, who improperly interpret the New Testament as a manifesto for "compassion" by force of government, Thielicke recognized the undesirable consequences, economic and personal, of the modern welfare state.

Individual Initiative and the Burgeoning Welfare State

External consequences of the growing welfare state would be an increasing tax burden, decreased investment in the means of production, and a strain on credit; a further danger was that of welfare "benefits" threatening "to become the equivalent of a normal wage" or, even where not, "a temptation . . . for people to quit their job, justify their action on other grounds, and make up the loss in income by doing part-time work on the side. All this leads to chaotic tendencies in the labor market."

Internal, personal consequences of the

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rationalized welfare state also were serious. As the modern welfare state embraces more “duties,” it “not only reduces individual initiative but also kindles suspicion of the welfare work of other groups” and “demands that all activities which impinge upon its monopoly must first receive official authorization.” While American governments do not have a monopoly on providing welfare services, Thielicke’s concern is valid; think of charitable organizations having to obtain 501(c)(3) recognition from the Internal Revenue Service before donors’ contributions can be used to reduce individual tax liabilities assessed by the government.

State Welfare versus Genuine Caring

Of deep concern to Thielicke was the inner consequence where “welfare becomes the object of a ‘claim’: In time of need, when I cannot care for myself, I claim to have a right to be cared for; the state is obliged to assist me whether or not I act or am capable of acting to help myself.” As Thielicke said, “welfare is thus transferred from the ethical to the legal plane.”

Anticipating more contemporary arguments, Thielicke noted that supporters of welfare “rights” would emphasize the alleged “degrading” nature of people having to rely upon private charity, of being a mere object of benefactors’ good will—thus violating the recipients’ “dignity.”

Thielicke found that argument “meretricious,” making “a false distinction between welfare as a legal act regulated by the state and welfare as the function of private, improving love.” Genuine Christian love of one’s neighbor does not degrade the recipient of aid. Genuine caring for another person is not mechanical, nor is it a “subject-object relation between giver and recipient,” but it is a partnership. Within the Christian context, “the giver knows that he is one who, in relation to God, receives without merit, and who must therefore act towards his neighbor as God has acted toward him.” This is a dignity far different

than that contemplated by supporters of the modern welfare state.

For Thielicke, a society in which the government “provides in principle for every kind of disability and the helplessness of old age” would alter “fatefully the relationship between the generations.” Families with sufficient financial strength should care for family members who need help.

Look at America now; older middle-income Americans are encouraged to divest themselves of their assets in order to qualify for Medicaid so that taxpayers at large must subsidize the costs of warehousing the artificially impoverished in nursing homes—in the name of “independent living” and “not being a burden to the children.” Thielicke said that such a welfare apparatus for caring “would make parenthood a temporary function: When the function is fulfilled, parents simply step down and enter another sphere of existence.” So it seems today in the United States.

Again anticipating contemporary battles, Thielicke asserted that opportunities should be present for people to plan and “pay in advance for later pensions and other benefits (medical benefits, etc.)” Aside from the economic advantages to be gained by Individual Retirement Accounts, medical savings accounts, and other similar measures, the greatest benefit from such planning opportunities is that citizens can be *active* participants in the continuity of their lives rather than being mere passive recipients of whatever favors are doled out by a particular government. Genuine welfare depends upon personal involvement, but “the radical welfare state aims at state pensions for all citizens without distinction, irrespective of need or achievement. . . . It has become instead the welfare robot, devoid of any personal features at all.” Does any of this ring true, in light of talk about welfare state recipients being given ATM-like cards to “access” their government benefits?

Ultimately, Thielicke characterized the State as an “emergency order” to which “we should commit to the state, not everything we can, but only what we must. . . . [T]he state should give up as many tasks as

possible and commit them to other agencies.”

Thielicke was not fooled by those who would equate “compassion” with a pervasive welfare state and greater taxes. Those who “farm out to the machinery of the state all care of the needy” are “refusing to be human toward a fellow human being.” Delegating a personal moral responsibility to a “robot” shows a *lack* of involvement in others’ lives. The modern welfare state cannot be a substitute for proper love of one’s neighbor. Even if the welfare state “worked,” was efficient, and delivered to or on behalf of recipients most of each dollar allocated for welfare—it still would do damage.

How? Why?

According to Thielicke, “The responsibility of love cannot be transferred. Love that is hidden away in some mechanical

apparatus ‘gains me nothing.’ And when I am without love I myself ‘am nothing.’ (I Cor. 13:2). The perfection of the machinery can actually deliver up the person to nothingness.”

Those who would invoke Christian compassion in defense of the modern welfare state would be wise to consider the warnings of Helmut Thielicke. He looked beyond superficial sentiment and good intentions associated with government-driven caring, and found tremendous dangers awaiting the society that diminishes the personal dimension of caring for one’s neighbor in exchange for a mechanical state of “social justice.” □

1. Helmut Thielicke, *Theological Ethics* (Grand Rapids, Mich.: Eerdmans, 1979), vol. II, p. 301. Subsequent quotations are from the same volume, pp. 302–317.

The One-Minute Shed

by Donald G. Smith

A friend of mine once spent a weekend building a cabana for the guests who would be using his pool. A neighbor must have objected because a building inspector arrived early on Monday and told him that it had to come down—no building permit.

My friend, a quick-witted man, tried an impromptu defensive maneuver, asking what could be built without a permit. The inspector rattled off a list of outbuilding structures that were allowable and when he came to “tool shed,” the light went on. “Just what constitutes a tool shed?” The answer was simple: “Tools.”

So, the two men solved the problem that very moment. My friend found a hammer, hung it inside the door, and created a tool shed in one minute. The inspector approved and left with no further objections. The hammer had made it legal.

To me the story hinges not so much on the absurdity of the regulation but on the attitude of the inspector, who saw neither humor nor disgust in the event. It was a ho-hum, case-closed matter and he went off to his next assignment with another problem out of the way.

This has been my objection to the bureaucratic mind since I was old enough to know that there was such a thing. Why don’t these people object to an obviously ridiculous

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regulation? To them a rule is a rule; not good, not bad, not in-between. If it makes no sense, no one questions it.

In my long and rather unrewarding career in private industry, I found that employees were sometimes required to uphold regulations that were fatuous at best. But we had enough personal integrity to grumble, disassociate ourselves from unworkable schemes, and explain that we were enforcing such nonsense only under duress. This is common in private industry, unheard of in government.

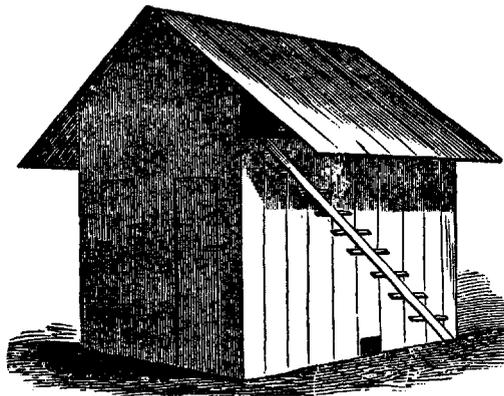
Throwing logic at a bureaucratic minion is like spitting into the wind. It goes nowhere. At the very core of the civil-service soul is a complete aversion to rocking the boat. The primary function is to keep the lid on and get through another day. It is a form of self-preservation that is based entirely upon inaction.

I have recently been going through a letter file of a transaction that I had with a county official a few years ago. It was a matter that seemed to be of some urgency and would have cost nothing; it would, in fact, have represented a considerable cost saving. In every letter from him there was an expressed agreement with my plan, along with an attempt to stall and delay. "I will talk with (name deleted) and get back to you." "Let's have a meeting next week." "I want to go over the (XYZ) report first." Then

there is the person who can contribute some "worthwhile inputs" but unfortunately is away at the moment, usually in Mongolia or Zanzibar. Naturally, everything will be held up until he gets back. There is never any suggestion of doing anything *now*. The idea is always to push everything back and hope that the whole thing will eventually go away.

As one reared in the old Protestant-ethic tradition, I have always been on the side of accomplishment, even at the expense of caution. If it needs to be done, let's do it. The bureaucratic mindset is entirely opposed to this line of thinking. The first thing that a bureaucrat does in a new situation is to look for a way to delay something. His tools are committees, slide shows, interminable meetings, and those beloved regulations that can be invoked at any time in the game. If General Eisenhower had been confronted with an environmental impact report, he would probably have been forced to delay the D-Day landing for a year, or maybe forget the whole thing.

The public and private worlds are in constant conflict because of two mental processes that were designed to abrade each other. One fights to accomplish something and the other fights just as hard to prevent it. We survive as a species only because we can hang a hammer in a cabana and call it a tool shed. □



Big Labor and Big Government

by Karen Kerrigan

Big labor is trying to make itself relevant again by attempting to rebuild its declining membership base, and, more importantly, by striving to increase the role of government in the American economy. Under the leadership of AFL-CIO chief John Sweeney, the union movement has revived its militant organizing activities of the 1930s, updated with a 1990s Madison Avenue message campaign. Indeed, labor is spending unprecedented resources (officially, \$35 million) on political campaigns targeted to the congressional districts of incumbents who threaten its agenda.

Inasmuch as national and international competitive market conditions have made labor unions increasingly irrelevant in the private marketplace, the only way unionists can achieve their goals is through the coercive power of government. The union movement's plan is to place government at the center of the American economy through regulations and mandates which it gets to design. To do this it needs complicit politicians who believe that big government should aggressively and unapologetically micromanage American business.

To that end, big labor has embarked on a militant course "to end social and worker injustice." With renewed enthusiasm, labor is pushing the minimum-wage hike, "cor-

porate responsibility," and the expansion of legislative relics like the Davis-Bacon Act. A mere cutback in the growth of government spending—or even small steps to reform the regulatory overload in programs like the Occupational Safety and Health Act—are described by labor as an attempt to unleash havoc on American workers.

In a speech this spring before labor leaders in Washington, D.C., Mr. Sweeney portrayed a world in which "greedy bosses" take advantage of all workers, especially "women and minorities and low-wage workers." According to Mr. Sweeney, smaller government translates into "a world with no environment safeguards, no public health protections for families, and no health and safety protections for workers at their jobs." In this same world described by Mr. Sweeney, Americans will be "trapped permanently . . . in a society" controlled by big business and the rich. Of course, programs for the poor and elderly are wiped out in order to pay for massive tax cuts for the wealthy.

Union leaders are putting a lot of capital in the idea that if organized labor can be seen as an institution that cares about all workers—not just its own members—that the movement will be viewed as necessary and relevant again. To accomplish this feat, the centerpiece of their crusade to attract more workers into labor's ranks is the campaign to increase the minimum wage.

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Labor leaders have termed this endeavor their “living wage” campaign, although it is well documented that very few of those workers making minimum wage depend on it as a single source of income for raising families. It also remains very hard for workers to start making a “living” when, as a low-skilled worker, you have been priced out of the labor market because the unions have demanded an increase in the legal wage floor—a consequence most economists agree occurs with each minimum-wage increase.

The rhetoric of labor leaders also would have us believe that minimum-wage earners are forever trapped at this wage scale. This is simply untrue. Census Bureau data reveals that minimum-wage earners, on average, will make \$6.09 per hour within a year.

Comparing Apples and Oranges

Most disingenuous is the labor movement’s assertion that the minimum wage has dropped to a “forty-year low”—a declaration that goes unchallenged by wage hike opponents, yet has become the key rallying cry behind labor leaders’ efforts to enact the increase. Forty years ago, the minimum wage mostly applied to skilled jobs like manufacturing. Jobs in restaurants and the retail industry were exempt. Today, the wage scales of skilled jobs in manufacturing and other industries are highly competitive. Simply put, wage-hike supporters are comparing apples and oranges when measuring the wages of skilled workers forty years ago, versus those of low-skilled workers today.

Though characterized by labor as a plot by right-wing zealots to keep corporate profits soaring at the expense of hard-working Americans, minimum-wage hikes draw fire from a wide spectrum of economists and activists. The Democratic Leadership Council (DLC), an organization once headed by President Clinton, asserts in a recent statement that “raising the minimum wage is not the answer” to helping people out of poverty.

While affirming that a wage hike will cost

jobs for low-skilled workers, the DLC’s most damning pronouncement is that the cost of the increase “would be borne disproportionately by lower income families.” That cost would be borne by poor families in the form of higher prices amounting to what the DLC calls a “regressive transfer,” which makes the poor “a little more worse off in order to improve the lives, at least for a time, of a group of people which is predominately non-poor.”

For labor leaders to proclaim their concern for all workers, while at the same time pushing for minimum-wage hikes at all levels of government, is a twisted exercise in logic. Nonetheless, the minimum-wage issue is shrewdly being used by labor as a means to an end—to reconnect with the workforce in order to be seen as relevant again, and to force the ouster of politicians who challenge its cause.

The Move Toward “Corporate Responsibility”

The labor movement would like to see politicians hoodwink American businesses into supporting its cause through inducements provided by the federal government. This failed European model, which mistakenly unites government and business as close working partners, has sadly resurfaced in the United States.

Called industrial policy in some parts of the world, it is better known to labor leaders and their advocates in academia and Congress as “corporate responsibility.” Interestingly, the corporate responsibility model recognizes the benefits of tax cuts and regulatory relief, but only for those businesses that meet certain standards established by the U.S. government.

For example, a Senate supporter of labor has proposed a program of corporate responsibility whereby participating businesses—or A-Corps as they are called—would receive special tax and regulatory treatment in exchange for abiding by several provisions: a percentage of corporate income (determined by the government) must be allocated for worker training; the business

must provide a government-approved health-care plan for all employees; the CEO and other executives must agree to have their salaries capped; and the business must participate in a collectively bargained (union) pension plan utilizing an employee trustee.

Labor leaders are touting these types of proposals as ways to help the "anxious middle class" deal with the hardships of corporate downsizing and government cut-backs. Unfortunately, these plans only create a new level of bureaucracy, which dispenses tax favors to companies deemed socially worthy by the federal government.

The most glaring shortcomings of the corporate responsibility model is a total lack of understanding as to the trends shaping the twenty-first century economy. Unmistakably, key attributes of this economy will include diversity, mobility, and entrepreneurship. In other words, workers will continue to want different things at different stages in their lives, and they will change careers with greater frequency. In addition, experienced workers who become downsized are, in larger numbers, opting for self-employment and entrepreneurship. It is doubtful whether these smaller enterprises—responsible for the bulk of U.S. job creation—will have the extra cash to allocate toward "corporate responsibility."

According to a March 1996 report by the U.S. Senate Joint Economic Committee, corporate responsibility proposals "explicitly contradict" twenty-first century trends, and "would make workers more dependent on their current employers at a time when public policy should be encouraging individual responsibility through upward mobility and portable benefits."

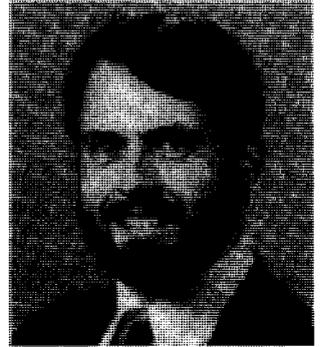
Labor unions indeed fear policies that would make workers less dependent upon institutions (such as labor unions). That is why they continue to advocate bigger government and the expansion of the programs, agencies, and laws that govern the American workplace. Working hand in hand with the politicians and bureaucrats who oversee such programs, labor unions exert a powerful influence over the laws which make them relevant.

Take away such laws, and labor leaders find themselves stripped of power. Suddenly, their reason for existence comes under scrutiny. While big labor may succeed in its attempts to slow down the movement toward limited government, it is highly unlikely that it will overcome the power of the marketplace—a force moving individuals away from dependence on unions and governments and more toward independence and economic freedom. □

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Minimum Wage Plus

What could be more appropriate in Washington than a bipartisan congressional majority pushing to increase the minimum wage? Legislators always move with alacrity when they are giving away other people's money.

But while the public might be tempted to celebrate an increase as a victory for working people, it will help only those who remain employed. Decades of research demonstrate that fixing wages destroys jobs; the only question is how many. Nearly two dozen studies during the 1970s and 1980s reached a rough consensus that a ten percent rise in the minimum cuts teen employment by one to three percent. The Minimum Wage Study Commission, created in 1977 by a Democratic Congress and staffed by President Jimmy Carter, concluded that a ten percent increase in the minimum reduces employment opportunities by between .5 and 2.5 percent. Indeed, the non-partisan General Accounting Office stated that it "found virtually total agreement that employment is lower than it would have been if no minimum wage existed." In 1988 the Congressional Budget Office warned, in a report which some opponents attempted to suppress, that a proposed hike to \$5.05 would destroy between 250,000 and 500,000 jobs.

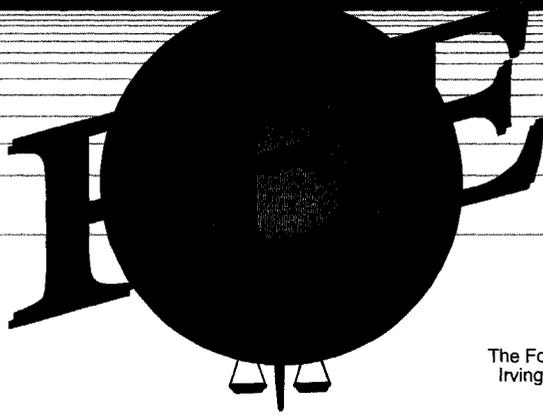
Moreover, the Progressive Policy Insti-

tute issued its first policy paper on the minimum wage, concluding that "certainly, employers will hire fewer minimum-wage workers when they have to pay more for them." The Employment Policies Institute (EPI) has published a dozen or more studies documenting the ways in which a minimum-wage hike would hinder job creation, reduce the number of hours worked by those who stay employed, and encourage companies to substitute better-educated, middle-class employees for disadvantaged, lower-skilled workers seeking to escape poverty. Even the few economists who favor the proposed increase don't dispute that it will throw some people out of work. They just say the number will be small.

This should come as no surprise. Unfortunately, however good the politicians' intentions, government fiat cannot erase economic reality. People who earn little do so for reasons other than employer greed: lack of education, skills, and experience. Indeed, many minimum-wage workers are young people just entering the labor force.

Unfortunately, setting a legal minimum does not address the reasons people receive low salaries. It simply tells employers not to hire anyone who can't produce that amount. The result is higher unemployment, concentrated among the most disadvantaged, particularly urban teens. No one who understands economics disputes this central point: arbitrarily raising the minimum above a worker's productivity level means the person won't be hired.

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Is Inflation Dead?

Mainstream economists are telling us that "there's little or no danger of inflation." The rates of inflation have come down significantly in recent years and can be expected to remain benign in the future. In the developed countries, average price inflation in 1995 was about 2.5 percent. In most less developed countries, it moderated to 8 percent. In Latin America, the Middle East, and Eastern Europe, it continued at above-average rates, some even at triple-digit rates.

When compared with the 1970s and 80s the rates of inflation in **developed** countries, no matter how you may define it, have indeed come down. The monetary authorities that shape national monetary policies may have learned from their earlier blunders or may have been replaced by more prudent managers. The governors of the Federal Reserve System who issue and manage the U.S. dollar and preside over the international dollar standard may have finally learned by experience that inflation has undesirable economic, social, and political consequences.

Some credit for the American learning process must be given to the governors of two other central banks: the German Bundesbank and the Bank of Japan. They consistently inflated their currencies at

lesser rates and kept them harder than the U.S. dollar, which forced the Federal Reserve to follow suit. Refusal to follow could trigger an international flight from the dollar, which would have calamitous consequences the world over. The dollar crises of 1978 and 1979 were early warning signals of things to come if the Fed did not mend its easy-money ways and keep in better step with its hard-money competitors.

Despite the visible improvements in central bank behavior in recent years, it is certainly premature to say inflation is down for the count. **The monetary system that bred past inflations remains unchanged; the monetary thought that guided the monetary authorities is still popular, especially with government officials.** It grants legislators and regulators the monopolistic right to manage the people's money and manipulate it to suit their political ends.

At the present, the central banks of the developed countries are aggressively expanding their credits because of the fear of recession. With unemployment running high, the Bundesbank recently cut its discount rate to a record low of 2.5 percent, hoping to revive the dragging economy. This "bastion" of anti-inflationary credibility may be changing its course to go the

way of all full-employment programs. The Bank of Japan, which is an important creditor to the U.S. government, last year lowered its official discount rate to a record low—to one half of one percent. When compared with these “stalwarts” of hard money, the Federal Reserve System, which presently is charging 5 percent for its credits, looks like a miser and tightwad. Actually, it has no choice but to keep its rates high because the United States is a low-saving, high-consumption, heavily indebted country with a chronic current-account deficit.

In **developing** countries, inflation is still an every-day experience. In Asia the rate remains relatively high at some 12 percent. Turkey is the worst, with an inflation rate over 75 percent. In the economies of the former Soviet Union the average rate is estimated at 150 percent, with that of Belarus at 700 percent, Ukraine at 300 percent, Azerbaijan at 460 percent, and Tajikistan at 390 percent. These rates are well down from an average rate of more than 1,500 percent in 1994.

Everywhere central banks are creating new credits and printing new money. The stock of money is growing faster than at any time in the 1990s. Moreover, the United States is experiencing an explosive growth of securitized debt, what most economists call “rising money velocity.” Yet, the price inflation of goods and services remains rather moderate. The rampant growth of leveraged speculation and corporate acquisitions point at a *different* kind of inflation: that of existing capital assets. Instead of soaring prices of goods and services, we see the effects of easy money and credit in the financial markets. Inflation is not dead but very much alive. It has moved from Main Street to Wall Street.

Most developed countries are mired in economic stagnation or even recession. Japan continues to suffer the readjustment pains from its credit expansion binge of the 1980s. The European countries are chafing under crushing loads of welfarism and soaring rates of unemployment. The European monetary ease, led by the Bundesbank, is failing to stimulate economic production but instead is fueling a great financial-asset inflation; European stock prices are hitting one record after the other. The United States, which is the only country not mired in stagnation, is leading the way in the asset inflation.

Our age of inflation has deep roots in doctrines and theories that disparage economic freedom and deny the freedom of contract. Faulty monetary thought paved the way for the age of monetary destruction by allowing governments the world over to create monopolistic banks of issue and make their money “legal tender,” which everyone is forced to accept no matter how depreciated it may be. To refuse to accept it is to forfeit income and wealth. The monopolistic money system then was made to serve the welfare state with its unquenchable thirst for deficit spending. It was in 1971, finally, that the U.S. government opened the inflation flood gates by removing the last deterrent, the gold reserve requirement. Building on political force and managerial discretion, it created the paper dollar standard.

Depend on it, the legislators and regulators who gave us such a system will bring us more inflation in years to come.



Hans F. Sennholz

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**Private Means, Public Ends:
Voluntarism vs. Coercion**
edited by J. Wilson Mixon, Jr.

"Private interactions create a virtual flowerfield. Not every flower is perfect, but the overall effect is breathtaking. Government meddling often entails poisoning the ground, then lamenting its inability to produce, and finally setting out a few very expensive potted plants."

—J. Wilson Mixon, Jr., Dana Professor of Economics, Berry College

Even though many people increasingly have begun to question the efficacy of the welfare state, most people still contend that the government must be involved in the provision of some degree of health care, welfare, and education for the poor and indigent. Furthermore, there seems to be a universal consensus—even among advocates of limited government—that the basic functions of government should include maintaining a transportation infrastructure, the issuing of currency, and policing. **Private Means, Public Ends** daringly challenges these perceived wisdoms by pointing to instances of the free market fulfilling these functions. The book seeks to illustrate that there are, inevitably, many intrinsic problems with governmental attempts to plan and implement these functions. Moreover, governments operate on the leverage of coercion—whether that be in the form of laws or taxation. These essays suggest that the private alternatives not only tend to work better at achieving the desired end, but they also serve to reintroduce the much diminished principle upon which civil society is founded: namely voluntary cooperation between free men.

The essays in *Private Means, Public Ends* cover a diverse range of subjects, including education, charity, telecommunications, private banking, the arts, transportation, and private roads.

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For years advocates of the minimum wage—labor unions, whose skilled members benefit from the wage floor; liberal politicians seeking to buy votes from poorer workers; and left-wing ideologues, who prefer social engineering to improving people's lives—simply ignored the facts. Confident that anyone who lost his job would blame something else, perhaps capitalism or Reaganomics, Congress steadily raised the minimum wage even as teen unemployment soared.

But now, after disdaining academic inquiry their entire careers, minimum-wage advocates have suddenly become interested in the facts. They finally found a report that fit their political preconceptions.

Alas, the analysis of a 1992 New Jersey minimum-wage hike, by Princeton's David Card and Alan Krueger (the latter later hired by the Department of Labor), was, according to a detailed review by EPI, "based on ludicrously flawed data." EPI Executive Director Richard Berman explains that his organization studied the actual number of employees and found that "the payroll records do not match the Card-Krueger data. Only a handful come anywhere close." Michigan State University economist David Neumark and William Wascher of the Federal Reserve Board figure the actual impact to have been a 2.7 percent decrease in employment for every ten percent minimum-wage hike.

Indeed, minimum-wage advocates should avail themselves of EPI's extensive body of work, conducted by a host of outside economists. For instance, in 1993 Bruce Fallick, from UCLA, and Janet Currie of MIT, concluded that teenagers whose earnings were raised by increasing the minimum were more likely to lose their jobs. The larger the gap, "the greater the probability that there will be a loss of employment."

In the same year, Lowell Taylor of Carnegie Mellon reported on California's most recent minimum-wage hike. His conclusion: every one percent hike cut retail employment by .8 to .9 percent. Also released in 1993 was a review of recent studies by David

Neumark. He reported that "the best estimate of the range of effects is that a 10 percent increase in the minimum wage reduces employment of teenagers by 1 to 2 percent, with the effect generally closer to 2 percent."

A 1994 study by two University of South Carolina economists, John Addison and McKinley Blackburn, found that raising the minimum wage did nothing to lower poverty rates. In another EPI paper in early 1995, David MacPherson from Florida State University and William Even of Miami University showed that for every dollar in minimum-wage increases going to single parents, about \$4.50 goes to single individuals and \$6.80 to children and others living in their parents' homes.

Another 1995 study by David Neumark found that minimum-wage increases lure additional higher skilled teens into the workforce, supplanting disadvantaged kids. Those displaced, he warns, "are more likely to end [up] neither enrolled nor employed," a prescription for social disaster. Also last year, Kevin Lang of Boston University discovered a similar phenomenon when studying eating and drinking establishments. This is the real research record.

There's also the little matter of principle—of fundamental fairness to employers. Helping those in need should be a concern of every individual in society, not just firms that hire the most unskilled labor. Yet raising the minimum wage penalizes the very companies that are doing the most to assist the disadvantaged by providing them with jobs.

However, if Congress really believes that it can repeal economic reality, it should consider the proposal by John McClaughry, head of Vermont's Ethan Allen Institute. Let workers sue the federal government if they lose their job, or fail to find a job, because of the increase. And take any awards out of the Labor Department's budget and the office accounts of legislators who voted to raise the minimum.

Of course, the right method to raise wages is to improve education and lower taxes. Today's educational monopoly is warehous-

ing rather than teaching inner-city kids; why not give their parents a choice in schools, increasing the likelihood that future workers will be prepared for higher-wage jobs? If federal officials really care about the earning power of minimum-wage workers, why not ease the payroll tax burden, which falls most heavily on those who earn the least? Un-

fortunately, they won't do either one, because doing so would reduce their power.

Hiking the minimum wage was neither fair nor efficient. But then, so what else is new? Yet again, politicians are crying crocodile tears over the plight of workers, blaming the private sector for the consequences of their own failed policies. □

THE FREEMAN
IDEAS ON LIBERTY

Defining Justice

by Mark Da Vee

When a word is used in a certain context often enough, it can take on a whole new meaning. One such casualty of the English language is the word "justice." By planting it within the phrase "economic justice," we begin to equate justice with the equal distribution of wealth. Would economic equality through the transfer of wealth by the state be the realization of economic justice?

Nature does not produce a state of equality. No two people have the same physical or mental abilities. Add to the equation the free will of the individual either to utilize the talents that God has rationed—or to squander them—and economic equality becomes a goal that is incompatible with the right to property.

To correct nature's "imperfections," the socialist looks to the state to employ the leveling power of the law. Socialists assume that economic inequality in and of itself constitutes economic injustice. They regard wealth acquired through risk, toil, and

sweat to be ill-gotten gain if it is "excessive." Therefore justice must be *imposed*, or rather, *inflicted* by the state upon society through positive laws.

Positive laws are tyrannical. One individual's rights—whether they be life, liberty, or property—must be sacrificed by the state in order to fulfill the positive rights of another. For example, if housing is considered a "right," then the state will have to confiscate wealth (property) from those who have provided shelter for themselves in order to house those who have not. This is done under the banner of justice, when justice is defined as equality.

In *The Law*, French economist Frederic Bastiat wrote: "'The purpose of the law is to cause justice to reign' is not a rigorously accurate statement. It ought to be stated that the purpose of the law is to prevent injustice from reigning. In fact, it is injustice, instead of justice, that has an existence of its own. Justice is achieved only when injustice is absent."

True justice is realized when our lives, and property are secure, and we are free to express our thoughts without fear of retri-

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bution. Just laws are negative in nature; they exist to thwart the violation of our natural rights. Government ought to be the collective organization—that is, the extension—of the individual's right of self-defense, and its purpose to protect our lives, liberties, and property.

Socialism's allure lies in its deceptive appeal to become part of a noble cause—to create a utopian society where every individual is free from want. Yet a job, home, education, medical care, and standard of living, are not "rights." They are things that may be gained in proportion to the effort and ingenuity spent in acquiring them—in a free society.

Socialists are skilled at manipulating language in order to advance their ideology. A movement that claims to seek economic justice is much more palatable to the American public than one which openly seeks the advance of socialism. Americans love justice, but most—especially politicians—will not admit to being socialists. Instead they will describe themselves as "liberals" or

"progressives." These are deliberately deceptive labels designed to make socialists appear to be operating from a moral high ground. For, to oppose a liberal implies that you seek to constrain—when in fact just the opposite is true. It is the modern liberal who views government as a tool to engineer society and control our lives. To oppose a progressive implies that you are "backwards" and an obstacle to progress. And to oppose "economic justice" as it is defined by liberals/progressives, is to favor injustice.

Economic justice is not realized when we are equal, it is realized when we are free to own property and order its direction. Wealth redistribution by the state is nothing more than legalized economic injustice.

Government that tramples the property rights of its citizens makes itself their adversary, and will eventually collapse or face insurrection. A government that exists to protect personal liberty and property rests upon a firm foundation—the allegiance of those it governs. □

HAD ENOUGH?

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The Economic Costs of Sexual Harassment

by Elizabeth Larson

Sexual harassment is “subtle rape,” or so says psychologist John Gottman. Judging from the millions of dollars U.S. companies are being forced to spend to combat sexual harassment, American men have apparently become subtle rapists and sexual predators on a scale unimaginable even to the most vocal feminists of a decade or two ago.

Sexual harassment lawsuits such as the ones brought about by the Del Laboratories secretaries and employees of Mitsubishi make headlines nationwide, but too many companies and organizations still think “that can’t happen to us.” But it can—and an entire industry has sprung up in the last half decade to help businesses avoid the nightmare of a sexual harassment lawsuit.

Unfortunately, though, this army of experts may in fact be fostering sexual harassment complaints even as it seeks to prevent them. Like the college twentysomethings persuaded by their feminist sisters that they were in fact raped, today’s young businesswomen are being taught that behavior they would have once considered boorish or inappropriate should be rendering them vic-

timized and helpless—and in desperate need of huge financial compensation.

Like the concept of “date rape,” the term “sexual harassment” didn’t even exist two decades ago. It joined the American lexicon with the publication of Lin Farley’s *Sexual Shakedown: The Sexual Harassment of Women on the Job* (1978) and Catharine MacKinnon’s *Sexual Harassment of Working Women* (1979). MacKinnon, the well known feminist law professor, was largely responsible for convincing the legal community and social theorists that sexual harassment is a form of sex discrimination—thus implying it is as reprehensible a crime as racism.

Complaints began to arrive at the Equal Employment Opportunity Commission slowly. Women filed a total of 3,661 charges in 1981, and that figure rose gradually throughout the decade, reaching 5,623 in 1989. With the nineties, however, came an explosion. From 6,127 cases in 1990, the numbers skyrocketed to 14,420 in 1994. Evidence from state agencies mirrors the surge at the EEOC. The Kansas Human Rights Commission received only 75 complaints of sexual harassment in 1991, for example. That figure jumped 261 percent by fiscal year 1995 to reach a record 271 reports of alleged harassment.

Lawyers point to several reasons for the increase in complaints filed. In the 1986 case *Meritor Savings Bank v. Vinson*, the

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hostile-environment argument was upheld for the first time. This dramatically increased an employer's liability: the plaintiff was no longer required to prove she had been subjected to a *quid pro quo* situation (e.g., "have an affair with me or you're fired"). As the hostile-environment argument caught on, complaints that would once have been considered frivolous were suddenly accorded legal merit. Then came 1991 and Anita Hill. In the three weeks after the Clarence Thomas hearings, the EEOC saw a 23 percent surge in complaints of sexual harassment filed with its offices. The 9 to 5 National Association of Working Women received 200 calls in the average week before Anita Hill stepped forth; after Hill's allegations, they were fielding 200 calls a day.

That year was a banner one for sexual harassment lawyers and radical feminists for other reasons as well. The "reasonable woman" standard was created in *Ellison v. Brady* (the standard was affirmed by the U.S. Supreme Court in 1993), and the *Jacksonville Shipyards* case resulted in the inclusion of workplace pinups as proof of a hostile environment.

Potential Litigation

The high and continually rising numbers of complaints of sexual harassment filed means that the potential for litigation is serious for U.S. businesses, especially since the compensatory and punitive damages awarded to complainants have also risen sharply in recent years. A quick look at cases over the last two decades shows the steep climb in awards.

In what is considered the first sexual harassment case, *Barnes v. Train* in 1974, a woman working as the administrative assistant to the director of the Environmental Protection Agency's Equal Opportunities Division filed suit alleging that her position was abolished after she refused to engage in an "after-hours affair" with the director. The District Court dismissed the case because, although Barnes was discriminated against, the discrimination was based not

on the fact that she was a woman but that she refused to engage in sexual relations with her boss. The decision was reversed on appeal. Barnes was awarded just \$18,000 in back pay as damages for lost promotions.

The rise in awards over the years that followed seems directly proportional to the decline in seriousness of the complainants' charges. The 1990 settlement in *Bihun v. AT&T Information Systems*, for example, was for \$2 million. This small fortune was awarded to a personnel manager who suffered mental distress after receiving unwelcome advances from her supervisor, taking time off from work to recover, and finding her job eliminated when she returned. Today, Wal-Mart Stores is appealing a 1995 court ruling that awarded \$50 million in punitive damages to a receiving department worker who charged that her supervisor was verbally abusive and liked to joke about her figure.

The transition from an "after-hours affair" to "verbally abusive" behavior as the definition of what constitutes sexual harassment mirrors a shift in our moral worldview. As Ellen Frankel Paul has noted, we have gone from punishing behavior that is objectively wrong to that which is subjectively offensive. As the courts' sensitivity to super-sensitive women has expanded, the average amount being awarded to plaintiffs has skyrocketed to reach \$250,000 today. The \$18,000 awarded to Ms. Barnes, whose treatment few would not consider genuine sexual harassment, is pocket change by comparison.

While relatively few women filing complaints actually get a shot at this legal lottery (the EEOC ended up litigating just 50 cases in 1990), the numbers available regarding how much all of this alleged harassment costs companies in terms other than court awards and legal fees are staggering indeed. Of the women who feel they have been sexually harassed, more than 25 percent use leave time to avoid the situation. At least 15 percent leave their jobs. Nearly half of them try to ignore the harassing behavior and suffer a 10-percent drop in productivity as a result (moreover, their friends who are

aware of the situation suffer a 2 percent drop in productivity as well). One estimate puts the grand total to U.S. businesses for sexual harassment at \$6.7 million annually in absenteeism, employee turnover, low morale, and low productivity. A 1988 study, however, found that sexual harassment in federal offices cost the government about \$267 million in turnover and lost productivity over two years. Clearly such costs are difficult to quantify, but even the more conservative estimates available are extremely high.

And attempts at pinning down the vague costs of things like productivity are just the beginning of what U.S. businesses are paying for the thousands of sexual harassment claims filed every year. A 1992 study, for instance, found that 21 federal departments paid \$139 million simply *to process* the 6,883 complaints filed with the EEOC the previous year.

Facing the Problem

Faced with the surge in sexual harassment cases nationwide, employers are adopting a two-pronged approach to the problem. Their offensive strategy is to "re-educate" their employees so that the sexism and thoughtlessness that results in sexual harassment in the workplace is eliminated. Their defensive approach is to line up legal experts to review their companies' harassment policies in preparation for the inevitable harassment charge and, more recently, to purchase a new type of business insurance designed to help them through a sexual harassment case without being financially destroyed.

Thanks to the overall rise in employment discrimination cases (up 2,200 percent in the last two decades), sales of general employment-practices liability insurance have been on the rise in recent years. But companies ranging in size from a dozen workers to more than 10,000 employees are now purchasing sexual harassment liability insurance. Invented in the aftermath of Anita Hill's allegations against Clarence Thomas, such policies have only started catching on very recently. Although Presi-

dent Clinton's policy was a personal rather than corporate one, the information released last spring about his use of \$900,000 in liability insurance to cover the costs of Paula Jones's sexual harassment case against him will undoubtedly boost the sales of such policies for businesses.

Premiums for this new type of business liability insurance range from \$1,500 to \$25,000 annually, depending on many factors including turnover rates and whether the company has faced sexual harassment charges before. Coverage ranges from \$250,000 to \$25 million and includes court awards and defense costs—although not necessarily punitive damages.

The first to introduce liability policies to cover sexual harassment specifically was Lexington Insurance, in March 1992. Chubb Insurance Company followed suit, but until as recently as 1994 the two had the field pretty much to themselves. By the middle of that year, sales of the policies had risen 25 percent, and companies like Reliance National and New Hampshire Insurance were joining the trend. Company officials will not reveal exactly how many of the sexual harassment policies have been sold, but Chubb has said its business has been at least doubling every year. Business is certainly good enough that today there are about a dozen insurance companies jockeying for their share of clients. Although less than half of the Fortune 500 companies now have sexual harassment coverage, insurance company officials predict it will become a standard part of most business insurance portfolios within the next two or so years.

Sexual harassment liability insurance does have its critics, though—many of them from the corps of experts in prevention and re-education who believe that the best way for a company to protect itself is by hiring them to stop sexual harassment from occurring in the first place.

But try telling that to someone like Bill Buckingham. "I'll get even," were the last words the president of Buckingham Computer Services Inc. heard when he fired a female employee for not doing her job. He

and his company, a computer consulting business with some 40 employees, were sued for sexual harassment and wrongful discharge.

"Her comment was that I touched her on the back, which I had," Buckingham told *Inc.* magazine at the time. "We're a pretty close-knit company, and there was no question that I had patted people on the back. Nothing sexual. I'd tell people they were looking sharp today, ask if that was a new dress, stuff like that. That's basically what the suit was based on."

The ex-employee demanded more than \$100,000 to settle the case. Since that figure represented a year's profit to his company, Buckingham tried to fight. He gave up after a year-and-a-half battle and \$25,000 in legal costs. The most vigorous of prevention programs would not have saved Buckingham from such a suit, but sexual harassment liability insurance would have been a financial lifesaver.

There is no national clearinghouse for information on the sexual harassment industry, but sampling some of the different items these entrepreneurial experts offer gives a good extent of the enormous, and growing, business they have on their hands. Because many consultants combine sexual harassment training with their entire "diversity training" programs, the numbers for sexual harassment programs, as high as they are, are still conservative.

Sexual harassment prevention consultants provide a myriad of services to the business, small or large, seeking to minimize workplace problems. They will write a sexual harassment policy and the procedure for enforcing it tailored to specific companies' needs. They provide general staff seminars on what sexual harassment is, how to avoid a sexual harasser, and what to do if you feel you have been sexually harassed. They provide seminars specifically geared to the management personnel who are responsible for investigating and dealing with harassment charges. And they offer additional training for management so they themselves can conduct future workshops within their company.

Such seminars range from four or so hours

to two days and cost upwards of several thousands of dollars each time. And that's just the beginning. As the *9 to 5 Guide to Combating Sexual Harassment* suggests: "Training should be *ongoing*, not a one-time session, and presented *on paid time*." *Sexual Harassment on the Job*, another guide for employers, recommends that companies serious about combating sexual harassment have employees complete a Sexual Harassment Survey every six months. And don't forget that every new employee—especially in management—must go through the awareness and prevention program if the company wants to minimize its risk.

For the smaller companies that cannot afford real-life consultants, there are numerous books, manuals, and videotapes to help them. Videotapes can range from \$50 to \$200 for a 24-hour rental. The Seattle-based Pacific Resource Development Group, one of the best known in the business, offers audiocassettes beginning at about \$13.00; a videotape, *Shades of Grey*, for about \$1,500; and a monthly newsletter for \$120 annually. The company's annual sales exceed half a million, and its director, Susan Webb, has trained about a dozen other folks (at \$5,000 a head) to go into the harassment-prevention consulting business themselves.

Consulting firms aren't the only ones getting in on the action. Law firms are also expanding their programs to include sexual harassment prevention. The San Francisco-based firm of Littler, Mendelson, Fastiff, Tichy & Mathiason, one of the largest employment law firms in the nation, has gotten into the business of helping companies avoid sexual harassment lawsuits. A typical one-day seminar for 30 or so people costs from \$1,500 to \$3,000. With the majority of Littler's cases now relating to sexual harassment, this one firm alone has a tremendous market for its prevention seminars.

An excerpt from one sexual harassment guide indicates the extent to which these legions of experts are advising companies to go:

To maximize options for the complainant, the policy must allow for *several*

different channels. The procedure should not require the complainant to report the problem to her supervisor, since that person may be the harasser. At least one option should be to complain to an employee through an affirmative action committee, women's committee, or other committee. If feasible, designate an ombudsperson to counsel victims. . . . Management should designate one or more specially trained employees who will carry out investigations. . . . Follow-up should also be done with harassers—even if they are asked to resign—to make sure they understand what was wrong with their behavior.

As these recommendations indicate, an aggressive program requires the employer not just to support the sexual harassment industry directly but to create actual salaried positions for in-house harassment experts. Yet the threat of lawsuits is so great that, according to the Society for Human Resource Management, three-quarters of the companies in a recent poll had implemented some form of the many costly prevention steps now being recommended. Among the major corporations known for their "enlightened" sexual harassment programs are AT&T, Coca Cola, Avon, Texas Industries, and Harley-Davidson. DuPont company maintains a toll-free sexual harassment hotline. Four staff members trained in sexual harassment and rape prevention are assigned to the hotline and carry beepers 24 hours a day. The company assigns one man and one woman to investigate each case. Corning Inc. picks up the tab for employees who wish to speak with a confidential outside consultant.

Government Intervenes

In some areas of the country, the burgeoning sexual harassment industry has not been getting a boost simply from plaintiff-friendly juries, but from state legislatures as well. Since 1993 California has required all employers—regardless of size—to notify employees that sexual harassment is unlawful. The employer must provide examples

of what constitutes sexual harassment and clearly explain how harassed employees can get in touch with the appropriate government agencies. As one California lawyer who conducts prevention seminars said, "Employers are required to almost assist employees in their claims against them." Connecticut employers with more than 50 employees have been required since 1992 to conduct at least two hours of sexual harassment training for all management; if an employer has more than three workers, posters about sexual harassment must be prominently posted in the workplace. Other states have considered similar legislation in recent years.

This rapid growth of the sexual harassment industry is nothing less than liberalism's tax on the business world. The culture of victimization is becoming so embedded in the courts and, increasingly, the state legislatures, that a handful of sexual harassment lawsuits are now seen as representative of the average working woman's lot—and both working women and their employers are paying the very high cost. The continual rise in sexual harassment claims, even as women are poised to take over the reins at 50 percent of the small and mid-sized businesses in one recent survey (to use just one example), suggests that the sexual harassment industry itself is in large part to blame for this phantom epidemic that has employers so scared.

Rather than limiting themselves to explanations of the law, the experts are teaching women to spot lechery and lasciviousness behind every friendly smile. In such a world, where every man is considered a potential rapist (subtle though he may be), sexual harassment lawsuits easily become a tool for revenge. Of course, there is certainly boorish behavior going on in workplaces all across America, but for much of that, too, we can thank liberalism. The degradation of manners and proper social behavior that is the legacy of the anything-goes Sixties merely compounds workplace situations in which women are encouraged to go to the courts for every little slight.

It's time to inject a little reasonableness

into workplace relationships. And ironically enough, the feminist *9 to 5 Guide* offers some genuine common sense in its guidelines for “How Not to Harass.” First: “Until you learn otherwise, assume that a woman you don’t know will *not* enjoy off-color jokes or sexual advances at work.” Second: “Sharpen your listening skills. If a woman’s response, whether verbal or physical, seems negative, trust that it is. Does she avert her eyes or turn away? Assume that no means no.” And third: “If you’re not sure whether your workplace behavior is acceptable, ask yourself how you’d feel if your wife, daughter, or sister were witnessing your words and actions or were on the receiving end of such behavior.”

Yet what this feminist manual is offering are basically rules for how any civilized, courteous group of people would interact. In other words, mind your manners! It is a sad commentary on social mores when we have to turn to a workplace manual to be told how proper people behave—once upon a time such behavior was learned at home.

As with so many other liberal causes—

date rape, domestic abuse, child abuse—the expansion of the crime’s definition serves only to obscure genuine instances of it. When we look back at cases such as *Barnes*, there is little doubt that spotlighting the role of women in the workplace, as the women’s movement certainly did, has served to curtail such abuses of power. But teaching today’s young women to find harassment and slights on every rung of the workplace ladder hurts everyone in the long run—most of all women.

The more inroads women make into the workplace the more they will have to deal with office curmudgeons and critics, louts and loudmouths, backstabbers, brutes, and, yes, boors—as working men have always had to do. Unpleasant personalities can never be legislated away. But when a woman is cast in with a colleague from the last of these categories, the best advice for handling him comes not from any high-priced sexual harassment expert but from the pages of literature. As Cervantes once said, “The woman who is resolved to be respected can make herself so even amidst an army of soldiers.” □



Berton Braley, Commercial Poet

by Chris Baker

Although Ludwig von Mises called the twentieth century “the age of the dictators and tyrants,” it should also be remembered as the century that produced the greatest philosophers of freedom. One of the most tenacious and better known (but almost entirely forgotten today) of those thinkers was Berton Braley (1882–1966).

In 1923, the Honolulu *Star-Bulletin* called him “the most widely read American poet of today.” The Brooklyn *Eagle* declared him “the most prolific verse writer in America today.”¹ His obituary in the *New York Times* reported that he had written “verses by the thousands, short stories by the hundreds and books by the score.” A newspaper in Portland, Oregon, added: “. . . let anyone say ‘Berton Braley,’ in the average crowd of regular Americans and it’s dollars to doughnuts that he’ll poll a larger number of hands than any of the well known old masters. . . .”²

Braley began his brilliant career as a reporter in Butte, Montana—first for the *Inter-Mountain*, then for the *Evening News*. There, he was able to observe the gold and silver miners working in the “mile-high-and-mile-deep” city. This experience cultivated a respect for the working world and for human achievement that would shine throughout his writings. His poem “The Power Plant” begins:

Whirr! Whirr! Whirr! Whirr!
The mighty dynamos hum and purr,
And the blue flames crackle and glow and
burn
Where the brushes touch and the magnets
turn.³

He was definitely a contrast to the “cultured” writers of his day.

Both his writing and his actions reflected his belief that anything is possible. His “educators,” after all, had told him that it would be “impossible” and “unprecedented” to play football and to finish three and a half years of high school in only two years, but he did.⁴

He sold ten “Mining Camp Ballads” to the *Saturday Evening Post* in 1909 and decided to leave Butte for the major leagues of writing. He moved to New York City and became a full-time freelancer. Over the years, his work also appeared in *Coal Age*, *Engineering Journal*, *Forbes*, *Atlantic Monthly*, *American Machinist*, *Nation’s Business*, *Iron Age*, *The Century*, and “nearly every major popular magazine of his day.”⁵ For three years the Newspaper Enterprise Association circulated “Berton Braley’s Daily Poem.” He reported on World War I for *Collier’s* and even wrote poems about the World Series.

Artistic Commercialism

Unlike many artists, Braley had no objections to making money for his work. He never forgot that working people make it possible for artists to be artists. He com-

Mr. Baker is a patented inventor and writer living in Moundsville, West Virginia. His work has appeared in Liberty magazine.

mented in his biography, *Pegasus Pulls a Hack: Memoirs of a Modern Minstrel*:

I have been called a “prostitute” by several critics and amateur poets—never by a professional. . . . I honestly believe that sound commercialism is the best test of true value in art. People work hard for their money and if they won’t part with it for your product the chances are that your product hasn’t sufficient value. An artist or writer hasn’t any monopoly. . . .

If the public response to his artistry is lacking, he’d do well to spend more time analyzing what’s the matter with his work, and less time figuring what’s the matter with the public. . . .

Genius doesn’t starve.⁶

Few artists of any kind have respected their public as much as he respected his.

Braley also remembered that the source of wealth was not just labor, but the human mind. In “Enchanted Machines,” he wrote:

Enchanted, in fact, with the only true magic—
The magic that lives in the Brain,
By which man has banished his drudgery tragic,
The sweat and the toil and the strain,
The magic that, seeking new visions, new courses,
Knows not what “Impossible” means,
The magic that harnesses infinite forces
And builds these Enchanted Machines!

He also sang of “The Thinker,” “Adventurers of Science,” and “The Electrician.”

The mind was the source of his success. Braley looked at the world the same way that his heroes did. He was a keen observer with an Ayn Rand-like ability to see greatness in things which appeared to be simple and dull. He wrote about “The Telephone Directory”:

What is there seeming duller than this book,
This stolid volume of prosaic print?
And yet it is a glass through which we look
On wonderland and marvels without stint.

He combined this with the quick-wittedness of a Johnny Carson. He participated in a limerick contest in 1925 with 200 versifiers at the Roosevelt Hotel in New York. He was given the first line and won first prize with this effort:

There was an old fellow named Bryan,
Whose voice was forevermore cryin’
Do you think that my shape
Was derived from an ape?
Well, I think Charlie Darwin was lyin’.⁷

And all of his writings demonstrated a thorough knowledge of the language that would amaze any English teacher.

He knew that the beneficiaries of a free-market system were the people and that the beneficiaries of the New Deal would be the bureaucrats. His poem “Business is Business” finishes with: “‘Business is Business,’ the Big Man said, / ‘And that business is to serve.’” His *New Deal Ditties* were published in 1936 and included poems like “The Little Tin Gods” (in Washington) and “Three Little Bureaucrats,” written in a Menckenesque tone. In “Fresh Every Hour,” he wrote about a problem which has plagued almost every democracy in history:

Election promises, glibly spoken,
Are easily made—and easily broken.
They’re frail and fragile and slightly brittle,
So why complain if they crack a little?

Unfortunately, his “ditties” emphasized the negative case against socialism more than the positive case for capitalism.

Verse and Virtue

Even in his sixties, Braley remained prolific. He worked for an advertising agency until 1952. He summarized: “I’ve done greeting cards, mottoes, calendars, and bridge scores. I’ve written verse for about every type of trade journal there is, sung of machine tools, electric toasters, coal breakers, Mergenthalers, vacuum cleaners, ships and shoes and sealing wax.”⁸ He liked the “‘free’ in freelancing”⁹ and made the most

of that freedom. In 1955, he estimated his output at "11,000 verses, several hundred short stories, and many articles. . . ."10

Berton Braley was a dedicated philosopher of freedom. He was fascinated by the Industrial Revolution and understood its implications. He equally understood the impracticality and the immorality of socialistic programs like the New Deal. He held his highest regards for the individual who displayed the virtues of courage, honesty, fruitfulness, and perseverance—whether the person was a farmer, a pioneer, an engineer, a waiter, an industrialist like Henry Ford, or a doctor "At a War Hospital." In his poem "Why Not?", he asked:

The spirit of man is not wrapped in the shroud,
Why shouldn't the soul of a mortal be proud?



1. Berton Braley, *Virtues in Verse*, ed. Linda Tania Abrams (Milpitas, Cal.: The Alantean Press, 1993), p. viii.
2. *Ibid.*
3. *Ibid.*, p. 4. Subsequent quotations of Braley's verse are also from *Virtues in Verse*.
4. *Ibid.*, p. 111.
5. *Ibid.*, p. ix.
6. *Ibid.*, pp. 128, 147.
7. "Berton Braley, Poet Dies at 83," *New York Times*, January 27, 1966.
8. *Ibid.*
9. Braley, p. 160.
10. *New York Times*.



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John Locke—Natural Rights to Life, Liberty, and Property

by Jim Powell

A number of times throughout history, tyranny has stimulated breakthrough thinking about liberty. This was certainly the case in England with the mid-seventeenth-century era of repression, rebellion, and civil war. There was a tremendous outpouring of political pamphlets and tracts. By far the most influential writings emerged from the pen of scholar John Locke.

He expressed the radical view that government is morally obliged to serve people, namely by protecting life, liberty, and property. He explained the principle of checks and balances to limit government power. He favored representative government and a rule of law. He denounced tyranny. He insisted that when government violates individual rights, people may legitimately rebel.

These views were most fully developed in Locke's famous *Second Treatise Concerning Civil Government*, and they were so radical that he never dared sign his name to it. He acknowledged authorship only in his will. Locke's writings did much to inspire the libertarian ideals of the American Revolution. This, in turn, set an example which inspired people throughout Europe, Latin America, and Asia.

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Thomas Jefferson ranked Locke, along with Locke's compatriot Algernon Sidney, as the most important thinkers on liberty. Locke helped inspire Thomas Paine's radical ideas about revolution. Locke fired up George Mason. From Locke, James Madison drew his most fundamental principles of liberty and government. Locke's writings were part of Benjamin Franklin's self-education, and John Adams believed that both girls and boys should learn about Locke. The French philosopher Voltaire called Locke "the man of the greatest wisdom. What he has not seen clearly, I despair of ever seeing."

It seems incredible that Locke, of all people, could have influenced individuals around the world. When he set out to develop his ideas, he was an undistinguished Oxford scholar. He had brief experience with a failed diplomatic mission. He was a physician who long lacked traditional credentials and had just one patient. His first major work wasn't published until he was 57. He was distracted by asthma and other chronic ailments.

There was little in Locke's appearance to suggest greatness. He was tall and thin. According to biographer Maurice Cranston, he had a "long face, large nose, full lips, and soft, melancholy eyes." Although he had a love affair which, he said, "robbed me of the use of my reason," he died a bachelor.

Some notable contemporaries thought

highly of Locke. Mathematician and physicist Isaac Newton cherished his company. Locke helped Quaker William Penn restore his good name when he was a political fugitive, as Penn had arranged a pardon for Locke when he had been a political fugitive. Locke was described by the famous English physician Dr. Thomas Sydenham as "a man whom, in the acuteness of his intellect, in the steadiness of his judgement, . . . that is, in the excellence of his manners, I confidently declare to have, amongst the men of our time, few equals and no superiors."

Family Background

John Locke was born in Somerset, England, August 29, 1632. He was the eldest son of Agnes Keene, daughter of a small-town tanner, and John Locke, an impecunious Puritan lawyer who served as a clerk for justices of the peace.

When young Locke was two, England began to stumble toward its epic constitutional crisis. The Stuart King Charles I, who dreamed of the absolute power wielded by some continental rulers, decreed higher taxes without approval of Parliament. They were to be collected by local officials like his father. Eight years later, the Civil War broke out, and Locke's father briefly served as a captain in the Parliamentary army. In 1649, rebels hanged Charles I. But all this led to the Puritan dictatorship of Oliver Cromwell.

Locke had a royalist and Anglican education, presumably because it was still a ticket to upward mobility. One of his father's politically connected associates nominated 15-year-old John Locke for the prestigious Westminster School. In 1652, he won a scholarship to Christ Church, Oxford University's most important college, which trained men mainly for the clergy. He studied logic, metaphysics, Greek, and Latin. He earned his bachelor of arts degree in 1656, then continued work toward a master of arts and taught rhetoric and Greek. On the side, he spent considerable time studying with free spirits who, at the dawn of modern

science and medicine, independently conducted experiments.

Having lived through a bloody civil war, Locke seems to have shared the fears expressed by fellow Englishman Thomas Hobbes, whose *Leviathan* (1651) became the gospel of absolutism. Hobbes asserted that liberty brought chaos, that the worst government was better than no government—and that people owed allegiance to their ruler, right or wrong. In October 1656, Locke wrote a letter expressing approval that Quakers—whom he called "mad folks"—were subject to restrictions. Locke welcomed the 1660 restoration of the Stuart monarchy and subsequently wrote two tracts that defended the prerogative of government to enforce religious conformity.

In November 1665, as a result of his Oxford connections, Locke was appointed to a diplomatic mission aimed at winning the Elector of Brandenburg as an ally against Holland. The mission failed, but the experience was a revelation. Brandenburg had a policy of toleration for Catholics, Calvinists, and Lutherans, and there was peace. Locke wrote his friend Robert Boyle, the chemist: "They quietly permit one another to choose their way to heaven; and I cannot observe any quarrels or animosities amongst them on account of religion."

Locke and Shaftesbury

During the summer of 1666, the rich and influential Anthony Ashley Cooper visited Oxford where he met Locke who was then studying medicine. Cooper suffered from a liver cyst that threatened to become swollen with infection. Cooper asked Locke, apparently competent, courteous, and amusing, to be his personal physician. Accordingly, Locke moved into a room at Cooper's Exeter House mansion in London. Locke was about to embark on adventures which would convert him to a libertarian.

Cooper was born an aristocrat, served in the King's army during the Civil War, switched to the Puritan side, and commanded Puritan soldiers in Dorset. But he was dismissed amidst Puritan purges. He

was arrested for conspiring to overthrow the Puritan Commonwealth and bring back the Stuarts. King Charles II elevated him to the peerage—he became Lord Ashley, then the Earl of Shaftesbury—and joined the King's Privy Council.

Soon Shaftesbury spearheaded opposition to the Restoration Parliaments, which enacted measures enforcing conformity with Anglican worship and suppressing dissident Protestants. He became a member of the four-man cabinet and served briefly as Lord High Chancellor, the most powerful minister. Shaftesbury championed religious toleration for all (except Catholics) because he had seen how intolerance drove away talented people and how religious toleration helped Holland prosper. He invested in ships, some for the slave trade. He developed Carolina plantations. Locke is believed to have drafted virtually the entire *Fundamental Constitutions of Carolina*, providing for a parliament elected by property owners, a separation of church and state, and—surprisingly—military conscription.

Shaftesbury's liver infection worsened, and Locke supervised successful surgery in 1668. The grateful Shaftesbury encouraged Locke to develop his potential as a philosopher. Thanks to Shaftesbury, Locke was nominated for the Royal Society, where he mingled with some of London's most fertile minds. In 1671, with a half-dozen friends, Locke started a discussion group to talk about principles of morality and religion. This led him to further explore the issues by writing early drafts of *An Essay Concerning Human Understanding*.

Shaftesbury retained Locke to analyze toleration, education, trade, and other issues, which spurred Locke to expand his knowledge. For example, Locke opposed government regulation of interest rates: "The first thing to be considered is whether the price of the hire of money can be regulated by law; and to that, I think generally speaking that 'tis manifest that it cannot. For, since it is impossible to make a law that shall hinder a man from giving away his money or estate to whom he pleases, it will be impossible by any con-

trivance of law, to hinder men . . . to purchase money to be lent to them. . . ."

Locke was in the thick of just about everything Shaftesbury did. Locke helped draft speeches. He recorded the progress of bills through Parliament. He kept notes during meetings. He evaluated people considered for political appointments. Locke even negotiated the marriage terms for Shaftesbury's son and served as tutor for Shaftesbury's grandson.

Shaftesbury formed the Whig party, and Locke, then in France, carried on a correspondence to help influence Parliamentary elections. Shaftesbury was imprisoned for a year in the Tower of London, then he helped pass the Habeas Corpus Act (1679), which made it unlawful for government to detain a person without filing formal charges or to put a person on trial for the same charge twice. Shaftesbury pushed "exclusion bills" aimed at preventing the king's Catholic brother from royal succession.

Countering Stuart Absolutism

In March 1681, Charles II dissolved Parliament, and it soon became clear that he did not intend to summon Parliament again. Consequently, the only way to stop Stuart absolutism was rebellion. Shaftesbury was the king's most dangerous opponent, and Locke was at his side. A spy named Humphrey Prideaux reported on Locke's whereabouts and on suspicions that Locke was the author of seditious pamphlets.

In fact, Locke was contemplating an attack on Robert Filmer's *Patriarcha, or The Natural Power of Kings Asserted* (1680), which claimed that God sanctioned the absolute power of kings. Such an attack was risky since it could easily be prosecuted as an attack on King Charles II. Pamphleteer James Tyrrell, a friend whom Locke had met at Oxford, left unsigned his substantial attack on Filmer, *Patriarcha Non Monarcha or The Patriarch Unmonarch'd*; and Tyrrell had merely implied the right to rebel against tyrants. Algernon Sidney was hanged, in part, because the king's agents

discovered his manuscript for *Discourses Concerning Government*.

Locke worked in his bookshelf-lined room at Shaftesbury's Exeter House, drawing on his experience with political action. He wrote one treatise which attacked Filmer's doctrine. Locke denied Filmer's claim that the Bible sanctioned tyrants and that parents had absolute authority over children. Locke wrote a second treatise, which presented an epic case for liberty and the right of people to rebel against tyrants. While he drew his principles substantially from Tyrrell, he pushed them to their radical conclusions: namely, an explicit attack on slavery and defense of revolution.

Exile in Holland

As Charles II intensified his campaign against rebels, Shaftesbury fled to Holland in November 1682 and died there two months later. On July 21, 1683, Locke might well have seen the powers that be at Oxford University burn books they considered dangerous. It was England's last book burning. When Locke feared his rooms would be searched, he initially hid his draft of the two treatises with Tyrrell. Locke moved out of Oxford, checked on country property he had inherited from his father, then fled to Rotterdam September 7.

The English government tried to have Locke extradited for trial and presumably execution. He moved into one Egbertus Veen's Amsterdam house and assumed the name "Dr. van der Linden." He signed letters as "Lamy" or "Dr. Lynne." Anticipating that the government might intercept mail, Locke protected friends by referring to them with numbers or false names. He told people he was in Holland because he enjoyed the local beer.

Meanwhile, Charles II had converted to Catholicism before he died in February 1685. Charles's brother became King James II, who began promoting Catholicism in England. He defied Parliament. He replaced Anglican Church officials and sheriffs with Catholics. He staffed the army with Catholic

officers. He turned Oxford University's Magdalen College into a Catholic seminary.

In Holland, Locke worked on his masterpiece, *An Essay Concerning Human Understanding*, which urged people to base their convictions on observation and reason. He also worked on a "letter" advocating religious toleration except for atheists (who wouldn't swear legally binding oaths) and Catholics (loyal to a foreign power).

Catholicism loomed as the worst menace to liberty because of the shrewd French King Louis XIV. He waged war for years against England and Holland—France had a population around 20 million, about four times larger than England and 10 times larger than Holland.

On June 10, 1688, James II announced the birth of a son, and suddenly there was the spectre of a Catholic succession. This convinced Tories, as English defenders of royal absolutism were known, to embrace Whig ideas of rebellion. The Dutchman William of Orange, who had married Mary, the Protestant daughter of James II, agreed to assume power in England as William III and recognize the supremacy of Parliament. On November 5, 1688, William crossed the English Channel with ships and soldiers. James II summoned English forces, but they were badly split between Catholics and Protestants. Within a month, James II fled to France. This was the "Glorious Revolution," so-called because it helped secure Protestant succession and Parliamentary supremacy without violence.

Locke resolved to return home, but there were regrets. For example, he wrote the minister and scholar Philip van Limborch: "I almost feel as though I were leaving my own country and my own kinsfolk; for everything that belongs to kinship, good will, love, kindness—everything that binds men together with ties stronger than that of blood—I have found among you in abundance. . . . I seem to have found in your friendship alone enough to make me always rejoice that I was forced to pass so many years amongst you."

Locke sailed on the same ship as the soon-to-be Queen Mary, arriving in Lon-

don, February 11, 1689. During the next 12 months, his major works were published, and suddenly he was famous.

A Letter Concerning Toleration

Limborch published Locke's *Epistola de Tolerantia* in Gouda, Holland, in May 1689—Locke wrote in Latin presumably to reach a European audience. The work was translated as *A Letter Concerning Toleration* and published in October 1689. Locke did not take religious toleration as far as his Quaker compatriot William Penn—Locke was concerned about the threat atheists and Catholics might pose to the social order—but he opposed persecution. He went beyond the Toleration Act (1689), specifically calling for toleration of Anabaptists, Independents, Presbyterians, and Quakers.

"The Magistrate," he declared, "ought not to forbid the Preaching or Professing of any Speculative Opinions in any Church, because they have no manner of relation to the Civil Rights of the Subjects. If a Roman Catholick believe that to be really the Body of Christ, which another man calls Bread, he does no injury thereby to his Neighbour. If a Jew do not believe the New Testament to be the Word of God, he does not thereby alter any thing in mens Civil Rights. If a Heathen doubt of both Testaments, he is not therefore to be punished as a pernicious Citizen." Locke's *Letter* brought replies, and he wrote two further letters in 1690 and 1692.

Locke's Two Treatises on Government

Locke's two treatises on government were published in October 1689 with a 1690 date on the title page. While later philosophers have belittled it because Locke based his thinking on archaic notions about a "state of nature," his bedrock principles endure. He defended the natural law tradition whose glorious lineage goes back to the ancient Jews: the tradition that rulers cannot legitimately do anything they want, because there are moral laws applying to everyone.

"Reason, which is that Law," Locke

declared, "teaches all Mankind, who would but consult it, that being all equal and independent, no one ought to harm another in his Life, Health, Liberty, or Possessions." Locke envisioned a rule of law: "have a standing Rule to live by, common to every one of that Society, and made by the Legislative Power erected in it; A Liberty to follow my own Will in all things, where the Rule prescribes not; and not to be subject to the inconstant, uncertain, unknown, Arbitrary Will of another Man."

Locke established that private property is absolutely essential for liberty: "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." He continues: "The great and *chief end* therefore, of Mens uniting into Commonwealths, and putting themselves under Government, *is the Preservation of their Property.*"

Locke believed people legitimately turned common property into private property by mixing their labor with it, improving it. Marxists liked to claim this meant Locke embraced the labor theory of value, but he was talking about the basis of ownership rather than value.

He insisted that people, not rulers, are sovereign. Government, Locke wrote, "can never have a Power to take to themselves the whole or any part of the Subjects *Property*, without their own consent. For this would be in effect to leave them no *Property* at all." He makes his point even more explicit: rulers "must *not raise Taxes* on the Property of the People, *without the Consent of the People*, given by themselves, or their Deputies."

Locke had enormous foresight to see beyond the struggles of his own day, which were directed against monarchy: "'Tis a Mistake to think this Fault [tyranny] is proper only to Monarchies; other Forms of Government are liable to it, as well as that. For where-ever the Power that is put in any hands for the Government of the People, and the Preservation of their Properties, is applied to other ends, and made use of to impoverish, harass, or subdue them to the

Arbitrary and Irregular Commands of those that have it: There it presently becomes *Tyranny*, whether those that thus use it are one or many.”

Then Locke affirmed an explicit right to revolution: “whenever the *Legislators endeavor to take away, and destroy the Property of the People*, or to reduce them to Slavery under Arbitrary Power, they put themselves into a state of War with the People, who are thereupon absolved from any farther Obedience, and are left to the common Refuge, which God hath provided for all Men, against Force and Violence. Whosoever therefore the *Legislative* shall transgress this fundamental Rule of Society; and either by Ambition, Fear, Folly or Corruption, endeavor to grasp themselves, or put into the hands of any other an *Absolute Power* over the Lives, Liberties, and Estates of the People; By this breach of Trust they *forfeit the Power*, the People had put into their hands, for quite contrary ends, and it devolves to the People, who have a Right to resume their original Liberty.”

To help assure his anonymity, he dealt with the printer through his friend Edward Clarke. Locke denied rumors that he was the author, and he begged his friends to keep their speculations to themselves. He cut off those like James Tyrrell who persisted in talking about Locke’s authorship. Locke destroyed the original manuscripts and all references to the work in his writings. His only written acknowledgment of authorship was in an addition to his will, signed shortly before he died. Ironically, the two treatises caused hardly a stir during his life.

An Essay Concerning Human Understanding

Locke’s byline did appear with *An Essay Concerning Human Understanding*, published December 1689, and it established him as England’s leading philosopher. He challenged the traditional doctrine that learning consisted entirely of reading ancient texts and absorbing religious dogmas. He maintained that understanding the world

required observation. He encouraged people to think for themselves. He urged that reason be the guide. He warned that without reason, “men’s opinions are not the product of any judgment or the consequence of reason but the effects of chance and hazard, of a mind floating at all adventures, without choice and without direction.” This book became one of the most widely reprinted and influential works on philosophy.

In 1693, Locke published *Some Thoughts Concerning Education*, which offered many ideas as revolutionary now as they were then. Thomas Hobbes had insisted that education should promote submission to authority, but Locke declared education is for liberty. Locke believed that setting a personal example is the most effective way to teach moral standards and fundamental skills, which is why he recommended home-schooling. He objected to government schools. He urged parents to nurture the unique genius of each child.

Locke denounced the tendency of many teachers to worship power. “All the entertainment and talk of history is,” he wrote, “of nothing almost but fighting and killing; and the honour and renown that is bestowed on conquerors (who are for the most part but the great butchers of mankind) further mislead growing youth, who . . . come to think slaughter the laudable business of mankind, and the most heroic of virtues.”

Locke was asked by his new patron, Sir John Somers, a member of Parliament, to counter the claims of East India Company lobbyists who wanted the government to interfere with money markets. This resulted in Locke’s first published essay on economics, *Some Consideration of the Consequences of the Lowering of Interest, and Raising the Value of Money* (1691), which appeared anonymously. He explained that market action follows natural laws and that government intervention is counterproductive. When individuals violated government laws like usury laws restricting interest rates, Locke blamed government for enacting the laws. Locke warned against debasing money and urged that the Mint issue full-weight silver coins. His view prevailed.

Locke helped expand freedom of the press. He did this by twice opposing renewal of the Act for the Regulation of Printing. The second time, in 1694, he was successful. He stressed the evils of monopoly, saying “I know not why a man should not have liberty to print whatever he would speak.”

Despite his love of liberty, Locke supported the establishment of the Bank of England in 1694. Its aim was to help the government finance wars against Louis XIV. It loaned money to the government in exchange for gaining a monopoly on dealing in gold bullion, bills of exchange, and currency. Locke, financially comfortable thanks to Shaftesbury’s investment advice, became an original subscriber.

In 1696, King William III named Locke a Commissioner on the Board of Trade, which included responsibility for managing England’s colonies, import restrictions, and poor relief. As far as the poor were concerned, according to one friend, “He was naturally compassionate and exceedingly charitable to those in want. But his charity was always directed to encourage working, laborious, industrious people, and not to relieve idle beggars. . . .” Locke retired from the Board of Trade four years later.

Locke’s Final Years

Sir Francis Masham and his wife, Damaris, had invited Locke to spend his last years at Oates, their red brick Gothic-style manor house in North Essex, about 25 miles from London. He had a ground-floor bedroom and an adjoining study with most of his 5,000-volume library. He insisted on paying: a pound per week for his servant and himself, plus a shilling a week for his horse.

Locke gradually became infirm. He lost most of his hearing. His legs swelled up. By October 1704, he could hardly arise to dress. He broke out in sweats. Around 3 o’clock in the afternoon, Saturday, October 28, Locke was sitting in his study with Lady Masham. Suddenly, he brought his hands to his face,

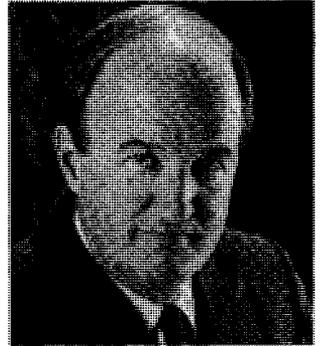
shut his eyes, and died. He was 72. He was buried in the High Laver churchyard.

During the 1720s, the English radical writers John Trenchard and Thomas Gordon popularized Locke’s political ideas in *Cato’s Letters*, a popular series of essays published in London newspapers, and these had the most direct impact on American thinkers. Locke’s influence was most apparent in the Declaration of Independence, the constitutional separation of powers, and the Bill of Rights.

Meanwhile, Voltaire had promoted Locke’s ideas in France. Ideas about the separation of powers were expanded by Baron de Montesquieu. Locke’s doctrine of natural rights appeared at the outset of the French Revolution, in the Declaration of the Rights of Man, but his belief in the separation of powers and the sanctity of private property never took hold there. Hence, the Reign of Terror.

Then Locke virtually vanished from intellectual debates. A conservative reaction engulfed Europe as people associated talk about natural rights with rebellion and Napoleon’s wars. In England, Utilitarian philosopher Jeremy Bentham ridiculed natural rights, proposing that public policy be determined by the greatest-happiness-for-the-greatest-number principle. But both conservatives and Utilitarians proved intellectually helpless when governments demanded more power to rob people, jail people, and even commit murder in the name of doing good.

During recent decades, some thinkers like novelist-philosopher Ayn Rand and economist Murray Rothbard revived a compelling moral case for liberty. They provided a meaningful moral standard for determining whether laws are just. They drew the clearest possible line beyond which neither a ruler, nor a majority, nor a bureaucrat, nor anyone else in government could legitimately go. They inspired millions as they sounded the battle cry that people everywhere are born with equal rights to life, liberty, and property. They stood on the shoulders of John Locke. □



Why Wages Rise

“For low-paying jobs that already exist, public policy must aim at supplementing the income of the working poor. . . . One way would be to raise gradually the minimum wage.”

—Wallace C. Peterson,
*Silent Depression*¹

In the recent debate over the minimum wage and the working poor, I was reminded of a little book, *Why Wages Rise*, by F. A. Harper (The Foundation for Economic Education, 1957). In his book, Harper made an important distinction between legitimate ways to raise the average wage and artificial means of raising workers’ income.

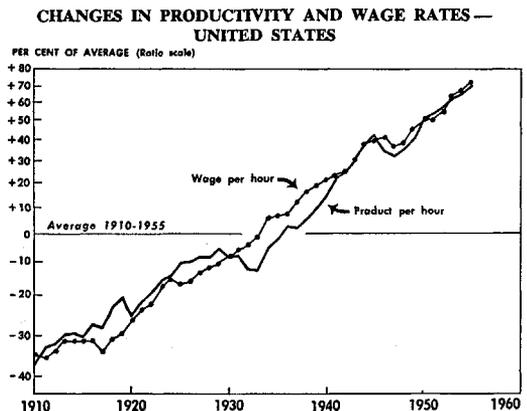
Genuine Means of Raising Wages

First, let’s discuss the genuine ways that wages can rise. Here Harper focused on the critical role of production and worker productivity. “Production comes first,” he explains. “Higher wages come from increased output per hour of work.” (p. 19) Harper produces a graph (see below) showing a

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close relationship between wages per hour and output (GDP) per hour, expressed in constant dollars, between 1910 and 1960.

Harper’s theory of wages is not new—it is the classical theory of labor taught in college economics. John B. Taylor, economics professor at Stanford, produces graphs that show a similar relationship in his latest textbook (see the next page for a graph showing the rise in hourly compensation since 1955). Even Wallace Peterson, an economist who favors increasing the minimum wage and other forms of government intervention in the labor market, supports the view that, in the long run, “productivity gains are the ultimate source of . . . increases in real living standards.”²



SOURCE: This chart is designed so that a constant percentage increase would appear as a straight line. The values of product and wages are both expressed in dollars of constant buying power. The data for product are for the private sector, and are from the series by John W. Kendrick in his paper, *National Productivity and Its Long-Term Projection* (National Bureau of Economic Research, May 1951), brought up to date by the National Industrial Conference Board. For the data on wage rates, see Chapter 1, p. 11.

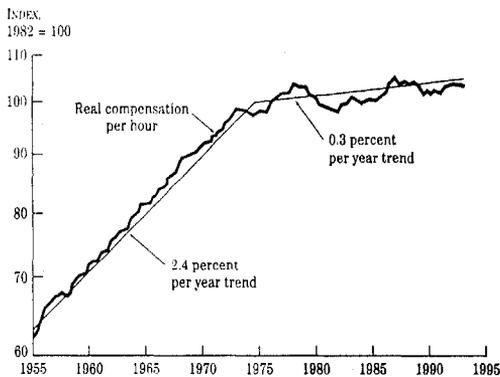


FIGURE 12.2
Growth of Real Hourly Compensation

In the United States, average real hourly compensation (including fringe benefits) grew rapidly from the mid-1950s to the mid-1970s. Starting in the mid-1970s, the growth rate slowed down.

Source: U.S. Department of Commerce.

Two Benefits of Higher Profits

How is it that workers tend to receive higher wages as output increases? The key is profitability. When firms increase their profits, there are dual benefits to workers: (1) more and better products and services are sold to consumers, and (2) more funds are made available from retained earnings to pay workers and to improve tools, equipment, and training. When firms are successful, company officers aren't the only ones who benefit. Workers also receive higher wages and more services, including training, better equipment, and fringe benefits. The advantages of giving higher compensation are: (1) less job turnover, (2) better workers, and (3) higher incentives to work more productively.

The Ford \$5-a-Day Story

The Henry Ford \$5-a-day story is a classic example. As a result of the huge success of the Model T, in 1913 the Ford Motor Co. doubled its profits from \$13.5 million to \$27 million. With these profits, Ford decided to share the wealth with his employees and overnight doubled the minimum wage at his

Detroit plant from \$2.50 to \$5 a day. It made Henry Ford an industrial messiah.

The effect of the instant pay raise was dramatic: a tremendous surge in output and skyrocketing morale among Ford workers. Thousands of potential employees moved to Detroit in hopes of getting a job. Ford argued that the higher wage had two great benefits, increased efficiency at the automobile plant, and increased buying power of his workers. Importantly, the \$5 wage permitted Ford workers to buy their own cars for the first time. Indeed, sales of Model T's continued to soar as wages went up and prices declined. By 1916, over half a million cars were sold.³

Ludwig von Mises adds the following point to Harper's original argument: it is *marginal* productivity, not just total productivity, that has raised average wages over the past hundred years. He points out that many jobs have not changed over the years (barbers, butlers, etc.), yet they benefit from higher wages due to labor competition. "It is not any merit on the part of the butler that causes this rise in his wages, but the fact that the increase in capital invested surpasses the increase in the number of hands." Mises concludes, "there is only one means to raise wage rates permanently . . . namely, to accelerate the increase in capital available as against population."⁴

Do's and Don'ts

Harper, Mises, and other free-market economists warn politicians not to seek artificial ways to increase income, such as:

- minimum-wage legislation,
- welfare programs,
- labor union power, and
- anti-immigration laws.

All of these measures either cause unemployment or economic inefficiency.

On the other hand, there are a few policies the government can undertake to encourage productivity and higher wages, such as tax cuts on business and investment. Reducing corporate income taxes will increase net income and thereby increase the capability to pay workers more and provide greater

benefits. Cutting capital gains taxes will encourage private savings, reduce interest rates, and stimulate capital formation.

These measures are far superior to raising the minimum wage and other counterfeit proposals to help the working poor. □

Minimum-Wage Millionaires

But the most dramatic improvement in the lives of the working poor could be achieved by converting Social Security into a genuine private pension system. Privatizing Social Security would increase the nation's saving rate and, most importantly, provide a high retirement income for all American workers. Even minimum-wage earners could have over \$1 million in pension assets under a privately funded Social Security at retirement.⁵

1. Wallace C. Peterson, *Silent Depression: Twenty-five Years of Wage Squeeze and Middle-Class Decline* (New York: Norton, 1994), p. 232.

2. *Ibid.*, p. 232.

3. For a retelling of the \$5-a-day story, see Jonathan Hughes, *The Vital Few* (New York: Oxford, 1986), pp. 301-304.

4. Ludwig von Mises, *The Anti-Capitalistic Mentality* (South Holland, Ill.: Libertarian Press, 1972), pp. 88-89.

5. Sam Beard calculates that Social Security contributions of minimum-wage earners (\$1,240 a year) would make them millionaires in 45 years if their Social Security contributions earned 8 percent a year. See his book *Restoring Hope in America* (ICS Press, 1996). Also, see my column "\$4,000 A Month From Social Security?", *The Freeman*, June, 1994.

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BOOKS

Deregulating Freight Transportation

by Paul Teske, Samuel Best, and Michael Mintrom

The AEI Press • 1995 • 236 pages • \$39.95

Reviewed by Burton W. Folsom, Jr.

Deregulating Freight Transportation is a thoughtful and timely book written by Paul Teske, Samuel Best, and Michael Mintrom. The authors describe how the movement to deregulate transportation finally succeeded and how it is saving the U.S. economy billions of dollars each year.

Much of this book is the story of the ICC (Interstate Commerce Commission) and the CAB (Civil Aeronautics Board) and why railroads, trucking, and the airlines were so inefficient during much of this century. The authors describe the origin of state and federal regulation. The ICC was empowered in the early 1900s because some shippers complained loudly about rebates and rate discrimination. Railroads gave rebates to large shippers who did volume business; railroads also gave discounts to shippers who did business along the well-traveled routes. To the railroad owners, this behavior simply followed good cost-benefit analysis. The fixed costs in railroading meant that shippers with small loads and shippers who lived in remote areas were expensive to service—therefore, they should pay more.

What small shippers lacked in economic clout they offset with their political muscle. They lobbied state legislatures and later Congress to get laws passed that fixed rates and regulated the railroad industry. The regulating of the trucking industry followed in the 1920s and 1930s, and the CAB in airlines followed the ICC model in the 1930s.

According to Teske, Best, and Mintrom, federal regulation meant fewer transportation options, higher prices, and industries governed by the politics of lobbying, not the economics of competition. Much of this

was exposed in the 1970s. Intrastate rates, which were not always subject to regulation, were often discovered to be remarkably low. Southwest Airlines in Texas and Pacific Southwest in California became models of low costs and excellent service. Senate hearings in 1975 exposed the inefficiency of the regulated airlines. The resulting clamor led the airlines to “experiment” with competition and free markets. Consequently, passenger fares dropped 30 percent from 1976 to 1990.

The presence of frequent fliers and busy travel agents led to demands that trucking and railroads follow suit. The ICC was under fire and could barely justify its existence to critics. During the 1980s and early 1990s, Teske, Best, and Mintrom describe the initial dismantling of the ICC and how shippers have profited. The authors, in fact, recommend the abolition of the ICC and also an improved single base-state system to meet varying state standards for loads and vehicles.

The authors conclude that “reliance on the market as a regulator will be the main American policy toward freight transportation in the next century.” At a time when free-market thinkers grieve over failed federal programs in medical care, Social Security, and welfare it’s nice to read a success story—and that’s what Teske, Best, and Mintrom have given us. □

Dr. Folsom is senior fellow in economic education with the Mackinac Center for Public Policy in Midland, Michigan.

Roads in a Market Economy

by Gabriel Roth

Ashgate Publishing • 1995 • 272 pages • \$76.95

Reviewed by John Semmens

No one has labored longer than Gabriel Roth has in the pursuit of a more efficient transportation system. For over 40 years he has been analyzing problems and suggesting solutions. Most of this work has been in the form of shorter policy studies,

conference presentations and papers, and magazine or journal articles. This book endeavors to present a more complete and comprehensive exposition of his views on how roads might be more effectively operated for the benefit of both users and the larger society.

The current methods of financing and operating roads are less than optimal. While there are "highway user taxes," they are levied in ways that do not take full advantage of the commercial potential that "pricing" the roads offers. Highway user taxes do not vary with traffic demand. As a result they cannot serve to ration demand. Highway user taxes have an inconsistent relationship to the costs incurred to serve various users. As a result, users who impose high costs on the system are encouraged to demand more service than can be provided with existing resources. Investment decisions are similarly diverted from the optimum because they are not driven by the need to serve customers in order to earn a profit.

Mr. Roth's solution to the deficiencies of the current public highway system is to "commercialize" the roads. He distinguishes this from "privatization" by allowing for public as well as private road corporations. His model for a commercialized road system is the telephone market. Each road corporation would have a defined territory within which it would operate as a business. As a starting point, he suggests that state highways would be incorporated into a single business within each state. County roads and city roads would also start out as geographically defined monopolies within their respective boundaries. Compared to a competitive "ideal," these geographically circumscribed monopoly businesses might be prone to less than full efficient operating habits. Further, since Mr. Roth's model would permit new entrants to the market, the source of potential competition should help reduce monopoly abuses. However, a more relevant standard of comparison is the current system. On this basis, Mr. Roth's solution would likely be an improvement.

Mr. Roth's basic requirements for a commercialized road system include the following elements:

1. The roads must have owners. As beneficiaries of the increased value of the asset, the owners will have strong incentives to nurture and improve the roads. This stands in contrast to the current system wherein the roads aren't really owned by anyone. As a result the roads are alternately overbuilt and neglected.

2. The roads must be financially self-supporting. The only means we have of knowing whether resources are used wisely is if the customers willingly pay the full cost of their deployment and use. The current mixture of user and non-user taxes and cross subsidies undermines the wise deployment of resources.

3. The law must not discriminate between publicly owned and privately owned roads. If there are user taxes, privately operated roads must have access to a pro-rated share. In the current system, the users of privatized toll roads get no return on the gas taxes paid for fuel burned while driving on the toll road. To the contrary, the users of privatized toll roads are compelled to fund "free" public roads that may unfairly draw customers away from the toll road.

4. Revenues must accrue to those who *earn* them. That is, fees imposed on road users must be paid over to the road owners rather than being diverted to some other purpose (as federal highway user taxes have been diverted to "deficit reduction").

5. Standards must be established to allow for the free flow of traffic from one road system to the next. The standards established by privately owned and operated railroads that permit the smooth transfer of freight cars from one corporation's track to another's demonstrate the market's ability to handle this requirement.

Perhaps the key tool for promoting efficiency in a commercialized road system is the pricing of road access and use. Mr. Roth presents a comprehensive list of requirements that must be met if a road-pricing mechanism is to have an optimal impact on efficiency. Mr. Roth expects commercial-

ization to result in a road system that is more efficient, more equitable, and safer. Given that the marketplace has usually produced better results than government has for all of these objectives, the probabilities are high that Mr. Roth is correct.

Even though we might have wished for a more radical solution (I myself have written a number of articles and papers advocating that public roads be sold to private operators), those wishing to be fully informed on the evolving issues of highway privatization can ill-afford to be ignorant of Mr. Roth's work. This latest effort is a well argued and nicely detailed addition to his already impressive output on this issue. □

Mr. Semmens is an economist with the Laissez-Faire Institute in Chandler, Arizona.

Why Not Freedom! America's Revolt Against Big Government

by James Ronald Kennedy and
Walter Donald Kennedy

Pelican Publishing Company • 1995 • 397 pages
• \$21.95

Reviewed by Wesley Allen Riddle

The Kennedy brothers of Louisiana have followed up their successful title *The South Was Right!*, winner of the Southern Heritage Society's 1995 Literary Award, with a new book—even more likely to raise eyebrows and a din of vituperative commentary from the liberal press. *Why Not Freedom!* is a clarion call to wage political battle, sounded for Southern nationalists and states' rightists of all sections. The visionary aim is to reinstate antebellum constitutional construction, minus slavery or *legally* enforced segregation and race-based discrimination.

The authors blame both major political parties for betrayal of the American middle class, notwithstanding the fact that they vent hottest anger at the Democratic party—which, after all, was the Solid South's political home for so long. But while the

Kennedy brothers apparently agree with conservative Republican positions on most issues, they refuse to take much comfort, and they provide a sobering and decidedly Southern assessment of the so-called "Revolution of 1994."

If there is a problem with the historical case the authors make, it is that they credit the Civil War too much for the kind of consolidation that has taken place this century—really only since the Progressive Era. Indeed, recent historical scholarship by Earl M. Maltz, professor of law at Rutgers University, indicates that the original intent of the drafters of the Reconstruction amendments was to keep essential federalism intact. The Thirteenth, Fourteenth, and Fifteenth Amendments most certainly were *not* conceived to grant sweeping new authority to the federal government to enforce open-ended concepts such as equality.

Be that as it may, the Kennedy brothers demonstrate that Americans at the end of the twentieth century live in a country that meets outright the definition of tyranny used by the Founding Fathers. The Constitution no longer operates in accord with the Founders' original intent. Rather, the federal government has become Leviathan and views the middle class as a "cash-cow" to be milked—taxed for the benefit of others.

One of the most lucid theoretical points the Kennedys draw from the Founding Federalists, including even Hamilton, is the role of the states in vertical balance of power. In particular, the sovereign state bears responsibility in the federal system to police the actions of its agent, the federal government, to insure that liberty and property of its citizens are not curtailed.

The authors provide excellent examples of how citizens do not possess the necessary resources or power to fend off wrongful prosecution by the federal government. The relatively weak individual needs state government to intercede or *interpose* on the individual's behalf. Today that function is all but inoperative, and individuals are left to the mercy of big government. Unfortunately, "Big Governments make for small citizens" (p. 239). In Section II, 20 chapters

are dedicated to documenting contemporary abuses of the middle class by the federal government.

Why Not Freedom! is not for the timid conservative. It is radical. This book is one more compelling piece of evidence about the momentary groundswell in Louisiana, as well as in Alabama, Texas, Virginia—and Montana, among other places. The South, along with the West, is leading a revolutionary political movement that seeks to overturn not only the New Deal, but potentially, *some* precedents that date back to 1861. So far, neither political party seems fully in tune with it. □

Wesley Allen Riddle is assistant professor of history at the United States Military Academy, West Point, New York, where he teaches Advanced American History and the American Political Tradition. He is also a Salvatori Fellow with the Heritage Foundation for the 1996–97 term.

The Political History of Economic Reform in Russia, 1985–1994

by Vladimir Mau

Foreword by Robert Skidelsky
Center for Research into Communist Economies, New Series 13, London • 1996 • 136 pages • \$39.00

Reviewed by Yuri N. Maltsev

The economic and political collapse of the Soviet Union was a surprise only to the CIA, Sovietologists, and fellow travelers of Communism in the West. For people like Dr. Vladimir Mau, who followed the direction of economic and political developments in the USSR from inside of the socialist Leviathan, it was obvious that the disaster was coming, and coming soon. Mau's *The Political History of Economic Reform in Russia, 1985-1994*, stands out as a story of an insider, a testimony of an important witness. Dr. Mau was a part of the team of senior Soviet economists working on the economic reforms of President Gorbachev at the Institute of Economics of the

Academy of Science of the USSR. Today he heads the Moscow Institute for the Economy in Transition, an influential think-tank among Moscow reformers. Like any "insider's story," Dr. Mau's book is highly partisan: he takes sides and he is an ardent advocate of economic and political liberty.

Dr. Mau begins his analysis with a short history of previous attempts to reform Soviet socialism, in which he shows that reforms would only be introduced as a last resort for saving Communism, not abandoning it (as the Western well-wishers would try to portray it).

The social tragedy known as the Bolshevik Revolution of 1917 was not an isolated event in Russian history, states Dr. Mau. "The state traditionally played a major role in Russian economy. . . . The huge bureaucratic regulatory state was the direct predecessor of socialism. "Not without reason," writes Dr. Mau, "were the basic forms of economic centralism, later raised to an absolute by the Bolsheviks, determined and tested in practice by the pre-revolutionary Russian governments, both Tsarist and Provisional."

Moving forward 60 years, the first sign of the coming Soviet economic collapse at the end of the 1970s and the beginning of the 1980s was an urgency to increase state subsidies to unprofitable enterprises. By the mid-1980s, the deterioration of the Soviet economy reached a critical point. More than 50 percent of state business enterprises were permanently unprofitable and survived due to the huge subsidies, while the agricultural sector required an infusion of more than 100 billion rubles in the years 1986-1988 to support the feudal collective farm system based on state ownership of land and forced labor. Productivity declined and shortages (as well as corresponding rationing of consumer goods) became widespread.

"*Perestroika* was the last and most far-reaching attempt to reform Soviet-type socialism while preserving the fundamental features of that society—the socialist choice of the people," as Gorbachev in his time liked to say. At the same time *perestroika* led to the breakthrough out of socialism and

laid the foundations for the post-socialist (post-communist) development of the country." This "breakthrough out of socialism" had nothing to do with ill-devised and never implemented "economic reforms" of Gorbachev's confidants, who could not go beyond Marxist political economy to mention issues of private property and markets. The whole idea of *perestroika* was to "improve socialism" by certain organizational measures. The true reason for the demise of socialism and the Soviet empire as Mau puts it "was the weakening of political control" (p. 46). With *perestroika*, the ailing regime lost its repressive underpinning and the "socialist economic mechanism," built upon repression, fell like a house of cards.

The end of 1991 marked the collapse of both—the Soviet economic system and the Soviet Union as a unitary state. There had occurred two radical changes which had long-term and all-embracing economic and political consequences. First, the policy of late-socialist reformism had been replaced with one aimed at solving post-communist transformation problems. Second, the center of gravity of this process had shifted onto the level of the former Soviet republics, which had just become independent states.

Reviewing the post-Communist economic transition, Dr. Mau points to the widespread frustration with the "free market" reforms of Yeltsin's government that led to the situation in which every new announcement of impending reform causes perverse public responses and new legislation passed, ostensibly to increase freedom, but which only increases opportunities for fines and bribes. Today, it is obvious that economic and political developments in Russia are taking the path toward even more government intervention, towards the creation of the essentially fascist economy coupled with a totalitarian political regime. Recent resolutions of the Duma attacking the West and calling for the restoration of the former Soviet empire illustrate this sad conclusion.

The major lesson to be learned from this examination of the administrative-command system is that it failed because of internal contradictions, not human error.

Subsequent generations, attracted by the appealing but illusory features of the administrative-command system—equality, job rights, managed growth—may conclude that the system itself was sound. In this flawed but popular view, Soviet managers from the late 1920s through the early 1990s simply could not do it right due to some technical or cultural factors. Such a conclusion could lead to a repetition of the deadly experiment with results that would perhaps not be foreseen by future generations.

The failure of socialism in Russia and enormous suffering and hardship of the people in all of the so-called socialist countries warn strongly against socialism, statism, and interventionism in the West. Yet one of the saddest legacies of Marxism is the mindset of certain people both in the East and West who started to believe that only the Big State can cure economic ills and achieve social justice. Dr. Mau's book is another testimony that this path will inevitably lead the follower down the road to serfdom. □

Dr. Maltsev is associate professor of economics at Carthage College in Wisconsin.

The Free Society

by Lansing Pollock

Westview Press • 1996 • 168 pages • \$49.95
cloth • \$17.95 paper

Reviewed by Robert Batemarco

Failure to go back to first principles in considering what government should do lies at the heart of the sterility of so much of today's public debate on the issues. Lansing Pollock's *The Free Society* seeks to fill that void by providing philosophical foundations for his version of limited government libertarianism. His "freedom principle" is based on Kant's exhortation that people be treated as ends in themselves rather than means, as well as a rejection of paternalism. From here, Pollock informs his pragmatic discussion of institutions,

their economic ramifications, and how to make the transition from our present state of affairs to the one he envisions.

His libertarianism is less limited than many *Freeman* readers might hope for. For instance, he would have his "libertarian" government provide water and sewer service, street and roads, parks, and even student loans, in addition to the national defense and law enforcement services provided by anyone's minimal state. Even in eliminating such welfare state excrescences as AFDC, public schooling, and Social Security, he calls for gradualism, with the phase-out periods ranging from 16 to 25 years.

Many of these "leaks," to borrow Leonard Read's description of divergences from his own freedom philosophy, come from the author's notion of "conservative justice." This notion brands as coercive any action which disappoints expectations which one's previous actions led people to hold. Acting on this notion appears to violate Pollock's own freedom principle, however. Its main effect is to upgrade the case for gradualism in reforming current abuses from the pragmatic level to philosophical level. Even on the pragmatic level, gradualism seems to perform far more effectively at expanding the state rather than restraining it.

Many of his themes, however, do indeed strike a libertarian chord: the existence of rational criteria for evaluating moral theories, opposition to both bullying elitism and leveling egalitarianism, the inviolability of property rights, the justification for punishment, the detrimental effect on economic

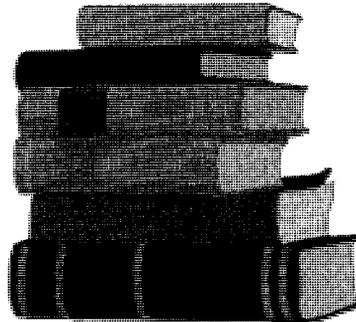
growth and productivity of government intervention, the tendency of paternalism to foster irresponsibility, support for a non-interventionist foreign policy, and the connection between big government and moral decay.

The *Free Society's* scope is far-reaching. In a book so short, this means that the author barely scratches the surface on some issues. Given that handicap, it is gratifying how many issues he covers well. I thought his discussion of health care was extremely well done. Conspicuous by its absence, however, is any discussion of the monetary institutions necessary to a free society.

One of the thorniest problems facing libertarians is how to finance the limited government they do support, given their view that, "taxation is theft." His inclination toward user fees is reasonable, but inadequate for such collectively consumed goods as national defense. His proposal to solve this by taxing land harkens back to Henry George and entails, if implicitly, the quite un-libertarian assumption that all land belongs to the state.

Despite its shortcomings, this book presents a principled case for libertarianism in a clear fashion. While one may not agree with every proposal it puts forth, there is little it advocates which would not be a step in the right direction. □

Dr. Batemarco, book review editor of The Freeman, is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.



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Freedom-for-Labor Day in New Zealand

May 15, 1991, is a day that shall live in glory in the history of the world-wide struggle to free working men and women from the shackles of compulsory unionism. On that date the New Zealand Parliament enacted the Employment Contracts Act (ECA), a piece of legislation that, notwithstanding its two faults, could be used as a model for the rest of the world. It would be an excellent substitute for the American National Labor Relations Act (NLRA).

Section 1(c) of the ECA declares that a purpose of the Act is

To enable *each* employee to choose either—(i) To negotiate an individual employment contract with his or her employer; or (ii) To be bound by a collective employment contract to which his or her employer is a party (emphasis added).

New Zealand workers can choose to represent themselves in the sale of their labor services or to be represented by an agent. Furthermore the agent does not have to be a labor union. Unions represent only those workers who individually choose them as representatives. There is no forced representation.

Under the NLRA American workers are forbidden to designate representatives of their own choosing. The decision to unionize or not is decided by majority vote. Individuals are not free to choose for themselves. Moreover, American workers can be forced to join (or at least pay dues to) unions that have been certified by majority vote. The First Amendment to the U.S. Constitution forbids government to abridge the freedom of association of any individual. Yet, with the blessing of the U.S. Supreme Court, Congress has given unions the right to force workers to pay tribute to them as a condition for those workers to keep their jobs.

In 1991 the New Zealand Parliament boldly eliminated forced membership and forced dues altogether. Section 6 of the ECA

guarantees that membership is totally voluntary. Section 7 of the ECA proscribes any discrimination for or against a worker for membership or nonmembership in a union. Under Section 8(a)(3) of the NLRA employers are forbidden to discriminate for or against any worker on the basis of membership or nonmembership in a union *except* an employer can agree with a union to *compel* union membership.

Section 1(d) of the ECA makes all collective bargaining voluntary. In contrast, under Sections 8(a)(5) and 8(d) of the NLRA employers are forced to bargain in good faith with certified unions on a long list of mandatory subjects of bargaining. Case law has defined good faith bargaining as being willing to make concessions. If an employer does not make sufficient concessions to prove that he is bargaining in good faith, he can be found guilty of an unfair labor practice and forced to accept the union's terms.

This is an excellent example of what Ed Vieira calls the apartheid of American labor relations law. In every other area of the law, in order for contracts to be valid they must have been entered into freely by all of the parties involved. Parties are not forced to bargain, they must choose to bargain. Contracts that are the result of coerced bargaining are not enforceable. But in American labor relations law *all* collective bargaining contracts are coerced and enforceable. All U.S. collective bargaining contracts are based on involuntary exchange.

The two faults in the ECA I alluded to above are: (1) it prescribes mandatory unjustifiable dismissal restrictions in all employment contracts whether individual or collective, and (2) it gives jurisdiction in employment contract disputes to a specialist court made up of judges who served on the old Labour Court under the compulsory unionism regime that preceded the ECA. First, the stated aim of the ECA is to restore the common law of property, contract, and tort to labor relations—i.e., to stop treating labor relations as a special case. Under the common law of employment, all employment relationships were at-will unless oth-

erwise agreed to by both the employer and the employee. There is no room in the common law of employment for mandatory unjustifiable dismissal restrictions in employment contracts. Second, labor relations cases should be tried in generalist courts rather than in courts that are dedicated to treating labor relations as a special case.

Nevertheless, the ECA has abolished all forms of compulsory unionism in New Zealand. Next to that, its faults pale in significance. Compared to New Zealand, America is not the land of the free, at least not in labor relations.

—CHARLES W. BAIRD
Guest Editor

Forty Years Ago in *The Freeman* . . .

Most people want commodities to be sold in free markets, but many doubt if such markets are suitable for the determination of wage rates. They insist that workers should be permitted, or even encouraged, to organize and bargain collectively with their employers. They believe that just wages can be had only if workers are permitted to collectively decide the minimum price at which they will sell their services. . . .

By definition, a free market for labor is one in which no monopoly power is exercised by either employers or workers. In such markets, how much will a prospective worker receive? The amount of the offer cannot be predicted, but this much is evident:

1. The employer will not offer more than his estimate of the value to him of the worker's services.

2. The worker will not accept any offer that is less attractive than he can get from some other firm.

With these limits, if he is to work for the firm in question, a wage must be agreed upon. If there is a more just method of determining wages, I have yet to hear of it.

—GLENN HOOVER
A Just Distribution of Wealth
(Reprinted from *The Freeman*, October 1956.)

Tom Paine, Adam Smith, and John Stuart Mill:

Classical Libertarian Compromises on State Education

by Edwin G. West

There seems to be a consensus that the typical intellectual today is more comfortable than most with the government supply of education. But what of the intellectuals who were also advocates of *laissez faire* in the eighteenth and nineteenth centuries? They would surely not approve of today's extensive intervention. I shall argue, nevertheless, that their tendency to compromise seriously weakened the defenses against an all-encompassing state.

From among the early intellectual libertarians I shall concentrate on the political economists. I shall then focus on Adam Smith, John Stuart Mill, and a writer whose characterization as a political economist may be challenged by some: Tom Paine.

The Preliminary Promise

Before proceeding to the inconsistencies in these writers I shall, in fairness, start with the strongest parts of their arguments. Of their main recommendations that distinguish them from current practice in education, the most striking is their insistence that school fees should not be abolished and

should always cover a significant part of the cost of education. The main reason for this requirement has either been subsequently forgotten or carefully avoided. Fee-paying is the one instrument with which parents can keep desirable competition alive between teachers and schools. Adam Smith was the most insistent on this point. Most of the later economists in turn upheld Smith's principle. Thus Thomas Malthus argued that if each child had to pay a fixed sum, "the school master would then have a stronger interest to increase the number of his pupils. . . ."¹

Similarly, James McCulloch thought that the maintenance of the fee system would secure the constant attendance of a person who shall be able to instruct the young, and who shall have the strongest interest to perfect himself in his business, and to attract the greatest number of scholars to his school.² Otherwise, if the schoolmaster derived much of his income from his fixed salary, he would not have the same interest to exert himself, ". . . and like all other functionaries, placed in similar situations, he would learn to neglect his business, and to consider it as a drudgery only to be avoided."³

While James Mill also strongly shared this view, the most hesitant of the classical economists to insist on positive fees for

Dr. West is emeritus professor of economics at Carleton University in Ottawa, Canada, and author of Education and the State (Liberty Press).

schooling was his son, J.S. Mill. But after much deliberation he wrote to Henry Fawcett: "I, like you, have a rather strong opinion in favour of making parents pay something for their children's education when they are able. . . ."⁴

To the twentieth-century liberal such reasoning is profoundly wrong because it makes the degree of schooling of a child a simple function of the size of his or her parent's pocket or purse. Yet the taxes that pay for "free" public education derive from revenues collected out of the same pocket. The poor were substantial taxpayers in the eighteenth and nineteenth centuries, the period that preceded the progressive income tax. Indeed in the first half of nineteenth-century Britain, taxes on food and tobacco counted for about 60 percent of all central revenue.

But even today the poor pay taxes—with every cigarette, every can of beer, and every gallon of gasoline they purchase. In other words, if schooling is made compulsory and "free," people with low incomes will almost always contribute to its cost from their tax contributions, however modest. But suppose this same sum was collected not, as now, but at the door of their chosen school in the form of a tuition fee. The consequence would be considerable family protection against inferior service. This was the main point urged by the early political economists. Its cogency meanwhile is measured by the anxiety of the current school monopoly to attack it immediately wherever it appears.

The Subsequent Retreats

Having made the first move in favor of family liberty, however, all the classical writers mentioned could not resist making what to them were minor exceptions to the rule.

Tom Paine

In his famous book *The Rights of Man*, first published in 1791/92, Paine agreed that the quantity of education was insufficient

but the shortfall was due not to the unwillingness of parents to educate their children adequately, but to the simple fact of poverty. But poverty, in turn, Paine emphasized, was due almost entirely to excessive taxes on the poor. General taxation, and especially the excise, had been increasing substantially in the late eighteenth century. The land tax, paid by the aristocrats, in contrast had been falling. Just over one half of the total revenue went for servicing the huge national debt. The remainder went for current government expenses that Paine believed to be extravagant. And he insisted that money taken in taxation from average families was much more than enough to finance a basic education for their children. (Much of this revenue, incidentally, came from the poor rates.)

After producing an agenda for radical reduction of government expenditure, Paine set about discussing how to dispose of what he called the "surplus." Instead of proposing simple reduction of taxes on the poor, to which the logic of his argument pointed, he advocated instead a *conditional* remission of taxes. The condition was that parents should send their children to school to learn reading, writing, and arithmetic. And who should monitor such a "voucher system"? Paine had no qualms in proposing that it be done by the minister of the church parish: "The ministers of every parish . . . to certify jointly to an office, for that purpose, that this [educational] duty be performed."⁵

After speaking up for the average man, therefore, Paine proceeded to indicate that ultimately he mistrusted him. The implication was that if simple tax reduction was resorted to, the people could not be depended on to spend enough of their increased disposable incomes on education. Yet Paine's initial argument was that it was heavy taxation that was the main obstacle to private purchase of education. He had no evidence that the reluctance was due to basic family preferences. And even if it was, there remained the issue of liberty. Did Paine's rights of man not extend to freedom to decide the type and amount of education

for their children? Unfortunately, however, he failed to address this question.

Paine's voucher scheme demanded *schooling*; yet this was not the only vehicle for education. Why then did he superimpose his own choice? And why should ministers of religion have the sole right to monitor the voucher program? Would they not increasingly modify the definition of education to become more and more in conformity with their particular religious creed? What constraints were there on the size of the special office that Paine wanted the ministers to report to? He appears to have paid no heed at all to the counsel of William Godwin. Godwin had warned about the potential growth of bloated bureaucracies that would be encouraged by late eighteenth-century proposals for "national education."

Adam Smith

Smith's famous book *The Wealth of Nations* (1776) argues that economic growth will best occur when "natural liberty" is respected and leads to specialization or participation in the division of labor. But when the division of labor reaches its fullest development, Smith tells us in his Book V, the worker "becomes as stupid and ignorant as is possible for a human creature to become."

Smith's forecast of the degeneration of labor is based on one condition: that government fails to take "some pains to prevent it." The main task of government, he argued, was to secure the education of the common people. But since Smith explains that government in his own country had for a long time actually taken the necessary pains, the implication is that the road to cultural destruction, in Scotland, at least, was firmly closed and the potential nightmare scenario avoided.⁶ So, just like Tom Paine, Adam Smith reveals his mistrust of ordinary people when it comes to their duties to educate their children.

In his Glasgow Lectures of the 1760s, Smith is even more explicit. Once his market economy fully establishes the division of labor, "The minds of men are contracted and

rendered incapable of elevation. Education is despised, or at least neglected. . . ." Having observed that, in contrast, people of some rank and fortune have money to afford education, Smith also declares: "It is otherwise with the common people. They have little time to spare for education. Their parents can scarce afford to maintain them even in infancy."⁷ Here Smith falls into the same trap as Tom Paine. To maintain that poverty is the formidable obstacle tells us nothing about the real tastes of people for education. The only true test is to see what happens when poverty is removed. But in any case even if people would buy less education than Smith would like, his willingness to bring in government would appear to conflict with his famous principle of "natural liberty."

Smith is inconsistent in yet another sense. His statement that parents are too poor appears to conflict with his parallel economic argument that wages per capita had been rising for two centuries, and further progress to higher stages of the division of labor via the invisible hand was expected to bring still higher rewards to "all ranks of society." But if Smith expected real incomes to continue to rise, so would leisure, and so would the ability to afford and to enjoy more education.

It will now be helpful, momentarily, to step outside of the context of internal logic, and look at Smith's different forecasts of workers' fortunes in the light of evidence relating to the half century following his demise. First, his prediction of rising real incomes was clearly borne out. The general conclusion of economic historians is that in Britain in 1850 real wages were about double what they had been in the period 1801–4, which was just over a decade after Smith's death in 1790.⁸ Also implicit in Smith's predictions of rises in real incomes, to reiterate, are expected increases in leisure. Subsequent evidence, in fact, unambiguously reveals the steady decline in weekly hours of work since Smith wrote.⁹

Did the income and leisure improvements of the "common people" lead them to increase their purchases of education in Brit-

ain after Smith's demise and without substantial prompting by government? The major educational intervention in England and Wales did not come until 1870 when the Forster Act introduced government schools for the first time. Yet by 1869 most people in England and Wales were literate, most children were receiving a schooling and most parents, working-class included, were paying fees for it. And all this was well before schooling was government-provided, compulsory, and "free."¹⁰

The Scottish Act of 1696, which impressed Smith, laid down that a school should be erected in every parish and that teachers' salaries be met by a tax on local heritors and tenants. This schooling, however, was not made compulsory by law; and neither was it made free. The parental fees made up a big part of the teachers' salaries and were paid by every social class. Indeed, the Scots did not have "free" and compulsory schooling until about the same time the English did in the 1880s. The more Smith championed the Scots parochial school system, therefore, the more the implicit credit he was paying to working parents. Their action in voluntarily paying fees to purchase education at the parish schools was obviously a tribute to them in Smith's own time despite his contrary statement in the *Lectures* that education would be "despised" after the division of labor was established.

More interesting still, it was the fee-paying private schools that were bearing the main burden of Scottish education in terms of the number of scholars. For every one Scottish parochial school pupil in 1818 there were two non-parochial school pupils. And the latter outnumbered the former by much more than two to one in the growing industrial areas such as Greenock, Paisley, and Glasgow—the very areas where Smith argued there was greater need for schooling.¹¹

John Stuart Mill

Like Tom Paine and Adam Smith, J.S. Mill also has the reputation of a serious advocate of freedom for the individual. In

his celebrated essay *On Liberty* (1859), Mill asserted that "the sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number, is self-protection. That the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others."¹²

With regard to education, Mill scores many points with modern libertarians with his famous remark in his essay that "A general state education is a mere contrivance for moulding people to be exactly like one another . . . in proportion as it is efficient and successful, it establishes a despotism over the mind, leading by natural tendency to one over the body."¹³

It is usually forgotten, however, that Mill was equally critical of the alternative scenario: the free market in education. His reason was that "the uncultivated cannot be competent judges of cultivation."¹⁴ In other words, market failure occurs in this case because "persons requiring improvement, having an imperfect or altogether erroneous conception of what they want, the supply called forth by the demand will be anything but what is essentially required."¹⁵

As to the empirical evidence of what the real world education market was like, Mill seems to have been as misinformed as Adam Smith. Mill protested that ". . . even in quantity it is [in 1848] and is likely to remain, altogether insufficient, while in quality, though with some slight tendency to improvement, it is never good except by some rare accident, and generally so bad as to be little more than nominal."¹⁶

Mill could not have read any *national* reports on education because the first full census of schooling did not appear until 1851, three years after he had written the words in the previous quotation. It is reasonable, meanwhile, to conjecture that he relied upon his circle of radicals and Utilitarians for his evidence, and especially on his colleague James Kay who had recently founded the Manchester Statistical Society (MSS). I have previously subjected the findings of the MSS on education to close

analysis and have concluded that its measure of numerical deficiency in schooling in 1838 was seriously flawed.¹⁷ As for its findings on school quality, the primary criterion seems to have been moral instruction which, of course, involves considerable subjective and serious individual value judgment. Mill referred hardly at all to one of the major "outputs" of education, namely literacy. From the copious research on this issue that has accumulated since Mill's time, R.K. Webb, a leading historian expert on this subject, has concluded that by the late 1830s (i.e., about a decade before Mill wrote his *Principles*), between two-thirds and three-quarters of the working classes were already literate.

Despite Mill's dislike of general government provision of education (i.e., in government schools) he, like Paine and Smith, was willing to compromise. The first part of the compromise was his reconciliation to *some* government schooling. "Though a government, therefore, may, and in many cases ought to, establish schools and colleges, it must neither compel nor bribe any person to come to them." A state school should exist: "if it exist at all, as one among many competing experiments, carried on for the purpose of example and stimulus, to keep the others up to a certain standard of excellence."¹⁸

It is interesting that without any evidence, Mill presumed that the state schools would always be the superior pacesetters. And to openly forbid government to "bribe" people to come to its schools is to hide the fact that they are financed by taxation. Some indeed would equate this arrangement with hidden bribery of taxpayers.

The second part of Mill's compromise was his insistence that education should be made compulsory. Notice that he demanded compulsory education and not compulsory schooling. Furthermore, he proposed to support it with a system of enforcement of public examinations to which children from an early age were to be submitted: "Once in every year the examination should be renewed, with a gradually extending range of subjects, so

as to make the universal acquisition and what is more, retention, of a certain minimum general knowledge virtually compulsory."

Mill advocated Bentham's system of examinations as the price to be paid for the right to vote. Strictly speaking this solution did not remove the power of the state over education, it only restricted it to the power of those officials who were to be appointed on behalf of the state to set the examinations. Mill thought that this would not matter so long as the examinations were confined to the "instrumental parts of knowledge" and to the examination of objective facts only.

The fact that Mill did not enter into further details as to what was to constitute "a certain minimum of general knowledge," enabled him to escape many of the serious difficulties which lay beneath the surface of his plan. For instance, who was to determine the subjects to be taught? How would one choose between, say, elementary political economy and geography? Could powers of censorship be easily exercised? Suppose that certain individuals had aversions to certain subjects, who would be the arbiter? J.S. Mill himself, for instance, had a particularly strong objection to the teaching of theology and was insistent that national education should be purely secular. We have here, it seems, not so much the libertarian as the intellectual paternalist with noble intentions. Certainly his treatment of other people's opinions on this subject seemed to contradict the spirit of Mill's *On Liberty* as it is popularly conceived.

Finally, in his anxiety to judge ordinary people, John Stuart Mill made exactly the same logical error as his fellow libertarians Tom Paine and Adam Smith. The two latter stated that people were too poor to afford education and at the same time were culpable for not wanting it. Mill's version of this non-sequitur went as follows: "In England . . . elementary instruction cannot be paid for, at its full cost, from the common wages of unskilled labor, *and would not if it could.*"¹⁹ How did he know?

Conclusion

Where education is concerned, Tom Paine, Adam Smith, and J.S. Mill were not full-blown libertarians. Rather they were liberators. Ultimately, they wanted to *liberate* the masses into a world of culture (their conception of culture) and into a realm of reason (their reason). In so doing they were all willing to make significant compromises that, for them, legitimized the intervention of government. And while their support of the free market led them to favor maintaining tuition fees at all times, they failed to foresee that the government bureaucracy they were willing to set afoot would swiftly abolish tuition, or rather substitute “tax prices” for conventional prices.

At this distance in time, another libertarian, and one who was a contemporary of Paine and Smith, seems to have been much more insightful and skilled in the art of prediction. William Godwin, who was a philosopher, not a political economist, wrote the following cautionary words in 1796: “Before we put so powerful a machine [education] under the direction of so unambiguous an agent, it behooves us to consider well what it is that we do. Government will not fail to employ it to strengthen its hands and perpetuate its institutions.”²⁰ □

1. Malthus, Letter to Whitbread, 1807.
2. J.R. McCulloch edition of *The Wealth of Nations*, 1828, note XXI.
3. *Ibid.*
4. Letter to H. Fawcett, 24 October 1869.
5. Tom Paine, *The Rights of Man* (London: Everyman Edition, 1961 [1791]), p. 248.
6. Smith also recommended government regulation such that proof of some basic level of education was to be the price of entry into skilled trades and professions. But he appears to have been content that the Scottish parochial system had already made most people literate. Smith also advised the inclusion of simple geometry and mechanics in the curriculum. There is no evidence, however, that this was widespread practice in the parochial schools.
7. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, reprinted in two volumes, R.H. Campbell, A.S. Skinner, and W.B. Todd, eds. (London: Clarendon Press, 1976), p. 784.
8. R.S. Neale, “The Standard of Living, 1780–1844: A Regional and Class Study,” in Arthur J. Taylor, *The Standard of Living in Britain in the Industrial Revolution* (London: Methuen, 1975), p. 173.
9. Joseph S. Zeisel, “The Workweek in American Industry 1850–1956,” *Monthly Labor Review*, 1958, pp. 81, 58.
10. Edwin G. West, *Education and the State* (London: I.E.A., 2nd ed., 1970), p. xvii.
11. Select Committee on the Education of the Poor, Parl. Papers, 1818, III. See also an account of this document in *Edinburgh Review* XCI, 1827, pp. 107–32.
12. *On Liberty* (1962) Fontana edition, p. 135.
13. *Ibid.*, p. 239.
14. J.S. Mill, *Principles of Political Economy* (New York: Augustus Kelley, 1969), p. 953.
15. *Ibid.*
16. *Ibid.*, p. 956.
17. Edwin G. West, “The Benthamites as Educational Engineers,” *History of Political Economy*, 1992, 24:3.
18. Mill, *On Liberty*, p. 240.
19. *Ibid.*, p. 959, my emphasis.
20. William Godwin, *Enquiry Concerning Political Justice and its Influence on Morals and Happiness* (London: 1796), p. 297.

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The Vatican and the Free Market

by John C. Goodman

An unusual event took place in Rome earlier this year. A group of pro-free enterprise intellectuals assembled at the Vatican to analyze the crisis of the family and the role of government in creating it.

Participants included Nobel Prize-winning economist Gary Becker (University of Chicago) and America's foremost writer on theology and capitalism, Michael Novak (American Enterprise Institute). They came from such diverse countries as Chile, Poland, and Hong Kong. The attendees were united in a common belief that big government is more likely to be a cause of problems than a solution.

So what do free-market economists and liberty-loving scholars, many of whom are nonreligious, have in common with the Catholic Church? More than you might think.

The church, of course, has had an uneasy relationship with scholars since the days of Galileo. And economists have fared not much better than astronomers. To the extent that outside intellectuals have made an impact on Catholic social thought, the influence has come mainly from those who advocate the welfare state and are hostile to the market. The classical liberal tradition, which among economists runs from Adam

Smith to Ludwig von Mises to Milton Friedman, has largely been ignored by the clergy.

Yet times are changing. In his most recent encyclical on economics, *Centesimus Annus*, Pope John Paul II noted that the modern welfare state is often costly, bureaucratic, and counterproductive; further, he averred that it often substitutes for private sector charity that does a better job. Although contending that it can be a mixed blessing, the Pope called capitalism "the most efficient instrument for utilizing resources and effectively responding to needs."

Families Matter

One area of common concern is the family. Becker stated that economists are discovering solid evidence that families are far more essential than government in creating "human capital"—the knowledge, skills, beliefs, and values that make people productive. Further, traditional two-parent families are far better at creating human capital than are families headed by single mothers.

One way of thinking about human capital is to see it as what is inside our heads that helps us succeed, as distinct from physical capital like machines and computers. Both kinds of capital are important. But 80 percent of the total U.S. capital stock is human capital and only 20 percent is physical capital.

Evidence shows that mothers matter a

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great deal in the formation of human capital. They are a major determinant of their children's health and educational attainment, especially for their daughters. Fathers also matter. Patrick Fagan of the Heritage Foundation presented an impressive array of data showing that children born to and reared by single mothers have lower educational achievement, higher crime rates, and more psychological problems.

Becker says that there is a human capital problem among those in the bottom 20 percent of the income distribution in the United States. Too many children born in this stratum are not learning the skills and adopting the habits and values that other children acquire. One result is increasing inequality. For example, prior to 1950 college graduates earned about 40 percent more than high school graduates, on the average. Today they earn 80 percent more.

Can government solve the problem by providing education and skills that traditionally have been provided by parents? Becker says there is no evidence that that will work. Patterns set by age five are difficult to reverse, and studies show that job-training programs for 16-year-olds do not succeed because they cannot overcome the failure to learn skills in the first 16 years. What about replacing real mothers with professional day care personnel? Sweden tried this on a grand scale (a literal nationalization of the family) at great social cost, but produced no evidence of positive effects on children.

Clint Bolick (Institute for Justice) noted that scholarly research on school choice is consistent with the preference of Catholic parents for parochial schools. Despite efforts by the teachers unions to muddy the water, carefully researched studies find that private (mainly Catholic) schools outperform public schools by every measure. They are more cost effective, and their students perform better on standardized tests, go to college more often, and earn more lifetime income.

Although these ideas were well received, the conferees did not agree on everything. Cardinal O'Connor of New York argued

that abortion was the single greatest threat to civilization. Many of the academics politely avoided the topic. Surprisingly, however, the group reached common ground on the issue of population growth.

The Positive Aspects of Population Growth

Outside the church, economists are one of the few groups who view people as a resource, rather than as a pollutant. William McGurn of the *Far Eastern Economic Review* recalls that 30 years ago dire warnings were issued about population growth in Asia and the threat it posed to living standards. Since then, the Asian population has more than doubled and per capita income has more than quadrupled in what has been one of the most amazing economic expansions in the history of the world. Moreover, those Asian countries with the greatest population densities are the ones with the highest growth rates—Hong Kong, Singapore, Taiwan, South Korea, and Japan.

The world population has increased six-fold since Thomas Malthus thought it had reached its capacity. Even today, no evidence exists that economic growth is imperiled by too many people. Grain production in the undeveloped world is growing at twice the rate of populations, and food prices—like most international commodity prices—have fallen over the past decade, indicating abundance, not scarcity.

Moreover, McGurn said that population control rhetoric is often covertly racist. For example, no one ever complains that there are too many Dutch. Yet the Netherlands is three times more crowded than China, which has a controversial "one child" policy.

Among developed countries the problem is a birth dearth. The rate at which women are having children is below the population replacement rate—implying that without immigration the populations of these countries will begin shrinking in the next century. Ironically, the Catholic countries of Italy and Spain have two of the lowest birth rates in the world.

Without passing moral judgment on the result, economists explain the decision to have children as a response to economic incentives. One hundred years ago, children were viewed as an economic investment. By the age of 12, they produced more than they consumed, and they could be counted on to support their parents in case of disability or old age.

Today, children are a financial liability, and social insurance programs have largely replaced the family as a source of income for widows, the disabled, and the retired. Technological advances have reduced the time needed to cook, clean, and otherwise care for a home, even as the market lures women with higher and higher wages.

What are the implications of these developments for government policy? Clearly, pay-as-you-go social security systems, which depend on a large influx of new workers to pay benefits for the elderly, cannot survive. So a popular idea among the conferees was to move to a private system in which individuals contribute to a personal retirement account and make their own investment choices. Moreover, since families have more economic power and are more prosperous in free markets, privatization and deregulation also were popular ideas.

The conference document, published in *Osservatore Romano*, the unofficial newspaper of the church, places much of the blame for "the breakdown of the family" on government. It says "the welfare state, and its social welfare systems, which began with the best intentions, *accelerate this family breakdown* by weakening parental responsibilities and choices." Although some recommendations can be interpreted as expanding the role of government in some areas, the overall theme is that power should

be transferred from government to families. In addition, the document states that deregulation of the labor market would free employers "to give jobs to young people" and with the elimination of rent controls "young families would gain adequate housing."

Above all, the conferees agreed we should end government programs that discourage marriage and encourage dependency on the state—the prime example being the U.S. welfare system. According to the document, the "institution of the family often does better than large institutions try to do. The family should not hand over its *inalienable rights and responsibilities* to the State."

This conclusion contrasts sharply with the position of Catholic Charities USA, which ardently defends the welfare state, arguing that it is the foundation of private charity. (Since Catholic Charities gets 62 percent of its funds from government, however, the organization now functions more as an arm of the welfare state than as a private charity.)

Will free-market ideas further penetrate the thinking at the Vatican? When the Pope spoke to the group, he disappointed some by referring to a "just wage," an idea rejected by economists since the days of Adam Smith. But they believed he was on sound footing when he condemned "tax systems [that] penalize families or aggravate their economic condition."

In summarizing the results of the conference, Becker, who is not a Catholic, said, "I am struck by the similarity between the church's view of the relationship between the family and the economy and the view of economists—arrived at by totally independent means." Economic science and spiritual concerns appear to point in the same direction. □

The Privatization Revolution



There's a revolution underway. It's worldwide, nonviolent, and pro-freedom. It's known by a word that wasn't even in dictionaries 20 years ago—privatization.

Privatization, in its broadest sense, is the transfer of assets or services from the tax-supported and politicized *public* sector to the entrepreneurial initiative and competitive markets of the *private* sector.

Done properly and with care, privatization harnesses the powerful market forces of competition, accountability, and incentive. It means that government officials don't have to be hemmed in by an indifferent bureaucracy; instead, they can "shop around," as other consumers do, for the best available buys.

State and local governments have routinely experienced cost savings of 10 to 40 percent through privatization, and often with improvements in the way an asset is managed or a service is delivered. When and where assets and services can be put entirely in private hands—with the middleman of government absent altogether—even greater efficiencies are possible.

The most common form of privatization—

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contracting out to private firms—has become more than just a trend. With decades of experience, it has become something of a science at the local level in America. We now know what it takes to make this work: open, competitive bidding for contracts that are subject to periodic renewal; careful writing of the contract terms to incorporate clear language and appropriate safeguards; and effective monitoring of performance to ensure the contract is being carried out.

Commercialization is another form. That happens when a unit of government simply says, "We're no longer going to do this work with our own workforce. We're not going to contract it out either. We're simply going to get out of this business altogether. The customers we used to serve can take care of the job themselves by contracting with the private provider they choose."

This is how, for instance, cities across America have pulled out of the garbage business. Individuals shop among several private, competitive firms that specialize in picking up and properly disposing of garbage. No middleman, no taxes, no boring city council meetings to sweat through in order to register a complaint. You hire the service and if *you're* not happy, *you* fire it and hire a different one. This form of privatization tends to enhance both our liberties and our pocketbooks.

Other forms of privatization include:

- the outright gift or sale by government of a physical asset (a piece of equipment or a building, perhaps) to a private entity;

- the sale of stock in a newly privatized company that was formerly state-owned;
- the ending of subsidies and all the red tape and regulations that came with them, liberating an industry to produce for the market instead of for the government.

In a few places around the world, privatization is occurring because the enlightened leaders in power are motivated by ideology. They *know* that free markets work and socialism does not.

In most places, however, privatization is occurring for more pragmatic reasons. Countries, states, provinces, or communities have hit the "tax wall." They have no more room to raise taxes. Doing so would either violate some constitutional or statutory limit, or send people and businesses packing for friendlier climes. So, for practical reasons, hard-pressed politicians are exercising the best or only option they have: privatization.

At the federal level in America, little has been privatized but much could be. The power of entrenched bureaucracy and special interests who support the status quo is greater in Washington, as a rule, than it is at the state or local level. Proposals to privatize everything from Social Security to federal lands to the post office are now on the table, but they probably await a more friendly administration.

At the state level, there's much more going on. States are privatizing utilities, prison management, data processing, child foster care, and a long list of other items. It is, however, at the *local* level of government—counties and cities and schools—where the privatization revolution is gaining momentum. Just about any asset or service that a local government owns or provides has been privatized somewhere, in some manner, partially or wholly. That includes fire protection, certain elements of police protection, wastewater treatment, street lighting, tree trimming, snow removal, parking structures, railroads, hospitals, jails, and even cemeteries.

Thinking seriously about privatization prompts officials to open their minds and think about the role of government services and good stewardship of the public purse. It forces

them to find out, for instance, how much it is actually costing them to provide those services. When they add up all their true costs—including hidden ones—they discover how hopelessly inefficient government is.

Studies by the dozens verify effectiveness of privatization. Objections, however, are still heard and sometimes loudly. Here are the most common ones, along with a brief response:

- *Privatization is anti-public employee.* We must remember that government should not exist for the benefit of those who work for it; its only legitimate purpose is the protection of *everyone's* life and property. Governments that employ more people than necessary, or that pay their employees more than the market will bear, are not doing any favors for the citizens—including the poor—who are picking up the tab.

- *There are instances where it didn't work, so we shouldn't do it anywhere.* I have yet to see a case where a failure was really an indictment of privatization itself. Failures are almost always arguments for avoiding such poor practices as noncompetitive bidding, sloppy contract writing, or non-existent monitoring of performance.

- *It can breed special interests who will lobby for more contracts and services from government, even when that's not warranted.* Public bureaucracies lobby for more government, too. This is an argument for taxpayers and the press to be vigilant, not an argument against privatization.

- *Government officials may not do the right thing with the savings.* It's true that when privatization generates lower costs, officials may have multiple options for realizing the gain. They may choose to avoid raising taxes or actually cut them, passing on the savings to taxpayers. Or, they may simply take the savings and squander them on some other dubious enterprise of government. This is, again, an argument *for* vigilance, not *against* privatization.

All citizens who value freedom and free markets should be encouraged by the privatization revolution. Smaller government will leave us a freer, more responsible, and better-served people. □

A Good Conversation and the Marketplace

by Candace A. Allen and Dwight R. Lee

Everyone appreciates a good conversation. Through conversation people get to know one another, sort out their differences, revel in their similarities, and discover ways to cooperate and compromise to their mutual advantage. The information we obtain through conversation is a major source of human enjoyment and progress.

Not everyone appreciates the free market. Yet there are striking similarities between the marketplace and a good conversation, and, if anything, the benefits from the communication, cooperation, and compromise of the marketplace are even greater than those from a good conversation.

In “The Use of Knowledge in Society,” F.A. Hayek pointed out that much of the information required for people to communicate with and respond productively to each other is transmitted through market prices.¹ In essence the marketplace is a communication network, allowing people to transmit information on how they can best serve and be served by others, with full assurance that others will hear this information and respond appropriately.

People communicate with each other in the marketplace through the effect their decisions to buy and sell have on prices. The

price of a product tells the buying consumer how much other consumers value another unit of that product, and motivates him to increase consumption only if he values an additional unit more than others do.

Communication through market prices is, of course, supplemented by what we typically think of as conversation. People verbally negotiate and advertise to communicate their preferences and their willingness to satisfy the preferences of others.² But verbal communication would do little to motivate cooperative behavior without the more compelling supplement of price communication. If you wanted an apartment in New York City, for example, you could try to coax, wheedle, or cajole every landlord in the city, but without communicating through your willingness to pay the market rent, your verbal skills would be of little value.³ In contemplating the market price, you are receiving information communicated by everyone else interested in New York apartments, and you are considering that information carefully. A market price concisely transmits the information most relevant to a particular decision from everyone with a relevant interest in the decision, and does so in a way that persuades people to behave responsibly.

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Honest Communication

The correspondence between market activity and conversation extends to the well-

established norms of a good conversation. Consider the following:

In a good conversation people communicate with each other honestly. Dishonesty and deception are anathema to the type of conversation people value. The same is true of market communication. Unfortunately, people find occasional advantage in dishonesty when communicating, whether in normal conversation or market exchange. But the advantage realized from deceitful market communication is far less than commonly suggested, and almost certainly less than in most conversations. There is a tendency for people to be more careful with the truth when they have their money at stake than when they don't.

Could we rely on honest evaluations if goods were allocated on the basis of how much consumers said they valued those goods? Not as much as we can when goods are allocated on the basis of how much consumers are actually willing to pay for them. (Remember the old saying, "Put your money where your mouth is"?)

There is no advantage in exaggerating the value placed on a product by offering to pay more for it than it is really worth. The advantage is in purchasing a product only up to the point where the marginal unit is honestly worth as much to you as the price paid—i.e., as much as other people are honestly communicating what another unit is worth to them.

The motivation for suppliers to communicate honestly the cost and quality of a product is less clear. Certainly suppliers would like to charge a price that overstates the actual cost and quality of their products. But such dishonesty is made largely feckless by open markets and competition. As long as consumers have alternative suppliers, it pays those suppliers to represent their products honestly and price them competitively. Indeed, many market arrangements and practices are best explained as a way suppliers, in their competition for customers, commit to honest dealing by willingly exposing themselves to losses if they behave dishonestly.⁴

Paying Attention to What Is Said

A good conversation also requires participants who are attentive to, and concerned about, what others are saying. These attributes are observed in those communicating through the marketplace. When suppliers receive information from consumers in the form of prices and profits (or losses), they pay close attention and respond as if they had the same concern for the interests of their customers as they have for their own. When consumers indicate the desire for more of a product through higher prices and positive profits, suppliers work harder and sacrifice more to satisfy that desire. When consumers indicate through lower prices and lost profits that they want less of a product, suppliers either respond to that desire or relinquish resources to those who will. Similarly, when demand for a product increases, consumers communicate to each other through higher prices that the product should be used more sparingly by those who value it less so more is available for those who value it more. And consumers are sensitive to this communication and respond to it as if they place the concerns of others on par with their own.

When a speaker has a captive audience and monopolizes the conversation, his communication is distorted, boring, and less beneficial than it could be. Similarly, in the marketplace when the competition faced by a supplier is restricted, that supplier ignores much of the communication from consumers, communicates distorted information on the cost of the product, and provides a more boring (or lower quality) product than would be provided had the communication been enriched with competition. A major advantage of an open marketplace is that anyone with a better idea to communicate can enter into the conversation. Without government restrictions on entry, a market will be monopolized only when someone contributes a new idea or product that consumers find more valuable than what was previously available, and then only until others mimic and improve on

the contribution. Monopoly distortions tend to last only when entry is artificially discouraged and restricted by government action.

Few things destroy a good conversation quicker than participants taking it personally when others express disagreeable views. When parties to a conversation feel that they have to dissemble to avoid aggravating others, or when people become incensed at the honest expressions of others, good conversation dies. A major advantage of communication through the marketplace is that it is impersonal. Lots of disagreeable information is transmitted through the market—your product doesn't measure up to that of the competition, your costs are too high, the skills you have spent so long to develop are no longer valuable, you have to make do with less of a product because others say it is now worth more to them, and so forth. But this information comes in the form of impersonal prices and is transmitted between people who typically have no personal knowledge of, or interest in, each other. There is little reason for taking such information personally. People tend to concentrate on the information being transmitted through the marketplace rather than on the motives and manners of those transmitting it.⁵

Spontaneity

Good conversations are not programmed or scripted. Instead they are characterized by freedom of expression and spontaneous development, so it is impossible to predict where they will lead. An attempt to plan the details of a conversation would reduce the new thoughts and information that emerge and stifle the flexibility needed to respond to them when they do. Such a stilted exchange would compare with a genuine conversation the way central economic planning compares with the economic dynamism of the free market. The failure of socialism provides vivid evidence of the destructiveness of attempts to program and script market communication. The freedom of people to interact through market communication

without deliberate guidance is the hallmark of the spontaneous order and economic progress of the marketplace.

Finally, in a good conversation people either speak the same language or have the services of a good translator. The tower of Babel symbolizes the chaos that results without a common language or a means of translating different languages. Most market communication occurs through the common language of prices denominated in a common currency. But not all. Market communication increasingly occurs across national borders with people speaking via different currencies, and the accuracy of that communication requires that the value of one currency be quickly and appropriately translated into the value of others. And, of course, that is exactly what foreign exchange markets do. By allowing people to communicate on the value of different currencies, the foreign exchange market facilitates communication through international markets much as an expert translator facilitates a conversation between people who speak different languages.

The More the Merrier

Recognizing the striking parallels between a good conversation and the interaction that occurs in the marketplace increases our knowledge and appreciation of market economies. But as important as the similarities are, differences obviously exist. Interestingly, some of those differences highlight advantages market communication has over even the best conversations. In the marketplace everyone can communicate at the same time. The rule for a good conversation—"Only one person talks at a time"—does not apply to "conversations" through market prices. For example, every day millions of consumers simultaneously convey information on their preferences to suppliers around the world as their purchases influence market prices. Marketplace communication not only allows everyone to "talk" at the same time, but thrives on a multitude of simultaneous voices. Since everyone can communicate at the same time

in the marketplace, as opposed to conventional conversations, the more people involved in market "conversations" the better, as large numbers facilitate greater specialization and competition.

While marketplace communication has important advantages over standard conversation, we are fully aware that the opposite is also true. Notwithstanding the advantages of impersonal communication, and the risks when communication is taken personally, one would have to be emotionally withdrawn to dismiss the value of personal communication. The joys of friendships and intimate relationships are nourished by personal communication that can never be replaced by the impersonal communication of the marketplace. "I love you" is difficult to express in mere market terms.

But marketplace communication does more to foster good personal communication than most people realize. It provides each of us with the information and motivation to use our resources responsibly for the benefit of others. This responsibility is a major factor behind the personal freedom associated with market economies. Advocates of limited government commonly, and correctly, observe that freedom is essential to a properly functioning market economy. But we should also recognize that a properly functioning market economy is essential to freedom. In the marketplace we can tolerate freedom because it will be used responsibly when subjected to the discipline of market information and incentives. And economic freedom tends to carry over into non-economic spheres to include far more freedom

of expression and association than can ever exist in a society with a centrally controlled economy.⁶ The marketplace not only supplements conversation with the powerful communication of market prices, it helps establish an environment of trust, responsibility, and freedom in which good conversation can flourish. □

1. See F. A. Hayek, "The Use of Knowledge in Society," *The American Economic Review* (September 1945), pp. 519-530.

2. Market prices are seldom, if ever, in perfect equilibrium, and so cannot communicate all the information they would in an idealized marketplace. Some of this "missing" information can be exchanged through verbal communication. See Gerald P. O'Driscoll and Mario Rizzo, *The Economics of Time and Ignorance* (London: Basil Blackwell, 1985).

3. We assume here that the rent controls in New York City, an egregious example of government censorship, do not exist.

4. Investment in brand name and nonsalvageable capital, providing guarantees, and creating competitors are just some of the ways businesses commit to honesty. For a discussion of these arrangements and practices, see Dwight R. Lee and Richard B. McKenzie, "How the Marketplace Fosters Business Honesty," *Business and Society Review*, No. 92, Winter 1995, pp. 5-9.

5. Hayek considers the value of the impersonal forces of the marketplace in *The Road to Serfdom* when he states: "Once it becomes increasingly true, and is generally recognized, that the position of the individual is determined not by impersonal forces, not as a result of the competitive effort of many, but by the deliberate decision of authority, the attitude of the people toward their position in the social order necessarily changes. There will always exist inequalities which will appear unjust to those who suffer from them, disappointments which will appear unmerited, and strokes of misfortune which those hit have not deserved. But when these things occur in a society which is consciously directed, the way in which people will react will be very different from what it is when they are nobody's conscious choice."

See F. A. Hayek, *The Road to Serfdom* (Chicago: The University of Chicago Press, 1944), p. 106.

6. Economic freedom is not always associated with other freedoms, as evidenced by the examples of China, Singapore, and Vietnam. But there are reasons for believing that the freedom that arises when a country liberalizes its economy is not easily contained and eventually expands to include political and other freedoms as well. Also, evidence from around the world shows that in the absence of economic freedom there is no hope for other freedoms.



Rights, Freedom, and Rivalry

by Charles W. Baird

Packaging counts. This maxim of marketing applies to ideas as well as goods and services. As F.A. Hayek pointed out, there is a confusion of language in political thought. People of different political and philosophical perspectives often use merit words (words that a psychologist would say have positive affect) like “rights” and “freedom” to sell their very different, incompatible points of view. When classical liberals try to expose what they consider the interventionists’ misuse of such merit words, they get caught in a semantic trap that makes their arguments harder to sell. In this essay I discuss such a semantic trap and recommend a way to avoid it.

Negative and Positive Rights

“Rights” is definitely a merit word. People of all political persuasions talk about human rights and alleged trespasses against them. But what are they? Here is how a classical liberal might answer that question.

In the Declaration of Independence Thomas Jefferson wrote about “unalienable” rights that all individuals have irrespective of government. These rights are logically prior to government. Government has no legitimate authority to add to or sub-

tract from such rights. Its role is to protect them.

Following John Locke, Jefferson would say that if X is a human right it must apply to all individuals in exactly the same way. Later, Immanuel Kant said that to be legitimate a right had to be “generalizable” to all humans. If Jones has a right, all other humans must logically have the same right. One cannot, without self-contradiction, claim a human right for himself and deny it to other humans. Moreover, it must be possible for all individuals to exercise the claimed right simultaneously without logical contradiction.

For example, is there any job-related human right in the Jeffersonian sense? Yes. It is the right of all individuals to *offer* to buy or sell labor services at any terms they choose. Jones has a right to offer to sell his labor services, or buy the services of others, at any terms he likes. So, too, does Smith. We all do. Those to whom we extend our offers are free to reject them. In exercising this right we impose no duty to undertake any positive action on any other person.

Political philosophers often call this a “negative” right because the only duty imposed on others thereby is a duty to *refrain* from interfering with the person exercising the right (e.g., to refrain from preventing others from making job offers). Smith has no duty to do anything under Jones’s rights claim in this sense; rather, he has a duty *not* to do something.

Interventionists typically assert that peo-

Dr. Baird is director of the Smith Center, California State University, Hayward, and this month’s guest editor. The idea for this paper came out of a conversation the author recently had with Dwight Lee of the University of Georgia (see pp. 663–666). A conversation with Dwight Lee is always fruitful.

ple have rights in the sense of entitlement to the means to fulfill their wants. They assert that Jones and Smith have a right to a job, a right to an education, a right to health care, or a right to food. At the 1994 U.N. conference in Cairo on population every person was even granted the right to a “satisfying and safe sex life.”

Suppose Jones claims a right to a job. If that claim means that Jones will be employed anytime he wishes to be (on whatever terms he wishes?), there must be some other person, perhaps Smith, who has the duty to provide the job. But, then, Smith does not have the same right. Jones’s right is to be employed, Smith’s “right” is to provide the job. Political philosophers often refer to such a claim by Jones as a “positive” rights claim because Jones’s claimed right creates a *duty* for Smith to undertake some positive action that he may not want to undertake.

Classical liberals argue that positive rights are contradictory because they are not generalizable. They cannot be legitimate human rights because not all humans can exercise them in the same sense at the same time. Jones’s positive rights claims necessarily deny the same rights claims to Smith. Classical liberal economists argue that only negative rights are consistent with the principles of voluntary exchange.

Now, what is wrong with this way of expressing the argument? Only the packaging. Classical liberals come out defending negative rights, while interventionists come out defending positive rights. To the man on the street “positive” usually means desirable, and “negative” usually means undesirable. This language handicaps the classical liberals’ argument and gives the advantage to the interventionists.

Negative and Positive Freedom

There is no word with more positive affect than “freedom.” Everyone is in favor of it; no one wants to appear to be arguing against it. Even the rulers of the former Soviet empire claimed to be in favor of freedom (e.g., freedom from hunger). But what is

freedom? Here is how a classical liberal might answer that question.

Jones is free if he can pursue his goals, without interference from others, using whatever means are at his disposal, so long as he does not engage any other person in any involuntary exchange. Political philosophers often call this negative freedom because it requires (a) the *absence* of interference from others and (b) Jones to *abstain* from imposing involuntary exchange on others. Negative freedom is generalizable. We each can exercise a negative freedom without denying the freedom of others to do the same.

The freedoms guaranteed to Americans by the First Amendment to the U.S. Constitution—freedom of religion, freedom of association, freedom of speech, and freedom of the press—are all negative freedoms. We each can exercise free choice of religion without denying that freedom to others. Note, however, we are not entitled to join a religious organization that doesn’t want to accept us. We each can associate with any individuals or groups, but only so long as they are willing to associate with us. Exercising that freedom does not make it impossible for others to do the same. We each can say what we like without denying that same freedom to others. Note again, however, we may not force people to listen, or to provide us with a forum in which to speak. We each are free to try to assemble the necessary resources, by voluntary agreements with others, to publish a newspaper or a magazine. But we have no right to force people to provide those necessary resources or to purchase or read our publications.

Interventionists assert that Jones is free if he is able to do or obtain what he would like to do or obtain. This is freedom in the sense of power. A poor man is not free in this sense because he has, for example, insufficient means to live in the type of house he would like. Political philosophers often refer to this as positive freedom because its exercise requires the *presence* of means. Of course, if Jones lacks the necessary means, he can be free in this sense only if he has an entitlement to receive the means from oth-

ers whether they like it or not. But then those others are not free because they must give up means which would empower them to do or obtain what they would like. Jones's positive freedom can be guaranteed only by the loss of at least some of Smith's positive freedom.

While classical liberals can rightly argue that freedom for Jones at the expense of freedom for Smith is not really human freedom, the language of the dispute gives the advantage to those who defend positive freedom.

An Alternative Vocabulary

The common characteristic of negative rights and negative freedom is that they can be generalized to all people without logical contradiction. All people can exercise them simultaneously. One person's exercise of a negative right or a negative freedom does not diminish the ability of others to do exactly the same. Fellow economist Dwight Lee suggested to me that the language of

public goods is particularly apt. One characteristic of a public good is nonrivalrous consumption. All parties may consume the benefits of the good simultaneously, and one person's consumption does not diminish the consumption of others.

We recommend that classical liberals, philosophers as well as economists, who try to clarify the alternative definitions of rights and freedom henceforth substitute "nonrivalrous" for "negative" and "rivalrous" for "positive." Nonrivalrous rights and freedom are those that can be exercised by all people simultaneously. One person's exercise of them does not diminish the ability of anyone else to do the same. When anyone exercises rivalrous rights and freedom, he does so only by reducing the ability of others to do the same.

The man on the street understands rivalry and nonrivalry to mean exactly what we wish to convey in this discussion. At the very least our suggestion would remove the semantic advantage that interventionists have hitherto enjoyed.

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The Flat Tax: Simplicity Desimplified

by Roger W. Garrison

In modern American politics, advocating a flat tax is the surest way of labeling yourself as a supply-sider, a Jack Kemp/Steve Forbes Republican. Michael Evans¹ made the case for the flat tax in his *Truth About Supply-Side Economics* (1983); Robert Hall and Alvin Rabushka² have made it twice in their book-length treatment of *The Flat Tax* (1985 and 1995).

Libertarians, many of whom get their economics from the Austrian school and eschew the Republican label, also tend to favor a single rate. In explaining *Why Government Doesn't Work* (1995), Harry Browne³ offers a flat tax as part of the fix, but he devotes barely more than a page to this issue. The space he allocated to the flat tax as compared to the space allocated to it by the supply-siders, as well as his attention to the size of the tax take rather than the shape of the tax schedule, suggests a significant difference in priority and perspective.⁴

“How Much” and “Just How”

The primary concern of the libertarians is with “how much” the government might tolerably extract from income earners and only secondarily with “just how” it is best (i.e., least painfully) extracted. Browne, for

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instance, suggests a 10 percent rate, which might raise as much as \$500 billion. Barely one-third of the current total tax take, this amount is to finance the correspondingly pared-down expenditures of the federal government. Supply-siders, by contrast, deal with the just-how question as if it can be answered independently of the how-much question. The most common proposal, for instance, is for a revenue-neutral reform: We should scrap our current progressive tax, which we know to be hopelessly complex and inefficient, and adopt a simple and efficient flat tax that would yield the same—or nearly the same—revenue. Some supply-siders (e.g., Evans) would hold out for even *more* revenue.

Opponents of the flat tax can easily point to perceived social inequities, exaggerated claims, and outright fallacies that conventional supply-side arguments entail. A more defensible case for the flat tax is one that keeps the questions of “How much?” and “Just how?” in proper perspective: A flat rate may do little to make a big tax simpler or more efficient, but it may be a near-perfect device for keeping a small tax small. The key issues are (1) the actual incentives created by eliminating deductions in the pursuit of simplicity and (2) the political alliances created by incorporating a large personal exemption for the sake of voter appeal. A healthy consideration of these and related issues suggests that reducing the

total tax take should have priority over imposing a single tax rate.

TANSTAA . . .

We owe to Robert Heinlein the memorable if nearly unpronounceable TANSTAAFL (there ain't no such thing as a free lunch), which expresses one of the most fundamental principles in all of economics. Each major field of study within economics would do well to find its own Heinleinian acronym so as to keep policy prescription anchored to the basics. Let me propose a suitable one for the field of public finance: TANSTAABST. There ain't no such thing as a big simple tax. Head taxes, the only truly simple taxes, are never big; income taxes, the primary source of revenue for the welfare state, are never simple. The claim, made repeatedly by supply-siders, that with a flat tax our tax form would be the size of a postcard can easily be exposed as bad science fiction.

The gains in simplicity are supposedly achieved by the elimination of deductions. Instead of multiplying our income (minus a myriad of deductions) by the effective tax rate, we multiply our income (minus a single personal exemption) by the flat rate. The multiplicand that the tax reformers have in mind, of course, is the income routinely reported on W-2 forms (or on 1099s and the like). For taxpayers in the post-reform period who continued to earn W-2 income, filing would indeed be simple. We should realize, however, that the W-2 form remains a tolerable means of reporting precisely because it is only the starting point for calculating taxable income. To eliminate deductions, which give the taxpayers scope for bargaining with the tax collector, is to eliminate the acceptability to the taxpayer of receiving income on a W-2 basis.

Even under the current system, there are strong incentives for avoiding the W-2. In many areas of the business world the conventional employer-employee relationship is being replaced by the firm's contracting with individuals for services rendered. The elimination of deductions that would ac-

company the institution of a flat tax would undoubtedly accelerate this trend toward self-employment—which has been driven from the start largely by tax considerations. Under a contractual arrangement, the payment by the firm to the individual is not W-2 income but gross receipts. Income is to be calculated by the individual, with advice from his or her tax accountant, as receipts minus expenses. Even a wholesale elimination of deductions, then, would not achieve a dramatic simplification; it would simply shift the battleground on which taxpayers and the tax collector confront one another. Tax-avoidance strategies would aim at minimizing receipts minus expenses rather than minimizing income minus deductions. TANSTAABST. And the very open-endedness of what might reasonably be counted, in each line of business, as an expense would quite likely make the tax system more complex rather than less.

The extent to which the taxpayers would resist clipping their checks onto a postcard-size tax form is measured by the tax rate itself. Current levels of government spending would require a high rate. Special features of the supply-siders' flat tax would reduce the tax base and make the rate higher still. One of these features, not strictly implied by—and actually at odds with—the concept of the flat tax, is the source of the widely perceived inequity: Interest income is to be treated as if it were not income.⁵ This special reward to savers and hence to high-income earners (since they are the ones who can most easily save) derives from the belief that it is actually consumption and not income *per se* that should serve as the basis for taxation. According to this view, people whose current demands for consumer goods are being satisfied should pay the taxes. The preferential status accorded savings—and hence investment and economic growth—is what justifies naming supply-side policies for their one-sidedness.⁶

The pro-saving feature of the flat tax means that the portion of income *not* saved will have to be taxed at a higher rate than would otherwise be necessary. At the same time, it constitutes one—possibly signifi-

cant—way for taxpayers to avoid the tax. Instead of awarding raises to its employees, a firm may well offer them the opportunity to buy low-risk, high-yield bonds, whose coupon payments (interest-in-lieu-of-wages) are not taxable. The tax collector would, no doubt, attempt to police this and other such tax avoidance schemes, but the process through which the market tries to arrange them and the government tries to curb them is unlikely to contribute to either simplicity or efficiency.

With a tax base that includes salaries and pensions plus business income, the tax rate that achieves revenue neutrality would have to be about 19 percent, according to Hall and Rabushka. During his bid for the Republican nomination for president, Steve Forbes proposed a 17 percent rate, calculated to give most taxpayers a small tax cut—and to give them all a higher budget deficit. But any rate in this range (i.e., 17–19 percent) is certainly high enough to sustain a reconstituted tax-avoidance industry.

The Flatly Progressive Tax

All of the Republican proposals involve a second departure from a strictly flat tax applied to all income, namely, a relatively high threshold level below which no taxes are collected. A substantial personal exemption (Forbes would have allowed for about \$36,000 for a family of four; Hall and Rabushka suggest \$25,000) has the effect of blurring the distinction between a flat tax and a progressive tax. As a matter of terminology, flat *means* not progressive. How, then, could Hall and Rabushka⁷ argue that one advantage to their flat tax is its progressivity? The so-called single rate is actually two rates: 0 percent for income up to \$36,000, using Forbes's proposal for illustration, and 17 percent for all income above \$36,000. Calculating the *average* tax rate for incomes up to ten times the personal exemption, we get the progressive pattern that rises from 0 percent at the threshold level to 8.5 percent at twice that level to 15.3 percent at ten times that level and that thereafter approaches 17 percent asymptotically.

Supply-siders do not consider this progressivity objectionable at all. What they do find objectionable is an unnecessarily high marginal rate, such as our current top rate of about 40 percent (on taxable income over \$250,000). Why, then, do they allow for substantial inframarginal incomes to go untaxed? This, too, causes the top marginal rate of 17 percent to be higher than it needs to be. That is, if a positive rate of, say, 8 percent were applied to some portion of income below \$36,000, then a rate of, possibly, 15 percent could be applied to all income above that level. And the lower the top marginal rate, the stronger the standard supply-side arguments about increasing employment, exploiting the Laffer curve, and reducing the federal budget deficit through economic growth.

It seems clear that the generous personal exemption is included in the flat-tax proposals largely if not wholly for its voter appeal. The prospects of earning lots of tax-free income and enjoying a progressivity in the average rate on incomes well over the threshold level is attractive to the so-called "middle class"—which is to say, to the median voter. But, whatever the benefits of a flat tax, political attractiveness achieved in this way is a double-edged sword. Once such a tax system is in place, that same political attractiveness would attach itself to government spending in the minds of low- and medium-income voters. An overly generous personal exemption creates an alliance between these voters and elected officials in their efforts to gain economically and politically at the expense of the higher-income taxpayers. Government spending could have (gross) benefits for us all or could benefit mostly the poor while being paid for by the rich. This pattern of benefits and costs and resulting conflict among the differently situated taxpayers is precisely what any worthwhile tax reform would have to preclude.

Actually Achieving Simplicity

The advertised simplicity of a flat tax cannot be achieved by the elimination of

deductions. As already suggested, determining what constitutes income would be, if not more complex, just as complex as determining what counts as a deduction. Further, the flatness of a flat tax does not translate into simplicity in any relevant sense. Progressivity in the sense of multiple brackets with stepwise increases in the marginal rates eliminates big jumps in the tax schedule while adding little or no computational complexity. Taxpayers who look up their tax liability on a suitably constructed tax table, like the cashier who looks up the sales tax on a similar table taped to the cash register, may not even notice whether the table was constructed on the basis of one rate, two rates, or ten rates. And while reasonable people could disagree about the relative merits of having a single rate or having ten, the merits of having just two, as entailed by a flat rate with a generous personal exemption, are dubious. People may prefer living in a one-story house rather than having to cope with stairs. But it doesn't follow that a two-story house can be "simplified" by removing the staircase. Similarly, replacing the several small steps in the current progressive tax schedule with one giant step at \$36,000 is not an obvious improvement.

If tax simplicity is achieved, it will be achieved not by the tax rate's flatness but by its lowness. TANSTAABST. There ain't no such thing as a big simple tax. But a small tax can be simple—and for a simple reason: If taxpayers find it easier and less costly to pay the tax than to redesign their economic lives so as to avoid paying it, the incentives for creating and exploiting complexities are effectively blunted. The resulting simplicity, of course, is not a goal unto itself but rather a healthy indicator that we have achieved the prerequisite goal of low taxes.

As Hall and Rabushka have emphasized, the tax rate can be its lowest if the tax is applied broadly, although they would apply it broadly to all consumption rather than (even more) broadly to all income. Salary income encourages working; interest income encourages saving. With a broad base that encompasses both, the disincentive

effects of taxing are minimized. Our current tax system has a strong anti-saving bias; Japan's tax system has a strong pro-saving bias. Neither bias has a justification in economic theory, and both biases cut into the tax base. There is a strong and obvious case for avoiding a bias in either direction while at the same time broadening the base. A low rate applied to a broad base lets income earners make their decisions about working and saving on the basis of the actual—non-tax-related—tradeoffs that these decisions entail.

A lower rate still is facilitated by the elimination—or minimization—of the personal exemption. (Browne allows for none.) The paring down of government expenditures provides a double-barreled justification for eliminating this exemption. First, the rate would be low, so as not to significantly burden even the low-income taxpayer. Second, since the services actually provided by government would be only those considered as essential to our well-being as other necessities that low-income taxpayers buy in the private sector, no taxpayer would be unduly burdened. Subjecting the low- and medium-income taxpayers to a tax burden proportional to the burden of the high-income taxpayers is in full compliance with both the letter and the spirit of a flat tax. Stringent voting rules need to be in place to guard against uncalled-for increases in the flat rate, and even more stringent rules—possibly at the constitutional level—are needed to assure that the flat rate remains flat.

Importantly, a universal application avoids the perverse political alliance with respect to government spending mentioned earlier. In fact, a constitutionally guaranteed flat rate creates a healthy alliance among income earners at all levels and against elected officials who, under other tax arrangements, could more easily gain political advantage through targeted government spending to be financed by selectively adjusting the tax rates. Taxpayer solidarity as a check against increased taxing and spending should be seen as the *sine qua non* of the case for a flat tax.

The Flat Tax in Perspective

Currently we have a big, complex, and inefficient, progressive tax. It is folly to think that the "complex and inefficient" derive significantly from the "progressive." The "complex and inefficient" derive from the "big." Given the efficiency and adaptability of the market, there is probably no knee-of-the-curve below which the tax take can be declared "small." But 10 percent can be declared smaller than 17 percent, and, at any rate, opportunities for further reform still exist.

TANSTAABST. Revenue-neutral tax reform is no solution. The smaller the tax, the greater the prospects for simplicity and efficiency. And a flat rate may be the best means of keeping a small tax from becoming a big one. □

1. Michael K. Evans, *The Truth About Supply-Side Economics* (New York: Basic Books, 1983).

2. Robert E. Hall and Alvin Rabushka, *The Flat Tax*, Second Edition (Stanford, Cal.: Hoover Institution Press, 1995 [First Edition, 1985]).

3. Harry Browne, *Why Government Doesn't Work* (New York: St. Martin's Press, 1995), pp. 182-83.

4. Not long after his campaign book was distributed, Browne began advocating a complete abolition of the income tax and arguing that essential government services could be funded by (1) existing tariffs and excise taxes and (2) the proceeds from the sale of government assets, such as land holdings in the western states.

5. Individuals would pay taxes only on wages, salaries, and pensions; business firms would be allowed to fully expense investment, which is the present-value equivalent of allowing them to exempt the competitive yield on those investments. Taken together, these provisions, which have the effect of excluding interest income (or, equivalently, saved income) from the tax base, convert the income tax to a consumption tax.

6. Critics of interventionist policies may be tempted to embrace supply-side theory as the antithesis of Keynesian theory, which focuses almost exclusively on demand. However, a critical assessment of both theories suggests a more balanced view: On analytical issues (How do markets work?), we should be both-siders: supply and demand. On policy issues (What kind of bias should be built into our tax system?), we should be neither-siders.

7. Robert E. Hall and Alvin Rabushka, "Simplify, Simplify," in Edwin Mansfield, ed., *Leading Economic Controversies of 1996* (New York: W. W. Norton and Company, 1996). Reprinted from the *New York Times*, February 8, 1995. See also, Hall and Rabushka, *The Flat Tax*, p. 55 and *passim*.

Cutting Marginal Tax Rates: Evidence from the 1920s

by Gene Smiley

Recent political debates have raised the issue of adopting a flat marginal rate federal income tax. Though the marginal rate would be flat, the addition of a generous personal exemption would make the average personal income tax rate rise as it approached the fixed marginal rate of, say, 17 or 20 percent. This issue has generated considerable controversy in political debates and in the press. Among the criticisms

leveled at a flat marginal rate tax system are that, contrary to proponents' claims, a flat marginal tax rate will provide a windfall of after-tax income for the already wealthy, worsen the distribution of income, and exacerbate the already swollen federal government deficits. Supporters have usually concentrated on extolling the virtues of reducing the distortions caused by rising marginal tax rates and of encouraging greater entrepreneurial activity.

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Ideally, there would be no personal in-

come tax. The history of the debates over an income tax in the 1890–1911 era makes it clear that an income tax was viewed by its advocates as a means to redistribute income and wealth. It has remained this way as indicated by the vestiges of the progressive marginal rate structure which remain in the code. Such a system leads to an emphasis on obtaining more through political redistribution rather than the expansion of economic activity. And by separating the perceived benefits of a governmental activity from any taxes dedicated to supporting that activity, the income tax made it easier to expand government and increase taxes.¹ The creation of a federal income tax system aimed at the redistribution of income as much as creating a new source of federal tax revenues was one of the worst mistakes in American history.

The Tax Cuts of the 1920s

There are three periods where there were significant tax rate cuts which moved toward a flatter tax rate structure: the 1920s, the 1960s, and the 1980s. All exhibit some of the same characteristics, but the tax cuts of the 1960s were smaller than those of the 1920s, and in the 1980s the sharp increases in tax rates for the Social Security system partially offset the cuts in the federal income tax rates.

The first permanent federal income tax was enacted in 1913, and during the First World War there were dramatic increases in the rates in an attempt to generate increased tax revenues. At \$4,000 net income, the marginal rates rose from 1 percent in 1915 to 6 percent in 1918; at \$25,000 net income from 2 percent to 23 percent; at \$100,000 net income from 5 percent to 60 percent; and, at \$750,000 net income from 7 percent to 76 percent. The rates were reduced in 1922, 1924, and 1925. By 1925 the highest marginal rate was 25 percent for \$100,000 and more net income. By the late 1920s only about the top 7 to 8 percent of Americans were subject to federal personal income taxes.² Though the marginal rate was not constant, the changes were close enough to that which

would occur with a flat rate tax that the results of the tax cuts of the 1920s can suggest what would happen with the adoption of a flat rate federal income tax.

Tax Cuts for the Wealthy?

A common criticism of the proposal for a flat marginal rate tax is that it would generate a windfall for the wealthy and create greater inequalities in income distribution. Such charges were also made in the 1920s, 1960s, and 1980s. In the 1920s, tax rates were reduced much more for the higher-income taxpayers because, obviously, they had much higher marginal tax rates in 1918. For example, the marginal income tax rate was reduced 51 percentage points (76 percent to 25 percent) between 1918 and 1925 for taxpayers with at least \$750,000 of net income, while the reduction for a taxpayer with \$6,000 net income over that period was only 10 percentage points (13 percent to 3 percent).³ However, the relative reduction (decrease as a percent of the 1918 marginal tax rate) was somewhat larger for the lower-income taxpayers than for the higher-income taxpayers.

More importantly, the reduction in tax rates shifted the effective burden of taxation. When rates had been increased between 1915 and 1918 the higher-income taxpayers had found various ways to shelter their income from taxes. At the same time as the number of returns in the lower net-income brackets rose as exemptions were reduced, the number of returns in the higher-income brackets fell. As examples, for the \$500,000 to \$1,000,000 net income class, the number of returns fell from 376 in 1916 to 178 in 1918, and for the \$250,000 to \$500,000 net-income class the number of returns fell from 1,141 to 629 over the same period. The result was that the share of income taxes paid by the higher net income tax classes fell as tax rates were raised. With the reduction in rates in the twenties, higher-income taxpayers reduced their sheltering of income and the number of returns and share of income taxes paid by higher-income taxpayers rose. For example, the share of

total personal income taxes paid by taxpayers with net incomes of \$1,000,000 or more rose from 5.75 percent in 1923 to 15.9 percent in 1927. For taxpayers with net incomes of \$250,000 to \$500,000 their share of total personal income taxes rose from 6.82 percent in 1923 to 12.40 percent in 1927. The share for taxpayers with net incomes of \$100,000 to \$250,000 rose from 15.7 percent in 1923 to 21.91 percent in 1927. However, taxpayers with net incomes of \$25,000 or less paid 36.22 percent of all personal income taxes in 1923 but only 12.83 percent in 1927. Thus, cutting tax rates *effectively* shifted the tax burden from the lower-income taxpayers toward the higher income taxpayers.

The assertion that the tax cuts would primarily benefit higher-income taxpayers was tied to the contention that this would create more income inequality. It has always seemed contradictory to me to argue that allowing a person to retain more of the income he or she generated would *create* more income inequality, but that has been the common contention. The conventional measures did show significant increases in income inequality during the twenties but there were problems with these measures. They were developed from the income reported on income tax returns and separate estimates of total income in the economy. However, as tax rates fell during the twenties, higher-income individuals began shifting wealth so that less of their income was sheltered from taxes. A portion of the greater income gains of the higher-income individuals represented not *additional* income but income from wealth which was shifted from tax shelters to assets subject to taxation. Correcting for this significantly reduces the rise in income inequality during the twenties.

What of the rise in income inequality that did occur? Individuals receive earnings from the productivity of their capital investments and land as well as their labor. They also receive income in the form of the realized gains in the values of their assets. The values of financial assets, particularly stocks, began to rise by the mid-twenties

and this culminated in the great stock market boom of the late twenties. To see what effect this had, I calculated income shares which excluded realized capital gains, and when this was done, essentially all of the rise in income inequality in the twenties disappeared.

Thus, this evidence suggests that the dramatic tax cuts associated with moving toward a flatter rate tax structure would not provide windfalls of income for the wealthier taxpayers. It would encourage them to shift wealth from tax-sheltering investments to taxable investments to receive larger after-tax returns. The movement of economic activity out of lower return tax sheltering into higher return taxable assets will create more efficiency and make people in the society better off.

Larger Government Budget Deficits?

Another argument frequently thrown at the supporters of a flat marginal rate income tax is that it would worsen the annual deficits of the federal government. This would occur because expenditures would continue at the same level while revenues would decline. Once more we can examine evidence from the twenties which is related to this. With the end of the First World War the federal government's expenditures dropped sharply, though not to the prewar levels, and budget surpluses were created. There were calls to reduce the income tax rates to direct investment into more appropriate channels rather than into activities which were primarily directed to tax avoidance, and to reduce the widespread legal tax avoidance by the upper-income taxpayers. For example, Andrew Mellon, Secretary of the Treasury, reported that when William Rockefeller (John D.'s brother) died in 1922 he held less than \$7,000,000 in Standard Oil bonds but over \$44,000,000 of wholly tax-exempt securities. The inability of Congress to find legislation to effectively reduce this tax avoidance was one force leading to the twenties' tax cuts.

The first of the major tax cuts was passed

in November of 1921. On average it reduced marginal personal income tax rates by 13.8 percent, and this led to a decline in real total federal personal income tax revenues of 4.3 percent. The second major tax cut was approved in June of 1924 and it reduced marginal income tax rates by an average of 7.5 percent. This tax cut led to an *increase* in real total federal personal income tax revenues of 5.9 percent. The final major tax cut was introduced in December 1925 and enacted in February 1926. It applied retroactively to 1925. On average marginal personal income tax rates were reduced 33.6 percent by these changes. Rather than falling, real federal personal income tax revenues increased by 0.5 percent with this large tax cut.

The evidence clearly indicates that, in general, tax revenues rose with the tax cuts of the twenties. The federal government's budget surpluses were not reduced with the final two tax cuts and, over the course of the twenties, these budget surpluses allowed the federal debt to be reduced by 25 percent.

Conclusions

The flat marginal rate income tax may never be enacted. Many people, and this certainly includes many politicians, believe that it is only "fair" that higher-income individuals face higher *marginal rates* of income taxation. The tenacity with which supporters of progressive tax rates cling to this idea is indicative of their redistributionist philosophy. It also indicates their refusal to face reality. The tax cuts of the twenties as well as every major income tax cut has resulted in an *effective* shift of the tax burden from lower- to higher-income

taxpayers. As the twenties show, it does not have to worsen the government's deficit. Economic growth in the twenties surged with the tax cuts, and prices were nearly stable while unemployment rates averaged around 4 percent.⁴ The government ran surpluses which allowed it to reduce the federal debt by 25 percent. The decreases in marginal tax rates led individuals to pull their investments out of ones designed to avoid taxes—investments such as tax-exempt municipal bonds, personal service corporations, and other avenues to avoid distributing corporate profits. The result was a rising tide of investment in new, growing, and sometimes risky businesses and industries such as "radio," consumer household electric appliances, electric utilities, airplane manufacturers, rubber tire manufacturers, supermarket chains, and so forth. The 1920s were a vibrant, growing decade, and the tax cuts of the 1920s certainly were an important part of what brought this about. □

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

2. Personal exemptions were also increased during the decade.

3. Much of the following discussion relies upon two sources. Gene Smiley and Richard H. Keehn, "Federal Personal Income Tax Policy in the 1920s," *The Journal of Economic History*, Vol. 55 (June 1995), pp. 285–303; and, Gene Smiley, "New Estimates of Income Shares During the 1920s" presented at "Calvin Coolidge and the Coolidge Era," a library of Congress Symposium on the Politics, Economics, Social, and Cultural History of the United States in the 1920s, October 6, 1995, and forthcoming in a conference proceedings volume.

4. Between 1919 and 1929 real per capita GNP grew 2.61 percent per year. (1920 was the first year of the 1920–21 depression and is not an appropriate starting point.) For comparison, real GNP per capita grew 1.48 percent per year from 1950 to 1959, 3.26 percent per year from 1960 to 1969 (with significant tax rate cuts), 2.68 percent per year from 1970 to 1979, and 2.09 percent per year from 1980 to 1988.



Government's Hostile Takeover

by Raymond J. Keating

In the history of modern-day capitalism, there have been occasional misplaced concerns regarding corporate raids or hostile takeovers. Worries about corporate instability, excessive debt, and job losses mount when an individual or firm attempts to seize the reins of a corporation against the wishes of current management.

In reality, of course, hostile takeovers are a source of dynamism in a free enterprise system—often removing moribund, inefficient management, and finding ways to add value and increase production. These takeovers are an integral, healthy aspect of capitalism's ongoing creative destruction.

But there is another kind of hostile takeover that is distinctly anti-free enterprise in nature and worthy of harsh criticism: the federal estate tax, along with the gift and generation-skipping taxes. After working hard, paying taxes, and building a business over a lifetime, an individual faces the prospect of steep estate taxes—a government hostile takeover, if you will. And a primary target for government raiders under the guise of the estate tax are family businesses.

To fend off such government takeovers, family-business owners channel large amounts of resources into relatively unproductive endeavors in a struggle to pass the business on to the next generation. Legions of accountants explore creative ways to

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shield assets from death taxes. Indeed, people even purchase life insurance for the sole purpose of paying estate taxes. Insurance is not cheap, however, and remains out of reach for many individuals working hard to keep their businesses afloat. If estate-tax insurance is purchased, it means that resources have been diverted away from productive, market-driven endeavors. Buying insurance to cover the costs of taxation is a clear indication of a tax system gone awry.

Often, estate taxes wind up killing family-owned businesses. Sixty percent of family-owned businesses fail to make it to the second generation, and 90 percent do not make it to the third generation.¹ Perhaps most damaging is that under the estate tax, the government strips a company of much-needed capital at the worst possible juncture—under a change of ownership and oversight. Most businesses simply never recover.

Disincentive for Investment

Heavy estate taxation also acts as a disincentive for investment and entrepreneurship, just as onerous income and capital gains taxes do. With as much as 60 percent of a business enterprise essentially slated for a government takeover, there remains little incentive for individuals to continue to invest and expand a family business when the owner reaches a certain age. Rather, business owners possess every incentive to sell their family businesses before death to spare their heirs the costs and burdens of hostile estate taxes.

Federal estate tax rates range effectively from 37 percent to 55 percent, plus an additional 5 percent on very large estates. It is important to understand that this is not 55 percent of income, it is 55 percent of all assets. (The first \$600,000 is exempt from taxation.) The gift tax is levied at the same rates as the estate tax, excluding \$10,000 per recipient annually. In addition, a generation-skipping tax is imposed on gifts and bequests to grandchildren. The generation-

skipping tax is levied at an additional flat rate of 55 percent on amounts in excess of \$1 million.

As is always the case when government pushes tax rates higher, the taxed economic activity dwindles, and actual tax revenues fail to meet the expectations of government bureaucrats. Estate and gift taxes account for just a little more than one percent of total federal government receipts. Since 1974, there has been virtually no inflation-adjusted increase in federal estate and gift tax revenues. In addition, a good portion of these revenues are eaten up by the federal government's compliance efforts related to estate and other death taxes. Some estimates say as much as 75 percent of estate and gift tax collections are offset by the costs of the IRS, the Treasury Department, and litigation.²

In the 1970s, Australia and Canada repealed their estate taxes. While not exactly bastions of free-market economics, both nations came to realize that estate levies hurt investment, economic growth, and job creation.

In the most extreme cases, the U.S. tax structure has pushed many upper-income individuals to reject their U.S. citizenship and take up official residence in less taxing lands. Again, estate taxes play a significant part in such decisions. *Forbes* magazine ran a cover story about such individuals entitled "The New Refugees" in its November 21, 1994, issue. While some might say, "Good riddance to such traitors," the economics underlying the situation is clear. Strong incentives to flee the U.S. tax burden exist.

A simple question arises: Why does the United States impose such a punitive tax code to the point where productive individuals will take the dramatic step of renouncing their citizenship in order to prosper elsewhere? Taxing productive individuals out of a country is not new. The twentieth century offers numerous examples, such as the Soviet Union, as well as Great Britain from the end of World War II to the late 1970s. But truly oppressive levels of taxation date back centuries. In the late eigh-

teenth century, Adam Smith warned in *The Wealth of Nations*:

The proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax, and would remove his stock to some other country where he could either carry on his business, or enjoy his fortune more at his ease. By removing his stock he would put an end to all the industry which it had maintained in the country which he left.

This warning takes on even greater significance considering today's worldwide competition for increasingly mobile labor and capital.

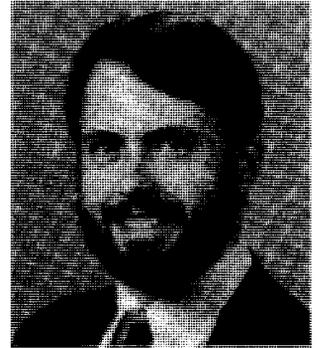
In the private sector, a hostile takeover often means that the owners (i.e., shareholders) of the targeted company will benefit as their shares in the firm increase in price. Under the government's hostile takeovers of thousands of family-owned businesses each year via death taxes, owners are decimated as the government often lays claim to more than half the company's assets. Resources are funneled away from productive, private-sector ventures to dubious unproductive government programs.

Envy—leading to wage class warfare and failed government redistribution schemes—stands as the only justification for estate taxes. But envy is a poor foundation upon which to base a tax code. Sound economics is preferable.

Estate taxes and death strip businesses of much-needed capital; create disincentives to invest, save, and take risks; reduce economic growth and job creation; and are expensive to administer. The time has come to end government's hostile takeovers of family businesses and assets. If not, the government will continue to destroy America's free enterprise system and our great heritage of family-owned businesses. □

1. Grace W. Weinstein, "Keeping the Family Business in the Family," *Investor's Business Daily*, April 12, 1995, p. 1.

2. Testimony of the Small Business Council of America before the U.S. House of Representatives Committee on Small Business on January 31, 1995.



Regulatory Overkill

There may have been a revolution in the way Washington works over the last two years, but its effects remain hard to discern. All told, estimates Americans for Tax Reform, government is costing U.S. citizens \$3.38 trillion this year. In effect, only on July 3—Cost of Government Day—did people stop working for government. People effectively spent more than half of the year, 184 and a half days, on their jobs before earning anything for themselves.

The burden of direct spending—\$2.45 trillion for federal, state, and local governments—is obvious enough. Perhaps more incredible are the hidden costs. Federal regulation, for instance, runs Americans \$739 billion annually. Another \$196 billion is consumed by state regulation, particularly workers' compensation laws and an out-of-control tort system. What makes these latter costs so insidious is that the financial bill is rarely known when the legislative bill is enacted. For instance, Congress's politically popular move to help the disabled, the Americans with Disabilities Act, will cost counties alone \$3 billion by 1998.

The overall result is an incredible regulatory sprawl. Last year, report Melinda Warren and Barry Jones of the Center for the Study of American Business, the federal regulatory workforce hit its highest level

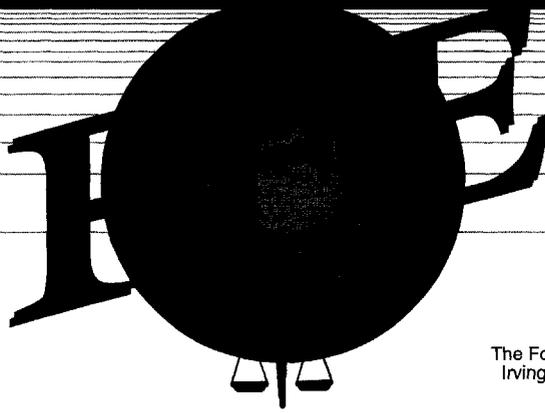
ever, 130,929—28 percent more than the decade before. The number of pages in the Federal Register, Washington's compendium of proposed rules, was up an astonishing 68 percent over the same period.

Nor is the problem simply the quantity of regulation. The Independent Commission on Risk Assessment and Risk Management recently criticized federal controls as "cumbersome," "fragmented," bedeviled by "confusion and inefficiency," and subject to a "patchwork" of inconsistent laws. Some regulations today are not based on "realistic high-exposure scenarios," that is, the dosages people face. The language of the Delaney Clause, which bans carcinogenic products, is "inconsistent with modern analytic detection methods and current scientific knowledge." And so on. In short, the entire federal rule-making process is seriously defective.

Similarly critical are Heritage Foundation analysts John Shanahan and Adam Thierer, who report in a recent study that the government fails to prioritize risks, recognize that not all risks are avoidable, and understand how regulations can actually cost lives. There are, explain Shanahan and Thierer, "real costs and trade-offs associated with every regulatory decision."

This is an insight that many government officials obviously lack. When Congress enacted Corporate Average Fuel Economy standards, it encouraged automakers to downsize their automobiles in order to achieve better mileage. However, since

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Economic Ends and Means

Most Americans are in full agreement on the basic goals of economic policies. They see eye to eye on the desirability of economic growth and prosperity, full employment, stable prices, a healthy environment, social peace and harmony. They even agree on the need for aid and support of the poor and disadvantaged. They concur on economic ends, but differ sharply on some—but not all—of the means that should be used to achieve those ends.

Some Americans eagerly take an “activist” line. They would use the full weight of the political apparatus to mandate, coerce, punish, tax, spend, engage in deficit spending, and print money in order to attain their ends. They call on government to actively pursue the economic ends. Other individuals, while equally committed to the same goals, would seek to improve conditions by relying less on politics. They would reduce involvement of government in the economy, remove the political constraints, and shun artificial government stimulants. They place their confidence in the free and efficient operation of the competitive market order.

The difference between the two camps springs from different perceptions and conceptions of social life. According to the most popular social philosophy of our age, the market order is torn by an irreconcilable conflict between the interests of “capital” and those of “labor.” Private property in the means of production and individual

enterprise benefit only a small class of capitalists while they harm the large majority of working people.

This conflict philosophy which owes its great popularity to the writings of Karl Marx and his American admirers is espoused not only by card-carrying Marxians, but no less by many professed anti-Marxians and self-styled champions of free enterprise. It is the official social philosophy of the major political parties and their candidates. They may disagree on basic problems of abortion and drug abuse or on some incidental issues such as the capital gains tax or the allowable rate of depreciation, but they all espouse the thesis that the economic system breeds economic conflict and, therefore, should be abolished or at least be carefully managed in the name of social justice. The communists and socialists seek to abolish the system summarily; their ideological cousins readily accept the conflict doctrine, but deplore the presumed conflict, and want to alleviate it with the reforms they recommend.

In recent decades the economic conflict dogma has provided the intellectual wherewithal for derivative doctrines of racial conflict, gender conflict, and the youth conflict of the 1960s and 1970s. They, too, divide society in distinct classes of exploiters and victims who form vocal organizations that press their charges and plead their cases in the halls of Congress.

To listen to the economic debates in the

Congress of the United States is to give ear to furious exploitation charges and the wailing of an assembly of victims.

We reject and repudiate the conflict dogma. The private property order, we believe, is a harmonious order devoid of social and economic conflict. In the words of Adam Smith, it is guided by an "Invisible Hand" which turns everyone's pursuit of private gain into public benefit and thereby harmonizes the interests of all members of society regardless of class, race, gender, or age. What makes for this harmony is the higher productivity of cooperation and division of labor. Two individuals working together are more productive than two working alone. Two hundred million Americans working together, specializing in their productive tasks and engaging in large-scale production, are more productive per head than a smaller number. Thanks to their cooperation, the supply of goods and services tends to multiply, which improves their living and working conditions. It removes all traces of social conflict.

It is in the interest of every individual to preserve and extend social cooperation and division of labor. In freedom and the private property order, everyone earns the money equivalent of his contribution to the production process. Even in the employ of a profit-seeking capitalist, the competition among employers, the freedom of workers to sell their labor to the highest bidder, and the freedom to be self-employed, all these characteristics of the market order assure that everyone receives his or her full and fair wage. There can be no exploitation in an unhampered labor market.

The "activists" who would use the political apparatus to command and direct economic life summarily reject such explanations. They usually liken economic life to life in a jungle in which one creature preys on another and only the strong survive. To speak of inexorable economic principles that guide human life and of the harmony

of interests of all human beings, to the activists, is to suffer from an illusion, engage in wishful thinking, or even wink at cruel exploitation of the weak and sick. They are quick to question the very motives of anyone who casts doubt on the advisability of the use of the political apparatus in economic life. Their spokesmen in the media do not hesitate to cast slurs upon the disciples of harmony as the foes of economic growth and prosperity, as the partisans of inflation and unemployment, the advocates of a polluted environment, and the enemies of peace and harmony. To disagree on the means to be employed is to stand condemned also on the ends sought.

The conflict reporters who may call themselves "liberals" or "moderates" may go even farther. They may spurn the unhampered market order also on ethical grounds as an unfair and amoral system. To them, the criterion of morality is the people's will, wish, and intent as they manifest themselves in majority votes. They place a high value on individual obedience and on restraints equally imposed on individuals by majority decision. The state is their instrument of coercion, the supreme arbiter of fairness and morality.

In reality, the opinion and judgment of the majority are not the final proof of what is right. Wisdom and justice are not always on the side of the majority. In fact, individuals usually live in greater danger of having their rights invaded and their freedom restrained by the commands of an overweening and self-righteous majority than by the machinations of entrepreneurs and capitalists. Evil is evil; it is none the better for being committed on behalf of the majority.



Hans F. Sennholz

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—Ludwig von Mises, *The Theory of Money and Credit*

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small cars lose when hit by big ones, the result has been increased injuries, and deaths in auto accidents.

Other examples abound. Studies suggest that chlorine carries with it a slight risk of cancer. Therefore, Peru stopped chlorinating drinking water, only to suffer a massive cholera outbreak that killed 7,000 people. Similarly, while the banned pesticide EDB poses a (very low) cancer risk, the food fungus formerly destroyed by EDB presents a greater cancer danger.

Switching from disposable to washable diapers saved landfill space. But doing so also increases pesticide use (to grow cotton), hot water consumption (to wash the diapers), and air pollution (from the trucks of household pickup services). In fact, many forms of recycling offer similar negative consequences. Paperboard burger containers can be recycled, but polystyrene clamshells generate less pollution and use less energy when produced.

There is another more indirect trade-off. As Shanahan and Thierer put it, "Wealth is health." A more prosperous society will have better medicine, safer transportation, more durable housing, and less dangerous work. Thus, anything that reduces people's incomes is likely to, at the margin, make people less safe. In fact, the White House Office of Information and Regulatory Affairs (OIRA) estimates that every extra \$7.5 million in regulatory spending results in one lost life as mortality rates rise.

Yet today the government regularly regulates as if money were free and there were no health trade-off. Common are the government rules that cost more than they are worth. Kenneth Chilton and Courtney La Fountain of the Center for the Study of American Business figure the 1990 Clean Air Act amendment governing ozone generates between three and five times as many costs as benefits.

Many rules offer dramatically worse deals. For instance, OSHA controls on benzene would require the expenditure of \$168 million to prevent one death. The EPA's standards for dichloropropane would expend \$653 million to avert one death. And

OSHA's regulations on formaldehyde would cost an incredible \$119 billion before saving even one life.

Using the OIRA estimate, 22 people are dying for every one saved by the benzene rule. The ratio is nearly 90-to-one for dichloropropane. The formaldehyde rules cause 1,600 times as much harm as good. Shanahan and Thierer suggest another way of looking at the so-called opportunity cost of these controls. In place of the benzene standard, 3,064 police officers could be put on the street. The dichloropropane rule costs the equivalent of 4,353 fire trucks. And pharmaceutical companies could develop 331 new drugs for the money necessary to save one person with the formaldehyde restrictions. Bargains these regulations are not.

America's regulatory behemoth requires systemic reform. The starting point must be Congress. Lawmakers should stop attempting to micromanage virtually every aspect of society. It is time for them to realize that however imperfect the market, the political process is far more flawed. Even legislation resulting from the best of intentions, like the Americans with Disabilities Act, usually ends up having expensive and perverse consequences.

Congress also needs to stop granting blank checks to agencies to implement legislation. Observes former Senator Malcolm Wallop: "We get to vote for senators, congressmen, and presidents. But we have less and less control over our lives because we have no control over the people who make the rules by which we live—about how we make and sell our products, which groups get what preferences, how we can use our land." Legislators need to stop delegating their lawmaking powers to unelected bureaucrats. Congress should allow the relevant agency to draft only a proposed, not a final, rule. Then Congress should have to vote on the measure before it becomes law.

Responsibility is the key to such reform. As attorney Philip Howard put it, "When Americans can identify who is responsible for what, sensible decisions will begin popping out of our schools and other institutions like spring flowers after a long winter."

While Howard may be a bit too optimistic, he is right about holding lawmakers accountable for their decisions. Today legislators can hide behind faceless bureaucrats. Were the former forced to pass judgment on the latter's work, this political free lunch would disappear.

Any remaining rules should be flexible and rely on market forces. Government should be made to pay when it imposes unnecessary costs on innocent people—by effectively taking their property through regulation, for instance. More effective cost-benefit studies should be required before regulations can take effect. Officials need to improve their methods of risk as-

essment and seek to insulate the scientific investigative process from political pressure. Finally, regulators need to set priorities and consider trade-offs.

“Regulations can kill, especially when they are formulated as a rash response to hypothetical risks, and divert resources from other activities that would reduce real risks,” warn Shanahan and Thierer. The problem of over-regulation is not just the added financial cost, which is huge, but the large number of lives lost. When politicians stand in the way of meaningful regulatory reform, they are not only wasting billions of dollars. They are also killing hundreds or thousands of people—with kindness. □

Why Some Federal Jobs Should Be Abolished

by Tibor R. Machan

It is a sad spectacle when political leaders lack a coherent framework by which to explain to the public why various official actions being taken are required and, indeed, just. This is the predicament faced by many in Congress when parts of the federal government shut down back in late 1995.

The outcries of employees and their lobbyists should not be the main motivating force behind what the federal government does. The reason for this is simple: the debate should be about whether those who get paid from the moneys collected by the

IRS and other taxing agencies really ought to have their jobs in the first place.

Imagine a situation in which a country is undergoing a major revolution—in this case it has finally abolished apartheid. (Of course it isn't a hypothetical case but some may not remember recent history, so I ask them to use their imaginations as a substitute.) Because of such a revolutionary event, thousands of government employees who have for decades worked in positions related to apartheid lose their jobs. (You could picture something closer to home: the abolition of the military draft or the repeal of prohibition. Or you could make it somewhat more historical and far more drastic: the demise of the Third Reich or the Soviet Union, where thousands of people worked

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in concentration camps and upon the revolutionary change lost their jobs.)

If one can clearly identify these jobs as serving evil purposes or resting on evil policies, there would be no trouble at all explaining to people why the jobs had to be lost, why those who held the jobs in question ought to seek employment elsewhere, doing decent work, pursuing honorable careers. And there should be no problem showing that many thousands of jobs being held down these days by federal employees—involving the wrongful collection and redistribution of other people's earnings, forcibly regulating the lives and livelihoods of millions of people administering properties that government has no right to control, and so on—are morally wrong. They do not, of course, involve the blatant, drastic evils we know were being assisted by state workers in South Africa, Dachau, or the gulags but they are, nonetheless, morally insidious. When the public finally elects politicians hoping they can appreciate the evil of such works, it is the business of these politicians to work for their abolition.

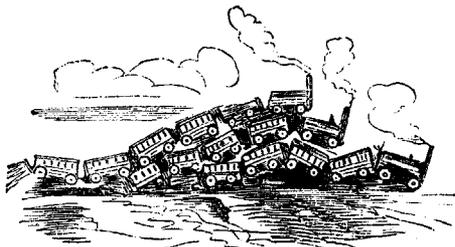
Unfortunately, the current crop of national leaders calling for cuts in the scope and size of government are ill-equipped to make the moral case for the abolition of these jobs. All they can say is that slowing down the pace at which the federal government perpetrates its questionable business is a necessary move in a political gambit. All they can talk about is the need for coming up with a balanced budget plan. Of course, if that is all that's at stake, the employees whose jobs are being put on hold and their advocates can come back with the outcry that their lives are being played with. This makes supporters of government downsizing look callous, heartless, and pre-

cisely as mean-spirited as the critics claim they are.

In one's personal life one tries to balance his budget but usually if emergencies arise, one is willing to go into debt or even extend one's indebtedness. It would be unthinkable to refuse to take a child to the doctor just because it means that one's indebtedness would have to increase. Cost considerations alone are not morally hefty enough to carry the argumentative weight needed to make the policy of downsizing government morally acceptable. Not that economic imprudence is good policy in one's personal life, in business, or in government. But there are clear cases where such prudence is not the highest virtue. That is when compassion, generosity, charity, or courage may trump considerations of prudence.

But if it is clear that what is at stake is the establishment of justice—which is to say, the abolition of federal government policies that rob from people, that intrude on people's lives, that violate the principles of government by the consent of those who are governed—then the answer to the loss of jobs would be that such jobs shouldn't exist in the first place. Those who have gotten used to living off stolen funds will have to rearrange their lives, period. They must not ask for compassion—justice is more important!

Unless some of our political leaders learn to be consistent in their call for justice for the American citizenry, rejecting the idea that it is acceptable to put millions of people—even the poor, elderly, and sick—on the payroll of a government funded by plunder, there will not be serious change in our society. And one consequence will be that not only will injustice continue but the system will ultimately go broke. □



What Is Multiculturalism?

by Eric Mack

Occasionally one thinks that, perhaps because it has become so tedious, multiculturalism has begun to pass from the scene. Unfortunately, such thoughts seem entirely too optimistic in light of the great extent to which multiculturalist slogans have become culturally and institutionally enconced, the great emotional and financial stake that multiculturalists have in perpetuating their visions, and the degree to which, usually under false pretenses, multiculturalists are able to initiate new believers into their sect. So it probably is still of some value to offer a dissection and critique of the ideology of multiculturalism—a dissection and critique that focuses on the rotten core rather than the surface that is polished for marketing purposes.

Behind the mask of a benign “celebration of diversity” lies a deeply corrosive rejection of all general norms, rules, or truths. This rejection of general norms, both those dealing with knowledge and those dealing with morals, derives from multiculturalism’s insistence that there are many essentially closed systems of perception, feeling, thought, and evaluation—each associated with some racially, ethnically, or sexually defined group. Thus, multiculturalism quite explicitly and appropriately sees itself as rejecting the Enlightenment belief in standards of reason, evidence, and objectivity, and principles of justice and freedom that apply to all human beings.

Cultural Relativism

Multiculturalism is, in effect, a dressed up and politicized version of cultural relativism—the doctrine that every group has its own distinct but equally sound patterns of perception, thought, and choice. According to cultural relativism, no one can validly object to beliefs and actions of any group which reflect that group’s own indigenous worldview. While cultural relativists have always claimed to be friends of tolerance—indeed the only true friends of tolerance—this doctrine actually implies that no one can object to any group’s intolerance, if intolerance is that group’s *thing*. Neither the cultural relativist nor the multiculturalist can object to Mayan infant sacrifice, or Spanish Inquisitional torture, or Nazi genocide because each of these practices is validated by the perspective within which it arises. To criticize indigenous intolerance or any “culturally authentic” practice no matter how brutal or exploitative, one must apply general, trans-cultural norms which both cultural relativism and its multicultural descendent denounce as “imperialist.” But multiculturalism’s moral relativism precludes any such appeal and, hence, it precludes any affirmative case for tolerance.

In addition to its moral relativism, multiculturalism also proclaims (as the one great Objective Truth) that all truth, objectivity, and evidence are also relative. Each “culture” has its own truth, objectivity, and standards of reason and evidence. Thus, whatever beliefs any “culture” emits, they

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are validated by the fact of their emission. This, of course, precludes any rational dialogue among individuals. Each individual is merely a representative of a certain biologically defined perspective with its own idiosyncratic, but self-validating, biases. Hence, each individual must agree with members of his or her own group and be unable to make rational contact with members of other groups.

By chanting his mantra of relativism, the multiculturalist can evade honest confrontation with all intellectual challenges. Consider the argument that multiculturalism cannot support tolerance since grotesquely intolerant social orders can be as true to their distinctive ways of perceiving, cognizing, and feeling, as any other social order. According to the multiculturalist mantra, this argument itself is merely an expression of one particular perspective, the Eurocentric—hence, “linear” and “logocentric” mode of perception and thought. Thus, this challenge, like all attempts at rational disputation, can be rejected by anyone who “doesn’t feel that way about it.”

Tolerance

In contrast to the multiculturalist, the genuine advocate of tolerance believes that, despite the profound differences among individuals, there are some fundamental general norms—including standards of rational discourse and norms that extend freedom and the protection of justice to all persons in virtue of their common humanity. Only such general norms provide a principled basis for rejecting the suppression of disliked opinion, speech, religious conviction, economic decisions, and so on. It is precisely to the extent that we articulate and comply with such rules that each of us, strange as we are to others and strange as many others are to us, are able to live at peace, indeed, in fruitful mutual advantage with one another.

Multiculturalism modifies cultural relativism in two important ways. First, it ignores cultures as ordinarily understood and focuses instead on biologically defined

groups *within* our society who may be recruited into political alliances based on heightening their sense of alienation and victimization. Thus, as the perceived political opportunities dictate, the multiculturalist focuses on the supposed existence of *sui generis* Afrocentric, Female, Hispanic, Homosexual, and/or Native American modes of thought and feeling.

Multiculturalism is fundamentally anti-individualistic because it expects each individual to conform in his or her perceptions, thoughts, and assessments to those pronounced to be the authentic perceptions, thoughts, and assessments of that individual’s group. All genuine blacks must share *the* Black perspective. All genuine women must share *the* enshrined Female perspective. All homosexuals must share *the* Homosexual perspective—and so on. Your thoughts are either the collectively constituted thoughts of your racial, ethnic, or sexual group or they are thoughts insidiously imposed upon you by the dominant White Male perspective. Group-think is the mark of authenticity. Multicultural “diversity” both radically cleaves humanity into disparate biological collectivities and radically homogenizes people within these collectivities. For the multiculturalist, diversity is merely superficial.

Multiculturalism’s second modification of cultural relativism consists in its expulsion of one supposed worldview—what multiculturalism *misidentifies* as the White Male perspective—from the Eden of equally sound worldviews. All group perspectives are equal, but one is less equal than others. The supposed reasoning on behalf of this expulsion is that the so-called White Male worldview is uniquely guilty of commitment to common objective norms of thought and action. Hence, it is said, this rogue perspective uniquely stands in judgment of other worldviews, subjecting them to its wickedly colonialist epistemic and moral standards. Thus, this perspective—as befits its White, Male, heterosexual roots—is uniquely totalizing, aggressive, and victimizing.

In reality, of course, what is being condemned by multiculturalism is not some

idiosyncratic White male, heterosexual perspective, but rather the human enterprise of seeking, articulating, and employing general norms that help us to distinguish between the true and the false, the plausible and the implausible, the good and the evil, the permissible and the impermissible.

The irony is that multiculturalism wants to hew to its own judgments about the special defects of Western thought and the special injustice and oppressiveness of the liberal Western social and economic order while insisting that it cannot be expected to justify (or even identify) the philosophical or empirical premises of its own judgments. The excuse for this irresponsibility is the ritualistic claim that to accept these demands for justification is to succumb to the Eurocentric hegemony. Yet, at the same time, we are supposed to accept the truth of the multiculturalists' historical and cultural analyses and the verity of their all-embracing evaluations.

Multiculturalism presents us, then, with the spectacle of sweeping, confident, and impassioned moral, historical, economic, sociological, and aesthetic judgments and a simultaneous and often self-righteous refusal to take any intellectual responsibility for any of those judgments.

Was Hitler Evil?

In a campus debate a couple of years ago with an earnest multiculturalist, I strove to help her see that she could not both accept multiculturalism's relativism and continue confidently to proclaim the profound evils of various regimes. In desperation, I appealed to the instance of Hitler and Nazism. "Given this relativism," I asked her, "can you even assert that Hitler was evil?" "Well," she said after a moment of thought, "I'm not valorizing him."

The primary purpose of multiculturalist educational proposals is to instill in students and (increasingly) in employees and the population at large the demonology that the apparently benign, tolerant, liberal order is actually the most profoundly oppressive order ever to have existed. People are to be

initiated into the delights of victimhood. They are to learn how to perceive themselves as victims (or victimizers)—not of superficial wrongs like murder, mayhem, and robbery—but of ever so subtle, exquisitely cunning, psycholinguistic domination. It is psycholinguistic domination, i.e., the "construction" of seductively hegemonic themes and discourses, that make the derivative evils of racial or sexual exploitation possible (indeed, inevitable). To recognize oneself as such a victim is to attain multiculturalist enlightenment and, not inconveniently, an all-purpose ticket for the increasingly lucrative multiculturalist gravy train.

Students especially are to be taught that arguments, doctrines, works of art, or policy are never to be evaluated on their own merits. For there is no such thing as the objective merit or demerit of an argument, doctrine, work of art, or policy. Rather, these and all the other products of the human mind are to be revealed as mere "valorizations" of power. They are to be deconstructed to disclose their inner character as instruments of repression—or, presumably in the case of the privileged construction known as multiculturalism, as an instrument of heroic resistance.

But is resistance objectively different from repression? Is resistance objectively better than repression? These sly questions might tempt the unwary multiculturalist back into the clutches of Enlightenment "discourse." But the well-versed multiculturalist can recognize the serpent with her alluring offer of knowledge and can, as his greatest act of resistance, doggedly close his mind.

Throughout the academy and eventually society at large, the multiculturalist demands that the classification of people by race, ethnicity, sex and/or sexual orientation be emphasized at every possible opportunity. Individuals are not to be seen or judged as individuals but *as tokens* of this or that tribe or caste. Since no one from one tribe (with the exception of white males) can be judged by members of any other tribe, each racial, ethnic, or sexual group must be

assigned its own *homeland*, its own reservation within the university and within the worlds of commerce (cf., set-asides) and government (cf., Lani Guinier).

Between the homelands comprising this new form of apartheid there can be, if multiculturalism is correct, no rational discourse, no rational evaluation, and perhaps not even mutual understanding. Given the premises of multiculturalism, there cannot even be any rational accommodation among the worldviews that are now supposed to be

strategically united in their struggle against the White Eurocentric devil.

Multiculturalism is the esoteric form of virulent ethnic politics. Remove what the multiculturalists describe as Male Eurocentric dominance and what, in reality, is the residue of liberal tolerance and belief in the efficacy of rational investigation and debate, and multiculturalism will proceed to do for the liberal university and for liberal society what ethnic politics has done for Yugoslavia. □

The Bright Side of Failure

by Matthew Ragan and Walter Block

Everyone abhors failure, and rightfully so. No one wants to fail. Students want to succeed at their school work, employees want to succeed in their jobs, and athletes want to succeed on the playing field. Business people are the same. No firm tries to be unsuccessful; all businesses try to satisfy their customers in order to make profits. The inability to succeed means the loss of jobs, paychecks, and often, happiness. Yet economists recognize failure as essential to economic progress.

Those unfamiliar with economics look with shock and disbelief at those individuals who profess that efforts to guarantee success and prevent bankruptcy undermine economic growth and exacerbate economic problems. People tend to see only the short-run, immediate pain associated with failure and not the indispensable function of the failures allowed by economic freedom. Failure should be seen as a blessing in disguise;

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it directs the economy away from wasteful and unproductive activities, and toward greater prosperity. Policymakers who try to ensure economic success through legislation seem not to understand that an economy without failure cannot progress.¹

To understand why business ventures fail, it is important to appreciate economic scarcity. The dictionary defines scarcity as an "insufficient amount or supply; shortage." There is a limit to the amount a society can produce and consume at any one time. Hence, people must make choices. Scarcity makes the prices of commodities such as land, labor, and materials so high that the less efficient producers cannot succeed. Resources tend to be allocated to produce the goods and services in greatest demand and away from the production of those less demanded.

Why Entrepreneurs Fail

The lack of sufficient capital for the success of all business ventures explains why

so many entrepreneurs fail and why entire industries disappear. The open market rewards only those whose discovery, invention, or idea satisfies urgent demands. Consider Alexander Graham Bell and the invention of the telephone, or Henry Ford and the introduction of the mass-produced automobile or, more recently, Steve Jobs, the founder of Apple Computers, and Bill Gates, creator of Microsoft Corporation. When an invention is of great benefit to society, the entrepreneur will be rewarded handsomely. However, if through the free market a society decides that the benefits gained by an invention do not justify its cost, it will fail to attract consumers.

For all the new economic successes, there are many busts. In 1995 alone, 832,415 businesses filed for bankruptcy protection with the federal government.² Even established companies experience failures from time to time. A few well-known and ill-fated new products include the Edsel, New Coke, Crystal Pepsi, the 8-track cassette, and Beta VCRs. These products were either replaced by better substitutes, or never proved beneficial enough to consumers to warrant long-term production. Some products did well for a time and then passed, ignominiously, into the dustbin of the economy: the hula hoop, silent movies, the typewriter, and so on. The bright side of these ill-fated ventures is that their failure resulted in the reallocation of capital and other resources to the production of other, more desired goods.

Some industries, once among the world's largest, have succumbed to market forces. The market and the needs of people evolve continuously. Industries that fail to change are punished.

Not even corporate giants can be complacent about the demands of consumers. In 1909 the Central Leather Company was the seventh largest company in the nation. However, plastics and other synthetic materials eventually became the equivalent of, or better substitutes for, leather at lower prices; consequently, Central Leather went bankrupt. Like Central Leather, the Pullman Company was once huge. With the development of the airline industry and the

construction of a national highway system, however, consumers found more attractive alternatives to traveling by railroad. As a result, Pullman fell from its perch as a corporate giant. Other forgotten industrial superstars include American Woolen, American Locomotive, and American Molasses. Economists Dwight Lee and Richard McNown observe that "The firm that appears to control the market today may find itself an obscure has-been in the future, because of new technologies or the whims of a fickle consumer."³

Too often, people see only the immediate, visible impact of business failure. Government frequently enacts laws that benefit narrow special interests without consideration of the detrimental effects on society as a whole. In other words, public policymakers often disregard secondary consequences. As Henry Hazlitt observed, "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."⁴

A Missed Connection

Government bureaucrats regularly miss the connection between failure and progress. They believe that an economic miracle can be produced through an abundance of rules and regulations designed to spare society the growing pains of failure. Ironically, efforts by legislators to limit or reduce the number of losers in an economy usually have the unintended consequence of reducing the number of winners. Government reduces the number of successes achieved by taxing, regulating, or otherwise restraining those who prosper.

All government responses to failure have one thing in common—to the extent that they prevent some, they cause others. Government allocates resources to one activity by reducing the resources available for other activities. The incentives which operate in the political arena seldom, if ever, outperform market incentives in leading

people to employ resources in their most valuable uses.

The former Soviet Union and the other socialist nations of the world provide the clearest illustration of the tragic consequences of this phenomenon. Enormous human suffering has occurred in these countries. They may have been founded on the sincere and compassionate belief that the government could relieve suffering by providing an equitable and comfortable life for all citizens, but in reality the opposite occurred. By attempting to suppress economic disarray, central planners impeded economic progress. In most instances, the citizens of socialist nations are no better off, or perhaps even worse off, than they were 50 years ago. By Western standards, people in socialist eastern Europe, China, Cuba, and Russia drive obsolete automobiles (or ride bicycles), live in crowded, inefficient homes that lack the modern amenities enjoyed by many "poor" Westerners, and do without the educational and career opportunities of people living in capitalist nations. Socialist countries exchanged their economic progress for a guarantee against personal and business failure.

In a recent study, James Gwartney, Robert Lawson, and Richard Stroup found a direct relationship between the amount of economic freedom a country has and the subsequent amount of economic progress it enjoys.⁵ This linkage was drawn from a 20-year comparison of 102 countries. The authors ranked each nation according to an index of economic freedom and compare this to the change in GDP per person. Those with a consistently high amount of economic freedom throughout were also among the highest in terms of GDP per person. Countries with the lowest ratings actually had a declining GDP per capita.

The freest economies include Hong Kong, Switzerland, Singapore, the United States, Canada, and Germany. The least-free include Nicaragua, Iran, Venezuela, Morocco, Panama, Greece, and Brazil. In this study, economic freedom signifies the protection of property rights, voluntary military service, no price or production con-

trols, relatively little public spending, and monetary stability. The empirical evidence gathered suggests that over the long term the freer the economy, the more success it will enjoy.⁶

Even the countries of semi-capitalist Western Europe have tried for several decades to isolate themselves from economic failure. Yet, ironically, the more they attempt to regulate and prevent failure, the more failure they suffer. These countries have generous national welfare systems for their citizens and extensive government regulation to support national industries. Western Europeans believed, and in many cases still believe, they could alleviate the "inequities" of the market. With the fall of communism and an increasingly open global market, European companies, because of their governments' efforts to control capitalism, have found themselves increasingly unable to compete with more efficient American and Asian firms.

Consider the European aerospace industry. A consortium, Airbus, produces jumbo jets and competes with the American firms Boeing and McDonnell-Douglas. But this entity, the pride of the public sector, is leaning toward privatization. Airbus, traditionally a government-subsidized marketing co-op, has been unable to match its rivals in price and efficiency.⁷

Similarly, European banking, another industry traditionally under heavy government control, is moving away from the status quo. Several prominent European banks have announced their intentions to become private firms.⁸ Pressured by competition from the economically freer nations, the less efficient European industries realize the critical need to change or be destroyed.

This phenomenon also occurs in the United States, which is among the most economically free nations in the world. And here, too, attempts to prevent economic failure often have detrimental long-term consequences. Many American industries and businesses lobby the government for legislation to protect their narrow interests from the rigors of the market. Examples

include subsidies for farmers, tariffs for steelmakers, and bailouts for Chrysler. But these policies simply prevent the free movement of capital from industries where it is less valuable to those where it is more valuable. Government taxation, regulation, and tariffs to reduce the chances of failure for certain groups penalize the entire society.

History has proved that the most successful nations are those that give their citizens the freedom both to fail and to succeed. It is ironic that people have regularly risked their lives to live in a capitalist world, thus risking economic failure. East Germany in 1961 was forced to build the Berlin Wall to prevent East Germans from living under capitalism. More recently, Cubans have fled their communist nation to live in the United States where, paradoxically, the government makes less grandiose promises of security.

People throughout the world "vote with their feet" and overwhelmingly choose to

live in capitalist nations where they are free to fail. Perhaps the greatest tragedy of the twentieth century has been that sincerely compassionate efforts to eliminate failure have often resulted in only more failure. The people of the world need to realize that to achieve success, failure must also be risked. □

1. See Dwight R. Lee and Richard B. McKenzie, *Failure and Progress: The Bright Side of the Dismal Science* (Washington, D.C.: Cato Institute, 1993), pp. 11, 17, and 18.

2. "Bankruptcy Statistics," *Bankstats*, Netscape Online, September 1995.

3. Dwight R. Lee and Richard F. McNown, *Economics in Our Time: Concepts and Issues* (Chicago: Science Research Associates, Inc., 1975), p. 70.

4. Henry Hazlitt, *Economics in One Lesson* (New York: Crown Trade Paperbacks, 1979), p. 16.

5. James Gwartney, Robert Lawson, and Walter Block, *Economic Freedom of the World, 1975-1995* (Vancouver: The Fraser Institute, 1996); see also "Economic Freedom: Of Liberty and Prosperity," *The Economist*, January 13, 1996, pp. 21-23.

6. *Ibid.*, p. 21.

7. Seanna Browder, Paula Dwyer, John Templeman, and Stewart Toy, "A Stronger Tailwind for Airbus?," *Business Week*, March 18, 1996, p. 51.

8. Bill Javetski, "A Black Hole for French Banks," *Business Week*, March 4, 1996, pp. 50-51.

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Individual Happiness and the Minimal State

by Edward W. Younkins

The Founding Fathers held the view that government, while deriving its power from the consent of the governed, must be limited by the rights of the individual. The purpose of government was to maintain a framework of law and order within which individuals can pursue their own self-interest, subject to the forces of the competitive marketplace.

The framers believed in a higher, natural law over and above man-made law, as the ultimate authority of right and wrong. By deriving the authority of the state from God, the nature of legitimate political authority is thus qualified and non-absolute. Citizens retain inalienable rights, endowed by their Creator, upon which neither the state nor anyone else should trespass. Out of this emerges the idea of a government as a social institution set up voluntarily by men to defend their rights to individual action.

In addition, men were viewed as flawed creatures. Mortal rulers are not only finite in knowledge and ability but also corruptible by temptations to power. An effective means of mitigating the effects of human errancy is to decentralize and disperse power.

Freedom and the Pursuit of Happiness

The purpose of the state is not to help people either materially or spiritually to

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pursue their vision of happiness—that is the role of individuals, communities, and voluntary associations. The proper function of the state is no more than to provide people with the preconditions for their own happiness-pursuing activities. This simply means preventing interference from others.

Happiness is not something that can be given to people as wealth can be—they must achieve it through their own efforts. Happiness accompanies or stems from the exercise of one's individual human potentialities, including talents, abilities, and virtues. Happiness is that which we want for ourselves and for others. Happiness cannot be given by government nor by anyone else. When people are in control of their own actions and are free to face challenges, they tend to be happier. When the government attempts to supply happiness, it reduces individuals' control over their lives and deprives them of challenges and the chance to develop a sense of competence. People will be happiest if they are given freedom instead of money or goods. The good life, therefore, is the life spent in pursuit of the good life. Happiness requires the opportunity to build self-respect based on efficacious individual choice and action.¹

The state cannot govern a large number of people regarding the attainment of individual happiness since it is impossible to be personally knowledgeable of the moral character and other attributes of a large number of people. The state should therefore con-

fine itself to matters that do not require personal knowledge about or by its citizens. Its role should be limited to protecting man's natural rights.

The individual needs to be free in order to follow his own particular inclinations and tastes. Each person must also be free to judge, evaluate, and reflect upon, without constraint, his past and present choices and commitments to decide if they really do represent his best interests. It is imperative that the state stay out of this process. Neutral concern on the part of the state encourages us to adopt policies that enable all equally to determine and pursue their own conception of the good life.

The Common Good of the Political Community

The good of the individual person is inextricably related to the common good of the resulting political community. The common good of that larger community involves the protection of each person's natural right to liberty through which he can freely pursue further duties and actions.

The common good of the political community is not a single determinate goal that all men must attempt to achieve. Rather, it is the implementation and protection of man's natural right to liberty. The natural right to liberty is a necessary precondition for the possibility of morality. There can be no morality without responsibility and no responsibility without self-determination. In order to provide the maximum self-determination for each individual the state should be limited to maintaining justice, police, and defense and to protecting life, liberty, and property.²

The Growth of Government

Until the early 1900s, the United States had a limited government. But, since the Great Depression, both attitudes toward government and the interpretation of the Constitution have changed, resulting in an increasingly large government. When gov-

ernment goes beyond its legitimate limited role by gathering additional powers to itself, it invades other spheres and becomes interventionist and coercive. Any coerced, un-free exchange is alien to, and outside of, the system of capitalism. Government initiatives such as minimum-wage laws, rent control, international trade barriers, price supports, health and housing subsidies, and bailouts of corporations negate the requisite pricing and allocation functions of the market, causing increased economic disorder. Every unwarranted intervention of government into the free market causes more problems to which interventionists respond with even more intervention.

There has been a slow but steady erosion in the protection the Constitution provides its citizens against arbitrary government power. This breakdown is due largely to changes in the prevailing attitude towards government—the fear of government power has been largely supplanted with the idea that discretionary government power should be used to attain “social” (i.e., distributive) justice. Consequences of the reduction of the constitutional limits on the use of governmental power include the growth of government; the rise of a transfer society with its many opportunities for personal achievement through political activity; an undermining of self-reliance, market discipline, property rights, and the work ethic; the replacement of an ethic of freedom and responsibility with an ethic of dependence; and a decline in individual virtue, civil society, and economic welfare.

We need to reaffirm the spiritual, political, and economic wisdom of our Founding Fathers. This means a return to a government that is limited to establishing and to enforcing standards of just conduct under which free individuals will pursue their own goals, values, and happiness. □

1. Charles Murray, *In Pursuit of Happiness and Good Government* (New York: Simon and Schuster, 1988).

2. See Chapter 4 in Douglas B. Rasmussen and Douglas J. Den Uyl, *Liberty and Nature* (LaSalle, Ill.: Open Court, 1991) for a thorough discussion of the common good of the political community.

Managing Dissonance in the Iron Triangle

by J. R. Clark

Economists have recently found the psychological theory of cognitive dissonance useful as a means of explaining certain economic behaviors and rationalizing a variety of public policies. Developed by Leon Festinger in 1957, the theory provides a framework for analyzing the psychological discomfort that may occur after a choice has been made and alternatives are forgone.

A 1983 article by George Akerlof and William Dickens in the *American Economic Review* applied the theory to a model of individual choice among workers in hazardous industries. They argued that workers would first accept hazardous jobs lured by relatively higher wages, and later, because of dissonance, force themselves to believe that their jobs were not hazardous, and therefore, they would not buy available safety equipment. Akerlof and Dickens concluded that, "Safety legislation is needed to restore Pareto optimality since the workers have an incorrect assessment of the marginal rate of substitution between safety equipment and money income." They also used the same argument to justify social security legislation and to argue against Gordon Tullock's position that higher penalties serve to deter crime. All three of their arguments identified cognitive dissonance as a source of potential market failure and

suggested public-sector action to alter the behavioral outcomes. However, they failed to notice that public-sector choices are also subject to cognitive dissonance whether they relate to safety, social, criminal, or any other type of legislation. Most importantly, they failed to notice that cognitive dissonance can be manipulated in the legislative process to the self-interest of public-sector agents, and the public sector becomes a market surrogate where dissonance is exchanged like any other commodity.

Dissonance and Individual Choice

Dissonance is the discomfort created when the outcome of individuals' choices is not consistent with their pre-choice beliefs. The dissonance, however, occurs only after decisions are made; the act of choosing, therefore, creates dissonance. For example, an individual may consider the costs and benefits of smoking cigarettes and decide to smoke. After experiencing respiratory discomfort, bearing the social stigma placed on smokers, and frequently viewing the surgeon general's warnings, an individual may reformulate his preferences and decide not to smoke. This earlier choice, which was made in the context of the choice-influencing costs, was changed when the smoker incurred the choice-influenced costs similar to those postulated by James Buchanan in

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1969. Dissonance that results from decision-making can be reduced by: (1) revoking the decision, (2) increasing the attractiveness of the chosen alternative, (3) decreasing the attractiveness of the unchosen alternative, and/or (4) establishing more similarity between the alternatives.

Involuntary information in society may also create dissonance. New information to which an individual is involuntarily exposed may conflict with his current opinions or attitudes, and thus cause psychological discomfort. Individuals may be involuntarily exposed to information, accidentally or forcibly, through broadcast or print media, as when a smoker first reads the surgeon general's warnings. Dissonance caused by involuntary exposure to information can be reduced by intentionally misperceiving or avoiding it or changing one's opinion after being exposed.

Festinger asserts that dissonance is also created in most social settings. Specifically, he argues that disagreement with other individuals, or groups of individuals (i.e., lack of social support), tends to create dissonance. Dissonance caused by lack of social support can be reduced by changing one's opinion to agree with the disagreeing persons, persuading the disagreeing parties to change their opinions, or disparaging the disagreeing persons.

Dissonance in the Iron Triangle

Dissonance theory can be applied to choice-influenced costs that result from decision-making under uncertainty. The psychological costs of choice are not easily quantifiable and change with human interpretations *after* the choice is made. They are also heavily influenced by exposure to information, peer pressure, and social support. With such psychological attributes, dissonance becomes a valuable tool for rent seeking in the "iron triangle" of legislators, bureaucrats, and special interest groups.

Legislators, bureaucrats, and special interest groups frequently attempt to influence the voting public's preferences through dis-

sonance management by orchestrating information that is supportive of their goals and programs. Their success in getting programs through the congressional authorization and appropriation process depends, in part, on how efficiently dissonance can be managed. Therefore, managing dissonance becomes the stock and trade of public officials whose job is to choose in the public interest, special interest groups whose mission is to influence the votes of these officials, and bureaucrats who stand to increase their power, influence, and resource base in the process.

Environmental issues provide an example of dissonance which arises from choice, uncertainty, and involuntary exposure to information, as well as showing how dissonance is managed by public sector agents to their own advantage. All three basic sources of dissonance come into play here. Choices are made, and costs are borne. The voting public is exposed to both voluntary and involuntary information, and interest groups support or oppose each other.

When legislators, bureaucrats, and special interests address an environmental issue, they actively engage in both quelling dissonance in regard to the choices they support and fomenting dissonance regarding the choices of their opponents. The groups who support a specific environmental bill coalesce to point out damages to the environment caused by the lack of such regulation in the past and the potential for future harm in the absence of their proposed legislation. They trade in the fear of the unknown by fomenting voter dissonance or anxiety over prior environmental choices. In effect, they attempt to "scare up some votes" by popularizing terms like the *China Syndrome* or *Nuclear Winter*. At the same time, they offer public-sector action as the solution to the problem and reassure voters regarding the costs and benefits of their proposed legislation. They may also attempt to quell a voter's dissonance regarding the failures of past government efforts by criticizing deviant government agencies. In this way, the public sector manages dissonance as a commodity, and therefore, each of the

components of the iron triangle should be examined individually.

Legislators: Public-choice theorists have argued that voters are rationally ignorant when confronted with choices among "bundles of political goods" which may include the choice among public officials. (Tullock, 1967; Downs, 1957) In addition, voters have fewer options among which to choose in public- as opposed to private-sector decisions, and dissonance management by coalitions builds upon these factors. For example, less than half of the American electorate can correctly identify their Congressman, much less know where he or she stands on various government-spending issues. Typically, the voter relies on information that is freely supplied by others (candidates, political parties, news media, friends, and interest groups). Information provided by candidates is designed to manage voter dissonance in the candidate's favor. A political campaign is designed to quell dissonance among the candidates' supporters and foment dissonance among the opposition. Political "muckraking" is nothing more than an attempt to provide information to voters which will discredit and reduce the attractiveness of political opponents.

Discrediting an opponent can also be viewed as an attempt to expose information that would not have been searched for by potential supporters. Such involuntary information within a society may create dissonance. New involuntary information may be dissonant with an individual's preconceived opinions. Festinger makes two points that are relevant to the involuntary information argument. "If a person voicing disagreement is seen as expert or very knowledgeable on such matters, the dissonance between knowledge of his contrary opinion and one's own opinion will be greater." Candidates who seek the endorsement of such authorities in a particular field are, in effect, attempting to quell dissonance among their own supporters and foment dissonance among their opposition on the issues which the endorser possesses expertise. Festinger's contention that dissonance

is directly related to the credibility of one's opponent is also consistent with economists' perception that votes and political power are not distributed symmetrically across the field of candidates and the voting public. Thus, it is not surprising to see anti-nuclear interests featuring media star and physicist Carl Sagan in congressional testimony against the Reagan administration's star wars defense initiative.

The second point that Festinger makes is that:

Another variable which clearly will affect the importance of the cognitive elements, and hence the magnitude of the dissonance, is the *attractiveness* of the person voicing the disagreement or of the group within which it is voiced. It is plausible to assume that the dissonance between one's own opinion and knowledge of a contrary opinion voiced by some other person is greater if the other person is . . . attractive.

This is similar to Galbraith's concept of "conventional wisdom" and may explain why movie and television personalities have become spokespersons for political candidates and causes. Examples include appearances by Arnold Schwarzenegger in support of the Bush election campaign and actress Olivia Dukakis in support of the Michael Dukakis campaign. While they may have very little technical credibility in terms of knowledge or understanding of the issues, they are in some sense "attractive" to the voting public and can quell and foment dissonance.

Collective decision-making involves creating simple majority consensus or, in effect, reducing disagreement. Festinger asserts that the magnitude of dissonance which results from disagreement is a function of, among other things, the number of agreeing and disagreeing individuals. One way to increase the number in agreement on a given issue is by logrolling. The "you vote for my bill and I will vote for yours" approach alters legislative conflict in favor of both bills and reduces the number of disagreeing parties. It also assures that those

receiving benefits will not oppose others receiving benefits. (Will, 1982)

Dissonance can also be reduced by increasing the reward or punishment employed to induce the behavior. As the gains from trade among agreeing and non-agreeing parties increase, dissonance will decrease. For example, a constitutional amendment requiring a balanced federal budget is politically unacceptable to legislators primarily because it would reduce the systems of political bribes the Congress, special interests, and bureaucrats may exchange to achieve their own agendas. If more dollars for defense required that fewer dollars be spent for social programs, the benefits of a coalition of legislators, bureaucrats, and special interests would be significantly reduced, and dissonance within the coalitions would increase. In brief, coalitions manage public- and private-sector dissonance to their advantage, and in doing so, minimize their own dissonance.

Special Interest Groups: Special interests have the ability to foment dissonance “for the cause” and quell dissonance “for a price,” justifying their own existence and seeking rents in the process. A special interest group is composed of individuals who hold similar positions on a given issue. The group can identify an issue, and through its media and political resources, foment dissonance to make it a major public issue. The group can then represent itself as the solution to the problem and thereby provide a means of quelling the voter dissonance which it fomented in the first place. For example, a special interest group, such as the save-the-elephants movement, first popularizes the issue with vivid media images of the slaughter of elephants coupled with proclamations that their extinction is imminent. Then they promote themselves as the solution to the problem by fighting for the “right laws,” as defined by themselves, to preserve the elephant. In the process, the movement solicits public support and funds which may serve to quell a portion of the dissonance held by those who are concerned with the problem. (Brady, 1991)

Supporters of special interest groups may also be trying to co-opt the sources of potential dissonance. For example, the Atlantic Richfield Foundation gives funds to the Sierra Club and The Wilderness Society, both of which lobby *against* oil exploration on federal lands. (Anderson, 1990) In addition, individuals may attempt to quell some of their personal dissonance by contributing to special interests. For example, some contributors to the American Lung Association are smokers. Their dissonance over the decision to smoke may, in part, be quelled by their contributions. The personal dissonance factor may well have been fomented by public information campaigns financed by the American Lung Association. As indicated in the now well-publicized report by James Bennett, only a small fraction of the American Lung Association’s budget is spent for research; the majority of it goes to media campaigns and political lobbying. Similar circumstances can be found with regard to the American Heart Association and the American Cancer Society. Such evidence lends credence to the contention that the public sector is a marketplace where dissonance is exchanged like any other commodity.

Bureaucrats: The third leg of the iron triangle actively manages dissonance in pursuit of self-interest. Bureaucrats can foment and quell dissonance to expand their own bureaus, or get rid of their opposition. When special interest groups and legislators focus public attention on an issue, there will invariably be a call for public-sector action of some type. Consequently, each new environmental issue that is identified and brought to public attention by a special interest group offers the potential for staff and budget expansion of the Environmental Protection Agency. For example, fears of a gradually warming planet have recently captured public attention and have become the subject of wolf-crying. A British documentary film, “The Greenhouse Conspiracy,” examined the four pillars that support global warming claims and suggested that such fears were unfounded. The film argued that

the call for political action costing billions of dollars was a fraudulent case. However, the U.S. Public Broadcasting System (a government agency) refused to air the program despite the ease with which it aired "After the Warming," a pseudo-documentary purporting to describe the world in 2050 after rising temperatures in oceans had resulted from global warming.

they define them. Bureaucrats can manage dissonance to expand their bureaus and budgets, and overcome their opposition. All three entities of the public sector can coalesce to manage dissonance to their own self-interest. In effect, the public sector develops a market surrogate where dissonance is exchanged like any other commodity. □

Conclusion

After individuals choose, their behavior is affected by the dissonance of their actions. This may cause them to alter future choices, reformulate their preferences and/or beliefs, or even call for public-sector actions. Dissonance can be managed by bureaucrats, legislators, and special interests to their own self-interest. Legislators can affect both elections and legislation by fomenting dissonance among supporters of their opponents and quelling dissonance among their own supporters. They do so by appeal to expertise, popular association, and exposure to involuntary information. Special interest groups can foment dissonance for the cause and quell dissonance for a price justifying their own existence and seeking rents in the process. They can popularize issues with their media resources and then promote themselves as the solution to the problem by fighting for the "right laws," as

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Thomas Babington Macaulay— Extraordinary Eloquence for Liberty

by Jim Powell

Thomas Babington Macaulay ranks among the most eloquent of all authors on liberty. In terms of the sheer quantity and range of eloquence, perhaps only Thomas Jefferson soared to such breathtaking heights.

Macaulay's essays and *History of England* had an enormous sale during the nineteenth century. When English emigrants left for far corners of the world, they invariably brought with them three essentials of civilization—the Bible, Shakespeare, and Macaulay. His work was even more popular in America than in England. It was translated into nine languages. Nobel Laureate F.A. Hayek observed that "it is doubtful whether any historical work of our time has had a circulation or direct influence comparable with, say, Macaulay's *History of England*."

Throughout his life, Macaulay expressed a sincere, exuberant, unwavering love for liberty. He called for the abolition of slavery. He advocated repeal of laws against Jews. He defended freedom of the press. He spoke out for free trade and the free

movement of people. He celebrated the achievements of free markets. He believed women should be able to have property in their own name. He rejected government excuses for suspending civil liberties—"There is only one cure for the evils which newly acquired freedom produces; and that cure is freedom." He insisted that liberty is impossible without secure private property, "that great institution to which we owe all knowledge, all commerce, all industry, all civilization. . . ."

Macaulay recognized evil much more clearly than sophisticated philosophers of his century and ours. He denounced "Socialism, or any of those other 'isms' for which the plain English word is robbery." He thundered against "profuse expenditures, heavy taxation, absurd commercial restrictions, corrupt tribunals, disastrous wars, seditions, persecutions."

Back when historians focused on political history (mainly the story of rulers), Macaulay pioneered economic history and social history (the story of ordinary people). He inspired generations of historians to chronicle struggles for liberty.

Macaulay has been derided as a shill for Whig aristocrats, yet he had commoner origins and earned a livelihood from his pen. After his father's business went broke, he helped pay off the creditors and provided

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support for his younger siblings and aging parents. He paid all bills within 24 hours. "I think that prompt payment is a moral duty," he remarked, "knowing, as I do, how painful it is to have such things deferred." When Macaulay had little money, he resigned political office rather than compromise his principles.

Historian A.J.P. Taylor observed that "Those who criticize Macaulay either do not care about liberty, or they think it can take care of itself. Macaulay was a good deal more sensible. Not only did he regard liberty as supremely important; he knew that it needs ceaseless defending." Macaulay's severest critics were the enemies of civilization. Karl Marx dismissed him as a "Scottish sycophant." Thomas Carlyle called Macaulay "vulgar," "intrinsically common," "the sublime of commonplace," an author without "the slightest tincture of greatness or originality of any kind of superior merit."

Macaulay was an inviting target because of his popularity as one of the supreme masters of the English language. He was lucid—no one ever strained to understand him. He told a compelling story. He portrayed unforgettable characters. He provided details appealing to the senses. He offered striking illustrations drawn from his encyclopedic knowledge of history and literature of ancient Greece and Rome, Italy, France, and England. Said A.J.P. Taylor: "Start off on any page, in the middle of a paragraph, and it is impossible not to read on . . . he remains the most readable of all historians." After faulting Macaulay on a number of points, Lord Acton urged a friend: "Read him therefore to find out how it comes that the most unsympathetic of critics can think him very nearly the greatest of English writers."

Winston Churchill was among those inspired by Macaulay. At age 13, Churchill memorized the 1,200 lines of Macaulay's heroic poem *Lays of Ancient Rome*. A little later, he was thrilled when a friend read to him aloud from Macaulay's *History of England*. At 23, Churchill read Macaulay's *History* and essays for himself—12 vol-

umes—and declared triumphantly: "Macaulay crisp and forcible." Churchill acknowledged that in his own writing, "I affected a combination of the style of Macaulay and Gibbon. . . ."

Macaulay never married. He was utterly devoted to books and to his family, especially his youngest sisters, Hannah and Margaret. After Margaret's death at 22 from scarlet fever, Macaulay spent considerable time with Hannah, her husband Charles Trevelyan, and their son George Otto Trevelyan. In 1876, George repaid his uncle's affection by writing an impassioned biography of him.

Precocious Beginning

Thomas Babington Macaulay was born at his uncle's mansion, Rothley Temple, Leicestershire, England, October 25, 1800. He was the eldest of nine children. His mother, Selina Mills, was the daughter of a Quaker bookseller. His father, Zachary Macaulay, was a stern Evangelical crusader against slavery. He had witnessed slaves being whipped and murdered, and he had served as governor of Sierra Leone, a settlement of freed slaves. He became a principal leader in the successful campaign to abolish slavery throughout the British Empire.

Tom was a precocious child. With little encouragement, he began reading widely around age three. He memorized John Milton's epic poem *Paradise Lost* and poems by the romantic Walter Scott. At seven, Macaulay wrote a "Compendium of World History" in which, among other things, he declared that English Puritan dictator Oliver Cromwell was "an unjust and wicked man."

He was tutored at home, attended a day school and then a boarding school. There he learned Greek and Latin, developing a lifelong enthusiasm for classical literature. Early on, he became a prolific writer, and his mother cautioned: "I know you write with great ease to yourself and would rather write ten poems than prune one; but remember that excellence is not attained at first. All your pieces are much mended after a little reflection. . . ."

Margaret Macaulay believed that a major reason why her brother developed an extraordinarily lucid and dramatic style was his experience as the oldest child, always explaining things to younger siblings.

In October 1818, Macaulay enrolled at Trinity College, Cambridge University, where he deepened his knowledge of the classics and, apparently, studied law. He became an eager debater in the Cambridge Union, covering such issues as free trade, Catholic emancipation, and Greek independence. Along the way, Macaulay abandoned his father's mild Tory views and emerged an ardent Whig. After his father inquired about his reaction to a Manchester meeting on universal suffrage—outraged Tories had killed a dozen people—Macaulay wrote back: "I may be wrong as to the facts of what occurred at Manchester; but if they be what I have seen them stated, I can never repent speaking of them with indignation. When I cease to feel the injuries of others warmly, to detest wanton cruelty, and to feel my soul rise against oppression, I shall think myself unworthy to be your son."

In June 1824, Macaulay first caused a stir as a public speaker by appearing before the annual meeting of the London Anti-Slavery Society. Among those attending were William Wilberforce, who had led the English anti-slavery movement for nearly three decades; Henry Brougham, a leading Whig reformer; and Daniel O'Connell, the Irish patriot. Although the speech text was lost, published excerpts suggest Macaulay's trademark eloquence: "the peasant of the Antilles will no longer crawl in listless and trembling dejection round a plantation from whose fruits he must derive no advantage, and a hut whose door yields him no protection; but when his cheerful and voluntary labour is performed, he will return with the firm step and erect brow of a British citizen from the field which is his freehold to the cottage which is his castle."

The *Edinburgh Review*

Meanwhile, Francis Jeffrey, editor of the pro-liberty *Edinburgh Review*, England's

leading journal of political opinion, invited Macaulay to write for him. The first article was "The West Indies," published in January 1825. It was an attack on slavery and colonialism.

Altogether, Macaulay wrote 39 essays for the *Edinburgh Review*. His last appeared in 1844. They cover major figures primarily in European and English literature and history. "Macaulay," noted the nineteenth-century classical liberal biographer John Morley, "had an intimate acquaintance both with imaginative literature and the history of Greece and Rome, with the literature and the history of modern Italy, of France, and of England. Whatever his special subject, he contrives to pour into it with singular dexterity a stream of rich, diversified sources. Figures from history, ancient and modern, sacred and secular; characters from plays and novels from Plautus down to Walter Scott and Jane Austen; images and similes from poets of every age and every nation . . . all throng Macaulay's pages with the bustle and variety and animation of some glittering masque and cosmoramic revel of great books and heroic men. . . . His essays are as good as a library."

Writing about Macaulay's essays in 1856, Walter Bagehot, editor of the free trade journal *Economist*, noted that their "first and most striking quality is the intellectual entertainment which they afford. This, as practical readers know, is a kind of sensation which is not very common, and which is very productive of great and healthy enjoyment."

Said historian G.P. Gooch: "If Macaulay did not invent the historical essay, he found it of brick and left it of marble."

In 1824, Utilitarians had started the *Westminster Review* to promote their views and challenge the influence of the *Edinburgh Review*. Francis Jeffrey asked Macaulay to mount a counterattack, and his opening salvo appeared in the March 1829 issue. He attacked James Mill's "Essay on Government," which was written for the *Encyclopedia Britannica* and claimed that a philosophy of government could be deduced from axioms about human nature. Macaulay ex-

pressed an empirical view that one must see what actually works. An unnamed *Westminster Review* author defended James Mill, and Macaulay attacked again, in the June 1829 *Edinburgh Review*. He affirmed his critique of Utilitarian apriorism while adding that he didn't necessarily see much difference between Whigs and Utilitarians on public policy—Macaulay agreed that the voting franchise must be expanded. The *Westminster Review* responded again, and Macaulay produced his final essay in the series, October 1829.

Defending the Industrial Revolution

One of Macaulay's most important essays was "Southey's Colloquies" (January 1830), in which he emerged as perhaps the first and still the most eloquent defender of the Industrial Revolution. Industrialization had begun in England, probably because it offered entrepreneurs a bigger free trade area and more secure private property rights than Continental Europe. During the eighteenth century, people developed more efficient ways to grow food, produce cheap clothing, and improve life in myriad ways. Annual progress wasn't dramatic—Adam Smith never mentioned it in *The Wealth of Nations*—and improvement was masked by nearly two decades of war with France. But the Industrial Revolution had a dynamic impact: it saved millions of human beings from starvation, children especially. Millions died in Ireland, India, and other places which experienced a population explosion without an Industrial Revolution.

The Industrial Revolution offered new job opportunities to both men and women who had previously been stuck with agricultural work, and they moved to cities in droves. They did it voluntarily because although factory work was tough and the hours were long, it was more attractive than tedious toil which went from dawn to dusk on the farm—and children did farm work with everyone else. The alternative was starvation.

Landed aristocrats were horrified to see

their workers move away. Who was going to keep the estates going? So it wasn't surprising that the earliest critics of the Industrial Revolution were Tories—landed aristocrats and their intellectual minions. They originated the dogma that the Industrial Revolution produced an urban proletariat, huddled masses exploited for slave wages in dangerous factories. Tories harped on the alleged evils of child factory labor, as if children hadn't been working even longer hours on the farms. Tories demanded government intervention to slow down the pace of the Industrial Revolution. The Tory case against the Industrial Revolution was later picked up whole cloth by socialists and persists in some quarters now.

Whig Political Connections

Macaulay's literary enterprise became financially important after family fortunes collapsed. When young Tom entered Cambridge, his father had figured he was worth about £100,000, earned from his business, Macaulay & Babington, a wholesaler which shipped European clothing and manufactured goods to liberated blacks in Africa. But as the senior Macaulay singlemindedly devoted himself to abolishing slavery, he turned over the business to his nephew who spent the company's funds into oblivion within four years. Macaulay had a £300 Cambridge fellowship, but it ended in 1831. He earned about £200 a year writing for the *Edinburgh Review*. Macaulay had impressed Whig power broker Henry Brougham, who recommended him for an opening as Commissioner of Bankruptcy, and in 1828 he accepted the post which included a £250 annual salary, but this expired when a new government came to power two years later. Macaulay was so strapped for cash that he sold a gold medal he had won at Cambridge.

The *Edinburgh Review* essays—especially his attacks on Utilitarianism—enabled Macaulay to fulfill one of his ambitions, a seat in Parliament. The essays impressed the moderate Whig Lord Lansdowne, who offered him a "pocket borough"

he controlled in Calne. Macaulay accepted the seat in February 1830. Ironically, Lansdowne was the son of the Earl of Shelburne, who had introduced Utilitarian philosopher Jeremy Bentham to politically connected people. Once in Parliament, Macaulay would play a key part promoting the Reform Act of 1832, which abolished "pocket boroughs" and extended the franchise to the middle class. It was perhaps the bitterest political struggle in England during the nineteenth century.

Macaulay's considerable knowledge and elegant phrases caused a stir. His performance enabled him, an impecunious commoner, to gain acceptance among many leading Whig aristocrats. William Ewart Gladstone, convert to Liberalism who served as Prime Minister four times, noted that Macaulay got "an amount and quality of social attentions such as invariably partake of adulation and idolatry, and as perhaps the high circles of London never before or since have lavished on a man whose claims lay only in himself, and not in his descent, his rank, or his possessions."

Since Macaulay wasn't a rigorous thinker, he occasionally supported proposals that undermined liberty. For instance, he did not oppose a bill to get tough with Ireland (1833). He was for the 10-Hours Bill (1846), which limited working hours for "young persons," conceding a loophole for massive government interference in the workplace. He hoped that by spending taxpayer money on government schools (1847), liberty and property would be better protected, but as later generations discovered, this promise didn't pan out.

An Eloquent Defender of Liberty

On one key issue after another, though, Macaulay contributed many of the most eloquent words ever spoken. He took advantage of many opportunities to pursue his cherished theme of defending the Industrial Revolution. Macaulay applied his eloquence to an 1833 bill for abolishing laws against Jews. "We treat them as slaves," he

declared, "and wonder that they do not regard us as brethren. . . . Let us do justice to them. Let us open to them the door of the House of Commons. Let us open to them every career in which ability and energy can be displayed. Till we have done this, let us not presume to say that there is no genius among the countrymen of Isaiah . . . [the] religion which first taught the human race the great lesson of universal charity."

Macaulay backed Richard Cobden and John Bright's campaign to abolish the corn laws—grain tariffs which made bread prices several times higher than they would have been if people could have imported grain freely from the United States and other efficient producers. On December 2, 1845, Macaulay declared: "I have always considered the principle of protection to agriculture as a vicious principle. . . . Nobody now ventures to say in public that ten thousand families ought to be put on short allowance of food in order that one man may have a fine stud and a fine picture gallery. . . . I must vote for the total repeal of the corn laws."

Despite Macaulay's triumphs in Parliament, there were occasions when his views differed from those of his party, which presented him with the choice of compromising principles or quitting a ministry position—and losing an important source of income. "If I remain in office," he had written his sister Hannah in August 1833, "I shall, I fear, lose my political character. If I go out, and engage in opposition, I shall break most of the private ties which I have formed during the last three years. In England, I see nothing before me, for some time to come, but poverty, unpopularity, and the breaking up of old connections."

Indeed, the Whigs soon proposed a bill to abolish slavery in the British West Indies, but it included a clause providing a 12-year transition period during which slaves must continue to work for their masters as apprenticed laborers. Abolitionists objected, and Macaulay submitted his resignation from the ministry, but the offensive clause was dropped, and his resignation was refused.

Macaulay in India

Meanwhile, Parliament passed a law to reform the administration of India. It provided that there would be a supreme council. Macaulay loomed as a likely candidate for the job. It paid £10,000 per year, and Macaulay was told he could live very well for half that—enormous sums for somebody whose assets were just £709, if everyone who owed him money repaid. He figured that if he stayed in India six years, he could save £30,000 and banish money worries for the rest of his life. He got the job and sailed with Hannah in February 1834. She brought some 300 oranges for sustenance. He packed a half-dozen trunks of books. “Except at meals,” he recalled of the voyage, “I hardly exchanged a word with any human being. I read insatiably; the *Iliad* and *Odyssey*, Virgil, Horace, Caesar’s Commentaries, Bacon de Augmentis, Dante, Petrarch, Ariosto, Tasso, Don Quixote, Gibbon’s Rome, Mill’s India, all the seventy volumes of Voltaire, Sismondi’s *History of France*, and the seven thick folios of the *Biographia Britannica*.”

Macaulay developed reforms for Indian education and law. He convinced his fellow commissioners that Indians should be taught English, so they could tap the intellectual wealth of the Western world. He did most of the work writing the Indian Penal Code. At the time, it was a mishmash of Hindu and Moslem law, variously interpreted in different regions of the country, overlaid with British East India Company regulations. Macaulay applied the legal philosophy of Jeremy Bentham as he drafted a remarkably concise, systematic, plain English code. He observed “the principle of suppressing crime with the smallest amount of suffering, and the principle of ascertaining the truth at the smallest possible cost of time and money.” He established a rule of law for all races—foreigners and natives alike were subject to the same rules. He moved to eliminate what remained of slavery in India. He abolished laws censoring the press. He limited the death penalty to treason and murder. He provided that women could own

property. His Indian Penal Code was adopted in 1837, and its fundamentals endure in Indian law today. Macaulay returned to England in January 1838.

“A True Picture of the Life of Their Ancestors”

He arrived with a plan for writing a history of England. He proposed to challenge the prevailing interpretation of history which had been written by Tories like David Hume, intent on vindicating government power. Macaulay believed the most glorious story was the struggle for human freedom.

He decided to survey the history of England from ancient times to 1660, the accession of Charles II who aimed to re-establish royal absolutism. Then Macaulay would chronicle the “Glorious Revolution,” which peacefully toppled Charles’s Catholic successor James II, brought in the Protestant William III, and assured the supremacy of Parliament. Macaulay hoped to conclude with the death of King William IV in 1837. He sought as many converts as possible for liberty. “I shall not be satisfied,” he remarked, “unless I produce something which shall for a few days supersede the last fashionable novel on the tables of young ladies.”

He aimed to go far beyond the traditional confines of political history and talk about the lives of ordinary people. “It will be my endeavor,” he wrote, “to relate the history of the people as well as the history of the government, to trace the progress of the useful and ornamental arts, to describe the rise of religious sects and the changes in literary taste, to portray the manners of successive generations, and not to pass by with neglect even the revolutions which have taken place in dress, furniture, repasts, and public amusements. I shall cheerfully bear the reproach of having descended below the dignity of history, if I can succeed in placing before the English of the nineteenth century a true picture of the life of their ancestors.”

Macaulay did a prodigious amount of research. He pored through archives in

England and Holland. He acquired a vast collection of document transcriptions from France, Spain, and the Papacy. He examined transcriptions of French diplomatic dispatches, collected by Charles James Fox who had contemplated a history of late seventeenth-century England. Macaulay read diaries, pamphlets, broadsheets, ballads, and newspapers of the period. Novelist William Makepeace Thackeray marveled that he "reads twenty books to write a sentence; he travels a hundred miles to make a line of description."

He began writing on March 9, 1839. He worked in a suite of rooms on the second floor of the Albany, a building between Vigo Street and Picadilly, London. Every room overflowed with books. Macaulay worked with fewer distractions after he lost a Parliamentary election in July 1841, but he was back in a ministry from June 1846 until July 1847. During the periods when he was working on the *History* full-time, he wrote from seven in the morning until seven at night. He started writing as soon as he had enough information to produce an account, then revised in light of further material. He went through many drafts, struggling to achieve greater clarity and interest. "The great object is that, after all this trouble, they may read as if they had been spoken off, and may seem to flow as easily as table talk," Macaulay noted in his diary.

"How little the art of making meaning pellucid is studied now," he added. "Hardly any popular writer, except myself, thinks of it. Many seem to aim at being obscure. Indeed they may be right enough in one sense; for many readers give credit for profundity to whatever is obscure, and call all that is perspicuous shallow."

Macaulay wasn't always fair in his judgments of people—notably William Penn, who was a friend of James II—but he soared to heights rarely seen in historical literature before or since. He told how under the settlement of 1688, "the authority of law and the security of property were found to be compatible with a liberty of discussion and of individual action never before known; how, from the auspicious union of order and

freedom, sprang a prosperity of which the annals of human affairs had furnished no example . . . the history of our country during the last hundred and sixty years is eminently the history of physical, of moral, and of intellectual improvement. Those who compare the age on which their lot has fallen with a golden age which exists only in their imagination may talk of degeneracy and decay; but no man who is correctly informed as to the past will be disposed to take a morose or desponding view of the present . . . we rejoice that we live in a merciful age, in an age in which cruelty is abhorred. . . . Every class doubtless has gained largely by this great moral change: but the class which has gained most is the poorest, the most dependent, and the most defenseless."

Macaulay's first two volumes were published on December 1, 1848, and they were an immediate hit. Within four months, some 13,000 copies were sold in Britain, and about 100,000 were sold in the United States. Two more volumes appeared on December 17, 1855. The *History* was translated into Bohemian, Danish, Dutch, French, German, Hungarian, Italian, Polish, and Spanish. After the third and fourth volumes sold 26,500 copies in 10 weeks, Macaulay's publisher wrote him a £20,000 check which became a landmark in literary history.

Faced with Macaulay's eloquence, his adversaries twisted his ideas beyond recognition. A misguided twentieth-century biographer, Richmond Croom Beatty, even committed the obscenity of blaming World War I on free markets. He sneered at Macaulay's philosophy "which taught that, once wealth had been augmented in England, all other blessings that men can tangibly perceive will follow inevitably in its wake. The world-wide madness which this philosophy engendered went on unchecked, as we have seen, until the fatal summer of 1914."

In fact, Macaulay's view was that human beings could achieve unlimited progress—as long as governments stay out of the way. In a May 1857 letter to Henry S. Randall, who wrote a biography of Thomas Jefferson, Macaulay expressed his worry about the

destructive potential of future government intervention: “On one side is a statesman preaching patience, respect for vested rights, strict observance of public faith. On the other is a demagogue ranting about the tyranny of capitalists and usurers, and asking why any body should be permitted to drink champagne and to ride in a carriage, while thousands of honest folks are in want of necessaries. Which of the two candidates is likely to be preferred by a working-man who hears his children cry for more bread? I seriously apprehend that you will, in some such season of adversity as I have described, do things which will prevent prosperity from returning; that you will act like people who should in a year of scarcity devour all the seed-corn, and thus make the next year not of scarcity, but of absolute famine. There will be, I fear, spoilation. The spoilation will increase the distress. The distress will produce fresh spoilation.”

As Macaulay focused more intently on his *History* and tired more easily because of a heart condition, he withdrew from London society. He recognized that he wouldn't live long enough to fulfill his dream. Macaulay lived with a butler at Holly Lodge, a villa between Palace Gardens and the Fox family's Holland House, in Campden Hill, London. In 1857, Prime Minister Lord Palmerston honored his achievements by naming him a peer—Baron Macaulay of Rothley.

On Wednesday morning, December 28th, 1859, Macaulay dictated a letter accompanying a £25 contribution to a poor clergyman. Sometime after seven that evening, he suffered a fatal heart attack while reading a book in his library easy chair. He was buried in “Poet's Corner,” Westminster Abbey.

A posthumously published fifth volume brought his *History* only up to the death of William III, in 1702. This work is a towering fragment which offers a tragic glimpse of what might have been had Macaulay lived longer, but what he did do was awesome.

His story of freedom and progress inspired readers for generations. “Up to that

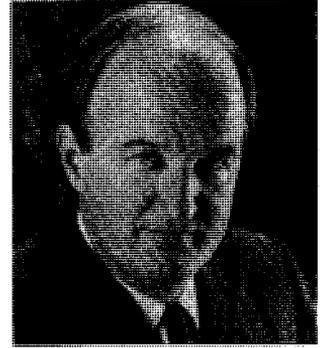
time,” noted German historian Leopold von Ranke, “the Tory view, as represented by Hume, had not yet been driven from the field. Macaulay decided the victory of the Whig view.”

Of course, intellectual trends ran against Macaulay as collectivism engulfed Europe, and his work was relentlessly attacked. Yet his influence persisted, and in 1931 Cambridge University professor Herbert Butterfield found it necessary to issue a famous attack, *The Whig Interpretation of History*. Writing before Hitler and Stalin had emerged as world-class demons, Butterfield denounced the Whig “division of mankind into good and evil.”

Debate raged for decades about whether capitalism brings human progress, and today Macaulay stands vindicated. Among the works which affirm his view are John H. Clapham's *An Economic History of Modern Britain* (1926), T.S. Ashton's *The Industrial Revolution* (1948), John U. Nef's *War and Human Progress* (1950), F.A. Hayek's *Capitalism and the Historians* (1954), William H. McNeill's *The Rise of the West* (1963), David S. Landes's *The Unbound Prometheus* (1969), Douglass North and Robert Thomas's *The Rise of the Western World* (1973), Fernand Braudel's *Civilization & Capitalism* (1979), Julian L. Simon's *The Ultimate Resource* (1981), Asa Briggs's *A Social History of England* (1983), J.M. Roberts's *The Triumph of the West* (1985), Nathan Rosenberg and L.E. Birdzell's *How the West Grew Rich* (1986), Rondo Cameron's *A Concise Economic History of the World* (1989), and Joel Mokyr's *The Lever of Riches* (1990).

Macaulay was right to say that people thrive when they are free. He insisted that government intervention would make millions miserable—and it has. He believed that by telling a simple, stirring story in bold colors, he could help win the hearts of people—and he did. Long after the most fashionable pundits are forgotten, readers will be thrilled by Thomas Babington Macaulay's extraordinary eloquence for liberty. □

Classical Economists, Good or Bad?



“The classical and the Austrian schools and their allies have developed virtually all of the great positive truths of economic science.”

—George Reisman¹

“Adam Smith . . . shunted economics on to a false path. . . . Under Ricardo, this unfortunate shift in focus was intensified and systematized.”

—Murray N. Rothbard²

Until the Keynesian revolution in the 1930s, most economists taught the sound principles of classical economics: free trade, balanced budgets, the gold standard, and laissez faire. Adam Smith (1723-1790), the founder of classical economics, has been lionized as the foremost exponent of these principles. David Ricardo, Thomas Malthus, and John Stuart Mill, among others, have played supporting roles.

Many free-market economists congratulate Adam Smith for his profundity and wisdom in *The Wealth of Nations*, published in 1776. His work almost singlehandedly destroyed the mercantilist arguments for protectionism and other forms of government intervention. George Stigler concludes, “It’s all in Adam Smith.”

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

In his monumental new book *Capitalism*, George Reisman carries on this tradition of extolling the virtues of Adam Smith and David Ricardo (1772-1823). In his judgment, there are four great economists, whom he ranks in the following order: Ludwig von Mises, Adam Smith, David Ricardo, and Eugen Böhm-Bawerk. Although he does not ignore their weaknesses, Reisman considers Smith and Ricardo great economists who have been much maligned.

Rothbard’s Challenge

But consider Murray Rothbard’s critique of classical economists in his two-volume work *Economic Thought Before Adam Smith* and *Classical Economics*, published at the time of his death in January 1995. He lambastes Smith, Ricardo, and Mill, among others, arguing that the classical economists moved away from the sound doctrines and theories previously developed by pre-Adamites such as Richard Cantillon, Anne Robert Turgot, and the Scholastics. According to Rothbard, Adam Smith’s contributions were “dubious,” that “he originated nothing that was true, and that whatever he originated was wrong,” and *The Wealth of Nations* is “rife with vagueness, ambiguity and deep inner contradictions.”³ He has little better to say of Ricardo and Mill.

How can free-market economists see things so differently? Having read both Reisman and Rothbard, as well as the major works of Smith and Ricardo, I have an

answer: Smith and Ricardo were largely right on policy, but often wrong on theory.

A Critique of Classical Economics

If you look at the theories developed by the classical economists, you can easily find fault. Smith advanced an exploitation theory of labor, referred to the work of ministers, physicians, musicians, orators, actors, and other producers of services as “unproductive, frivolous” occupations, and made a distinction between “production for profit” and “production for use.” All of these Smithian concepts gave ammunition to Karl Marx and other socialists.

Ricardo furthered the Marxist cause by implying that profits could only increase at the expense of workers’ wages, which tended toward the subsistence level. As rents earned by idle landlords increased, profits would decline, he predicted. He also invented what economists call the “Ricardian Vice,” whereby theorists build models based on false and misleading assumptions that lead inexorably to the desired results. Ricardo used this device to “prove” his labor theory of value. As a result, some commentators have identified Ricardo as the source of today’s highly abstract, mathematical, and ahistorical theoretical model-building.⁴

Positive Contributions

Despite these theoretical blunders, Smith and Ricardo were consistent defenders of laissez-faire capitalism. Smith ably defended the right to immigrate. He opposed minimum-wage laws, and argued for lower

taxes and a simpler tax code. War was bad for the economy, according to Smith. He pleaded for balanced budgets. He spoke favorably about saving and capital investment. His “invisible hand” doctrine declared that the voluntary self-interest of millions of individuals creates a stable, prosperous society (what Smith called “natural harmony”) without the need for central direction by the state. Smith viewed free-market capitalism overall as socially humanizing and prosperous, while Marx saw capitalism as dehumanizing and alienating. Smith eloquently promoted the principle of “natural liberty,” the freedom to do what you wish without interference from the state. His words literally changed the course of politics, dismantling the old mercantilist doctrines of protectionism and human bondage. *The Wealth of Nations* was the ideal document to accompany the Industrial Revolution.

Despite his pessimism about the future, David Ricardo favored a strict 100 percent gold standard, was opposed to public welfare and the corn laws, and was a firm believer in free trade.

In short, the classical economists had much to offer the world. Their theories weren’t always on target, but they usually proposed the right solution. □

1. George Reisman, *Capitalism* (Ottawa, Ill.: Jameson Books, 1996), p. 2.

2. Murray N. Rothbard, *Classical Economics: An Austrian Perspective on the History of Economic Thought* (London: Edward Elgar, 1995), p. xi.

3. Rothbard, “The Celebrated Adam Smith,” *Economic Thought Before Adam Smith* (London: Edward Elgar, 1995), pp. 435–6.

4. For critiques of Ricardo, see Graeme Donald Snooks, *Economics Without Time* (Ann Arbor, Mich.: University of Michigan Press, 1993) and Elton Mayo, *The Social Problems of an Industrial Civilization* (Cambridge, Mass.: Harvard University, 1945).

BOOKS

Liberty for the 21st Century, Contemporary Libertarian Thought

Edited by Tibor Machan and
Douglas Rasmussen

Rowman & Littlefield • 1995 • 386 pages •
\$26.95 paperback

Reviewed by Matthew Carolan

This is a substantive book, written almost entirely by professional academics, and full of abstract language about things like deontology, “meta-normative” principles, and prisoner’s dilemmas. Not easy reading at times.

But working through *Liberty for the 21st Century* is worthwhile. It is thought-provoking, challenging, and will last in value as a classic short exposition of multiple libertarian themes.

After a fine introduction on the meaning of “libertarianism” by John Hospers, the early essays address what might be called the “foundations” of liberty, which at first seems a curious issue. Isn’t it self-evident that political freedom is necessary? The authors examine the deeper anthropological, metaphysical premises on which political liberty is based. Each author comes at the idea of political freedom from a different political tradition. Is freedom rooted in some prior notion of social contract (Jan Narveson), a deduction from the deontological notion of persons as ends in themselves (Eric Mack), or is it a precondition for the kind of human flourishing that the ancients envisioned (Douglas Den Uyl and Douglas Rasmussen)? Here alone one can learn much.

Then follows an interesting survey, by Aeon Skoble, of the fascinating debate between limited-government and anarchist libertarians. Can there be a natural obligation to turn over certain personal property to fund even a restrained government?

Following a naturally logical progression, the middle part of the book introduces essays which apply libertarian principles to longstanding political issues: warfare (Eric Mack), civil rights and affirmative action (Steven Yates), business ethics (Machan), environmentalism (journalist Mike Gemmell, the only non-academic in the bunch), education (J.E. Cheshier), and drug prohibition (Mark Thornton). This is a fine section as

well, with the authors not giving so much attention to current names and places as to risk dating the book. The essays offer concise analyses for the long haul. If I had one minor objection to this section, it was that it did not address a traditional public-relations millstone for libertarians: the subject of prostitution.

The final section responds to objections from critics of different stripes, most proposing positive rights to the property of others, or the lack of nuance in the classical liberal/libertarian view and the need for more “community”-minded (statist, bureaucratic) “solutions.” The most enjoyable section of the book, as the authors do a clinical job—with absolute, truly admirable honesty and solicitude for ideas—of analyzing and dissecting critics of libertarian thought. Of particular note were the demolitions of rights to welfare by Machan and Den Uyl, and the argument against “moral minimalism” (claiming too much common ground with critics of libertarianism) by Gregory Johnson.

Once again I must stress that despite the challenging abstractions in the book, the sheer respect for ideas and the “ethical” use of argument here is apparent and worth experiencing. It was this very quality which so attracted me to libertarian thought in the first place. □

Mr. Carolan is the executive editor of National Review.

Environmentalism at the Crossroads: Green Activism in America

by Jonathan Adler

The Capital Research Center • 1995 •
299 pages • \$30 paperback

Reviewed by Roy Cordato

Jonathan Adler, director of environmental studies for the Competitive Enterprise Institute, is one of the brightest young writers and researchers in the burgeoning field of “free-market environmentalism.” His essays in the *Washington Times*, the *Wall Street Journal*, and other publications have provided a sober presentation of the facts surrounding environmental issues.

In *Environmentalism at the Crossroads*, Adler sets out to dissect the modern environmentalist movement and its leading organizations. He traces environmentalism from its origins in the nineteenth century, to its transformation with the

first Earth Day in 1971, to the massive lobbying and propaganda machine that it has now become. Adler points out that the modern movement has roots in two different nineteenth-century perspectives on the natural environment—conservationism and preservationism. He argues: “While conservation is typically defined as saving resources for human use, preservation seeks to save resources from human use.” Until the 1960s and ’70s, it was the conservationist ethic that guided most of the thinking among those concerned about the environment.

Like other movements, environmentalism became radicalized in the 1960s. This transformed its ethic from “humanistic” conservationism to “putting-nature-first” preservationism. After the first Earth Day, most environmental groups, including those like the traditionally conservationist Audubon Society, were taken over and radicalized. In the years since, the environmentalist movement, through the strategic use of propaganda and special interest politics, has been able to bring together literally hundreds of millions of dollars in corporate, private, and government funding to affect public policy. The ensuing regulation and legislation have dramatically changed the way all of us consume, do business, and live our lives.

Adler’s book leads the reader to a striking conclusion: in spite of its radical nature, the environmentalist movement has been able to capture most of the “power elite” in this country and—through the United Nations—the world. This includes both political parties (the most intrusive environmental regulations were passed and signed during the Reagan and Bush administrations); large corporations and foundations (ARCO, Chevron, Apple Computer, IBM, Eastman Kodak, the Ford Foundation, and others jointly contribute millions annually); and the educational establishment (environmental advocacy is part of the official curriculum in most public schools).

A further conclusion that can be reached is that all this power is being amassed and exercised to subvert both sound science and capitalism. The M.O. has been for environmental groups to publish and promote pseudo-science, concluding that the earth is in some imminent danger (global warming, ozone depletion, health risks) caused by some byproduct or input of capitalist production (carbon dioxide, chlorofluorocarbons, alar). Both the media and Congress unquestioningly buy into the hysteria. Such support generates large contributions to the crusading environmental groups and, ultimately, socialistic legislation

meant to curb capitalist excesses. This is what makes the movement so dangerous. It has become a significant threat to both scientific integrity and individual liberty.

It is also worth noting that Adler’s book is an important resource. The last third of the book consists of 22 appendices that detail the revenues and expenditures of the world’s leading environmental groups. Organizations with annual revenues of 20 to 40 million dollars are common. The research in these appendices alone makes the book a worthwhile addition to anyone’s policy library. □

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The Just Society

Edited by Ellen Frankel Paul,
Fred D. Miller, Jr., and Jeffrey Paul
Cambridge University Press • 1995 • 329 pages
• \$21.95 paperback

Reviewed by Ronald H. Nash

Whenever one comes upon a university press book containing multiple essays by different authors, all of them academics, it’s a pretty safe bet that the book will never appear on any bestseller list. In the case of this book, most of the authors are professors of philosophy and their stated purpose is to throw some light upon social justice.

Another safe bet is that the essays will typically defend some liberal/statist/collectivist position: call it trickle-down Marxism. While the notion of justice is vitally important, its vagueness and the emotions it generates make it a convenient tool for liberals to use in their unending effort to enhance the power and size of coercive government. A number of chapters in this book do just that, occasionally in new and clever ways. Most readers of *The Freeman*, however, will be interested in the chapters that refuse to follow the prevailing statist orthodoxy of the day.

Perhaps the most interesting chapter in the book is titled “Designing Democratic Institutions and the Problem of Evil: A Liberal Chinese Perspective,” authored by Baogang He, a Chinese scholar now lecturing in political science at an Australian university. The word “liberal” in his title refers to the classical Western tradition of personal freedom and limited government

(with special reference to John Locke and James Madison), not the monstrosity known as contemporary American liberalism. Professor He shows how the classical liberal tradition of the West with its emphasis upon property rights and limited government is influencing some scholars in the People's Republic of China. The author identifies some of these scholars and lists their publications. He also makes special reference to an ongoing dispute within the PRC over the question of whether Chinese political thought should assume the perfectibility of human nature and the goodness of China's political leaders (a basic assumption underlying Mao's position) or whether all citizens, especially those holding political power, are evil. Such American founding fathers as Madison and John Adams, of course, held the latter view which entailed for them the conviction that political power ought to be widely diffused to make it difficult for evil men to attain total power. I especially commend this chapter to my *Freeman* audience.

On the statist side of the ledger, Larry Temkin, a philosopher at Rice University, finds the typical egalitarianism of the recent past too tepid for his taste. American political and social thought is replete with egalitarians committed to reducing inequalities between A and B when these two people were members of the same society. But egalitarians like Temkin are also anxious about inequalities between A and B when they belong to different nations or to different generations. As egalitarianism expands in scope, it is obvious that the size and power of the state must also expand, even perhaps to the point where it encompasses a one-world government.

It is interesting to see how few of the essays in this book about justice take the time to define "justice." It is difficult to find much attention given to Aristotle's intuition that justice means treating equals equally and treating unequals unequally. It is also difficult to find authors in this book who understand the essential difference between voluntary human societies and states that must by their very nature claim a monopoly on the use of coercive power.

Readers of *The Freeman* interested in knowing what philosophers are up to these days may want to take a look at this collection, even though many of them will end up objecting to a great deal that they encounter. □

Dr. Nash is professor of philosophy at Reformed Theological Seminary and the author of Why the Left is Not Right: The Religious Left in America (Zondervan Publishing House).

Principle & Interest: Thomas Jefferson and the Problem of Debt

by Herbert E. Sloan

Oxford University Press • 1995 • viii + 377 pages • \$45.00

Reviewed by Douglas E. French

In his History of Economics classes, Murray Rothbard told us that it was important not just to study what policies and theories held sway during the past, but to examine why certain economists or politicians advocated the policies they did.

Principle & Interest: Thomas Jefferson and the Problem of Debt by Herbert E. Sloan is a book that does just that. As today's politicians talk about balancing the budget and reducing the debt, Jefferson's name is often invoked as the standard bearer for a frugal government and sound money. But why?

Professor Sloan's story begins in 1788 while Jefferson was the American minister to France. Although one of the wealthiest men in Virginia (on paper), Jefferson had accumulated enormous debts, including a significant debt stemming from his late wife Martha's inheritance. Martha's father, John Wayles, died in 1773 with a considerable estate that was encumbered by considerable debt.

The Wayles heirs decided to divide up the estate's land and slaves among themselves, and sell off some property to reduce the debt. "[T]heir decision," Sloan writes, "which seemed appropriate given the circumstances in 1773 and 1774, was to have significant consequences for Jefferson. . . ." Had the Wayles estate been kept together, only the estate's assets could be looked to for repayment. But since the estate was divided between Jefferson and his two brothers-in-law, the estate's liability extended to their own estates. With the Virginia economy depressed, the cash flow from tobacco sales fell far short of that needed to retire the Wayles debt.

Compounding the problem, the Wayles executors accepted bonds from the purchasers of the land they sold. They attempted to use these bonds as payment for the estate's debts. The estate's creditor, Evans, Farrell, and Jones, wisely refused, requiring payment in British Sterling. The purchasers of the properties then took advantage of Virginia's legal tender act to repay the bonds in heavily depreciated paper money.

The Virginia Gentry, as Sloan refers to them,

hated paper money as much as the heavy burden of debt. Prominent Virginia creditor Richard Henry Lee echoed George Washington's view: "The vast sums of paper money that have been issued and the consequent depreciation, has well nigh effected an entire transfer of my estate to my tenants. This year Sir, the rents of 4000 acres of fine Land will not buy me 20 barrels of Corn!"

The oppression that Jefferson felt by his inherited debt no doubt shaped his view that the earth belonged to the living. He didn't believe that a previous generation should burden the next with either the slavery of debt or its laws and regulations. Jefferson formulated the idea that a generation lasted 19 years. Thus, Jefferson wrote that, "every constitution . . . and every law, naturally expires at the end of 19 years."

Statists have used these writings to bolster the argument for a living constitution. But Sloan makes it clear that Jefferson's concern was not that future politicians be given the latitude to bind the populace with more and more laws and regulations, but rather that Jefferson feared future generations would be saddled with debt, whether public or private, and the taxes that go along with it. And further, as Sloan writes, "public debts are closely associated with the evils of war: Remove the ability to contract debts that run for generations, Jefferson says, and 'it would bridle the spirit of war.'"

Sloan spends few pages addressing Jefferson's years as president, perhaps because this ground has been thoroughly covered by others. It's important to note that by the end of his first term in 1804, Jefferson had reduced the federal debt by \$12 million. And, with the end of the country's debt in sight, Jefferson began to talk about spending surplus money on "the improvements of roads, canals, rivers, education, and other great foundations of prosperity and union."

The national debt stood at \$57 million in 1809, and Jefferson predicted that his successor, James Madison, would extinguish the debt during his term. Unfortunately the War of 1812 got in the way, and the debt ballooned over \$127 million by the war's end.

Jefferson never lived to see his dream of no government debt fulfilled. Andrew Jackson accomplished the feat in 1836. But the respite was brief. Martin Van Buren, Jackson's successor, resorted to loans the very next year because of deficits caused by the Panic of 1837. The U.S. government has not been out of debt since. □

Mr. French is a vice president in commercial real estate lending for a bank in Las Vegas, Nevada.

Taking Responsibility: Self-Reliance and the Accountable Life

by Nathaniel Branden

Simon & Schuster • 1996 • 233 pages • \$22.00

Reviewed by Russell Madden

Responsibility" is a favorite buzzword on the current political scene. Yet even many conservatives have a faulty notion of what the concept actually entails. In his latest book, psychologist Nathaniel Branden sets forth a sound approach to this critical issue. While much of what Branden says will be familiar to readers of his previous books, this volume may bring these ideas to the attention of a wider audience and, perhaps, focus debate on the implications of fully accepting self-responsibility.

For *Freeman* regulars, chapters 2 through 4 and 7 and 8 may be of most interest. In those sections, Branden deals more directly with political and economic issues.

Chapter 2, "Freedom and Responsibility," shows what does and does not fall within one's realm of personal responsibility and what can occur when that boundary is breached. Branden also touches on Marxist determinism, demonstrating its self-contradictory nature and what happens when politics and law fail to reject this erroneous principle.

In Chapter 3, "Self-Reliance and Social Metaphysics," Branden explores the ways in which people come to rely on the judgments of other people rather than their own independent thoughts. While many of these individuals are distressingly obedient to authority, some seek power over others in vain attempts to substitute control over others for the self-control they lack. The most egregious examples of such "social metaphysicians" have been the dictators who have plagued us throughout this century.

Chapter 4, "A Self-Responsible Life," advocates the idea that "we are not entitled to treat other human beings as means to our ends, just as we are not means to their ends." Branden notes that "ours was the first government *ever* to recognize and affirm the inalienable rights of the individual. It upholds . . . the idea that the individual belongs not to the state or the nation or the society, but to him- or herself." Avoiding the initiation of force and respecting individual rights provide "the moral foundation of mutual respect, goodwill, and benevolence" that are the hallmarks of a free and decent society.

The recent emphasis on downsizing and corporate restructuring makes Chapter 7, "Accountability in Organizations," timely. Here Branden explains that fostering self-responsibility in a company must begin at the top of the organizational ladder. But employees should also work to better the company, not simply do the minimum to get by. When a difficulty occurs, workers should take it upon themselves to solve the problem and not just ensure no one blames them.

Finally, Chapter 8, "A Culture of Accountability," recognizes the fact that we must teach consequences, i.e., causes and effects, if we hope to raise a generation able to accept and handle the challenges freedom presents. Capitalism will survive only in a culture of self-responsibility. □

Mr. Madden is an instructor in communication at Mt. Mercy College in Cedar Rapids, Iowa.

The State of Humanity

Edited by Julian L. Simon

Blackwell Publishers • 1995 • 608 pages •
\$54.95 cloth; \$22.95 paperback

Reviewed by Walter Block

If you are one of those persons whose intellectual style can be summarized by the motto "Don't confuse me with the facts," then you won't like this book one bit. On the other hand, if you think that facts, evidence, and history can contribute to our understanding of where mankind has been and where it is likely to go, then *The State of Humanity* is the book for you.

The thesis of this book is that the lot of humanity has been improving in the last few centuries, decades, and years, and that the most likely prospect is for more of the same. This idea should occasion no surprise given the book was edited by Julian Simon. Professor Simon is perhaps the most careful, sophisticated, and productive critic of modern-day Malthusians. Even overshadowing his scholarly output is the bet for \$10,000 he won from Paul (*The Population Bomb*) Ehrlich, over whether resources are becoming more plentiful (yes!) or scarce (no!) relative to our population. The point is that if anything like economic freedom prevails, and the *Ultimate Resource*—man's mind—is thus allowed free rein, this planet can support far more people than presently living.

In order to make this point, Simon marshals the work of no fewer than 58 separate authors. These chapters address six different aspects of

the issue: life, death, and health; standard of living, productivity, and poverty; natural resources; agriculture, food, land, and water; pollution and the environment; and the contribution of public and media opinion to the environmental crisis. To summarize: the infant mortality rate is declining, length of life is increasing, the number of people required to grow food is falling, food and natural resources are becoming more available, at a lower price, the standard of living is improving, pollution is decreasing.

But Simon is no simplistic Pollyanna. Instead, his analysis (and that of his colleagues) is backed up by a veritable gold mine of information. On practically every page there is a chart, or a diagram, either an increasing curve (for good things, e.g., life expectancy), or a decreasing curve (for bad things, e.g., pollution). The overall impression is one of complete, total, and even exhaustive coverage. This book is an encyclopedia of the case against the chicken littles of the world.

Let me give but a few examples, first, to attest to the authors' consummate mastery of this material, and second, to bring aid and comfort to those taken in by the alarmists. In 1490, corn yield was ten bushels per acre; in 1980 it had reached 120. In 1895, some 20 million acre-feet of water was stored in all U.S. reservoirs; in 1985 this number was in excess of 400 million acre-feet. In the year 8000 B.C., life expectancy at birth was about 21 years; this rose to the mid-30s in the sixteenth century, to the 60s in the nineteenth century, and now exceeds 70 years. Free time rose by six hours per week between 1965 and 1985.

As might be expected in such a large work, there are one or two jarring notes to which the hypersensitive reader may object. One author, Robert Nelson, takes pride in the fact that acreage in public parks has been increasing; in my own view, enlarged governmental participation in the economy in any regard is cause for alarm not gratification. But to be fair, Nelson was concerned with access to outdoor recreation, not its ownership.

If you are concerned with improving the livability of the planet, *buy this book!* Mass purchases, true, will mean the death of many trees. But this will just raise the price of pulp, calling forth yet additional supplies. With *The State of Humanity* at hand, you will have the facts of the environmental debate at your command—just about all of them. □

Dr. Block is a professor of economics at the College of the Holy Cross.

THE FREEMAN

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We Should Welcome Immigrant Workers

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The people who are daily landing here are not paupers, if the capacity and disposition to labour may exempt a man from that appellation. They are, for the most part, the sons and daughters of useful toil. They are men and women of hardy frames, accustomed to earn their living by the sweat of their brows. They are a class of which, in truth, we stand much in need. . . .

These men are not paupers, and if they become so, it is the fault of our own laws. Let us not lay our sins, then, at their doors. We have perfect control over the matter. We are not obliged to open our poor-houses to those who are able to work; and, indeed, we believe it would be far better for the community, if we did not open them to any class of indigence or misfortune. The care of those really disqualified by nature or accident from taking care of themselves should be left to voluntary charity, not to that wretched system of compulsory charity which poor-laws enjoin. We are too reluctant, in this country, to trust the voluntary principle. We are for doing everything by law; and the consequence is that hardly anything is done well.

But with regard to these poor creatures who are flocking to our country as the boasted asylum of the oppressed of all the world, we ought to welcome them hither, not meet them with scowls, and raise a deafening clamour to excite unkindly prejudices against them, and drive them back from our inhospitable shores. For our part, we open our arms to them, and embrace them as brothers; for are they not a part of the great family of man? It is a violation of the plainest principles of morals, it is a sin against the most universal precepts of religion, to harden our hearts against these men, and seek to expel them from a land, which they have as much right to tread as we who assume such a lofty port. The earth is the heritage of man, and these are a portion of the heritors. We are not bound to support them; they must support themselves. If they are idle, let them starve; if they are vicious, let them be punished; but,

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in God's name, as they bear God's image, let us not turn them away from a portion of that earth, which was given by its maker to all mankind, with no natural marks to designate the limits beyond which they may not freely pass.

The glorious principles of democracy, which recognize the equal rights of all who bear the human form, forbid the intolerant spirit which is displaying itself to these friendless, homeless exiles.

—WILLIAM LEGGETT (1837)
Democratick Editorials

Opting Out

Libertarians ... tend to concentrate on, "How can we change society in directions that increase human options and increase freedom, on a more global scale?" I'm increasingly coming to the conclusion that, at least within a reasonable amount of time, that isn't the way to go about it. We can't reform society. You're not going to get the government to go away, or get smaller, by making the government get smaller; you're going to make the government go away or get smaller by ignoring it, which is essentially the Soviet model. The state withered away when no one paid any further attention to it.

—DAVE ROSS
(Excerpt from an interview in *Extropy* #12, 1994)

Capitalism for Punk Rockers

Capitalism, when we get down to it, is merely the buying and selling of goods and services with the *freedom* to make a *profit* by doing so. Simple as that. Every one of us, like it or not, plays a part in the game. Most folks spend their time as a consumer and seller (i.e., selling your labor to an employer for financial gain). Very few people, in the grand scope of things, ever fill the shoes of *producer*. This is where most misconceptions of true capitalism come into play.

... If [I] were to adhere to the beliefs of

your average anarcho-punk or any other of the multitude of folks that believe punk records should be put out as a public service, then I couldn't endorse one single record reviewed in the back of this 'zine. Why? Because every single person who put those records out hopes to make a profit from it. If you don't understand that, then you have never produced a record and tried to sell it.

... Why do people start to express disdain for [record] labels that start to do well financially? Do they "owe" the punk scene anything? Should they "give something back"? No, because they've already given something ... RECORDS. That is the job of a record label, to produce records.

Keep in mind that I am in no way running [down] folks ... who feel the need and responsibility to donate all their time to their projects for free. That is *their* choice. But if someone chooses to try to earn a living from something they create, that is their choice also. One of the biggest problems the punk scene has is people trying to live by someone else's rules.

In order for any capitalist venture to survive, people must consume what is produced. If there are no consumers, there is no capitalism. In short, question yourself on your buying. If you think a record (or anything) is priced too high, don't worry yourself to death questioning what you don't know, just don't buy it. If a show costs more than you think it's worth, don't go. The consumer determines the value of anything (in a monetary sense). Folks cannot charge what nobody is willing to pay. Use your power. ... [M]ost folks continue to complain about prices, etc., but buy them anyway. Just stop it.

Don't let anyone tell you that you are powerless. Communism makes you powerless, in that no matter how hard you work, you will never rise above the status of anyone else. True capitalism makes that possible from the onset by granting consumer power.

—J. GORDON LAMB III
(Writing in his self-published punk-rock fanzine *The Atomic Ballroom*, Athens, Ga.)

SimEconomics

by Lawrence H. White

My daughter, at 13, has built a railroad across Europe. She has planned and governed a large metropolitan area. Recently she began a successful farm. Oh, and she's conquered the world. She has done it all at our home computer—sometimes while I was waiting for *my* turn to play.

Welcome to the world of personal computer simulation games, an important segment of the PC software market. The games are fun. They're involving. They can be *so* involving, in fact, that players can find themselves spending many hours at the computer and taking the games very seriously. In some ways the games are quite educational. But some simulation games, implicitly, embody an economic point of view that is *miseducational*—even dangerous—when it is taken seriously. Namely, they suggest that an entire society can or even must be planned from the top down by a clever strategist.

Three games—all members of *Computer Gaming World's* Hall of Fame—have been our favorites in the past few years. In *SimCity* your objective is to plan a thriving city in detail. *Civilization* puts you in charge of founding and guiding an entire nation of cities from ancient to modern times. In *Railroad Tycoon* you build a rail network and schedule trains in pursuit of profit.

Dr. White, this month's guest editor, is associate professor of economics at the University of Georgia. The second edition of his book Free Banking in Britain was published by the Institute of Economic Affairs last year.

SimCity

SimCity, created by programmer Will Wright and introduced by his Maxis software company in 1989, was the first of the best-selling simulation games. The game has won many awards, and Maxis has cashed in on its popularity with numerous other simulations, including *SimFarm* (which simulates a farming enterprise), *SimLife* (Darwinian evolution), *SimIsle* (island ecology), and *SimAnt* (an ant colony). Two years ago the company upgraded the original game to run on newer, more powerful PCs, especially improving the graphics, and reintroduced it as *SimCity 2000*.

In some ways *SimCity* is more of a virtual hobby kit than a game. There's no rival player to beat or set objective to achieve. Rather, you decide where to zone a wilderness for commercial, residential, or industrial development. You decide where to lay down transportation, water, and power grids, and where to locate airports and police and fire stations. You set the property tax rate. You then watch how your city develops in response to your decisions. If conditions are good, lots of simulated citizens ("Sims") move in. Houses, stores, and factories appear and grow denser. As your tax revenue allows, you can extend or revise the infrastructure. Good decisions—as indicated by high Sim incomes with low unemployment, crime, and pollution—give you a high "popularity" rating as "mayor."

As much fun as it is to play around with

SimCity, the simulation rests on some troubling premises. Not only is clever zoning (and its coordination with mass transit) the key to the simulated city's success, but without zoning there would be *zero* development. The Sims won't *ever* build houses, stores, or factories without a zoning go-ahead. The city *must* be planned. Of course, this feature of the program is practically necessary in order to give the player something to do (other than watch the simulation run itself). But a teenager who grew up playing *SimCity* or *SimCity 2000* might not realize that top-down zoning is not a necessary feature *of the real world*, let alone a good idea. Real-world cities like Houston have developed well without zoning. In areas of an unzoned city where landowners want to have not-too-dissimilar neighbors, decentralized developers can and have incorporated contractual covenants into land titles to ensure the character of residential subdivisions or shopping districts or industrial parks.

I've tried to suppress my ideological misgivings about *SimCity* by thinking of my plaything as a *proprietary* city, where every Sim who moves in has signed a contract delegating zoning and other decisions to me, the city owner. But the game doesn't quite allow that interpretation. Unfortunately a player (or at least a player like me, not a skilled "hacker") can't edit the screen text so that the Sims are paying "dues" or "rents" rather than "taxes," or alter the scoring so that success is rated on real estate profits rather than on "popularity" as "mayor." (As the game stands, absence of low-rent housing actually counts *against* your success rating.) And the simulated city, with a population easily reaching tens of thousands, is simply too big to be realistically owned by a single decision-maker. In real life, proprietary or contractually planned communities are generally much smaller than that, seldom larger than a village. This is mostly because tastes differ. Profit-seeking developers find that only a limited number of people are willing to pay cost-covering prices for a specific set of community features (like a golf course, a lake, and one-acre lots) in a given location.

Civilization

The notion that one mind can see and wisely plan everything for a society—an intellectual error that F. A. Hayek has called "the fatal conceit" and others have called "the synoptic delusion"—is troubling enough when the society operates at the scale of a city. In Sid Meier's *Civilization*, published by MicroProse, the conceit is magnified to empire scale. As civilization-builder you decide where to found cities, where to irrigate and build roads around them, what tax rate to impose, what city improvements and "wonders of the world" to build, how heavily to invest in research (needed to make scientific and cultural discoveries from the wheel to women's suffrage), which discoveries to pursue first, and most importantly whether to expand the civilization by economic growth or by conquering neighboring civilizations (which are governed by the computer).

I don't mean to be an ideological spoilsport about this. I love playing *Civilization*. So does my daughter, who has recently begun lobbying me to upgrade or replace our current computer so that we can run the more sophisticated new *Civilization II*. But players of the game should not forget that the advance or stagnation of an *actual* civilization does not entirely depend on the allocational skill of the head of state. In fact, the *less* the head of a real-world state has to allocate, the greater the country's progress will be.

It is surprisingly easy to be seduced by the synoptic delusion built into the game. In an Internet discussion group, one correspondent suggested that *Civilization* teaches us that in the real world we should only elect experienced rulers, because we as game-players all find that our scores improve with experience. But that is because, as in *SimCity*, hands-on management is necessary for the simulated society to thrive. Complete *laissez faire* is not even an option, much less the highest payoff option. *Civilization's* cities will not found themselves, will not decide what improvements to build or technological advances to make, and will not establish trade with other cities by themselves. A player soon finds that the easiest way to garner a high score (which

depends mostly on population size) is not by peaceful trade and growth, but by aggressive military conquest, for which a single-minded strategic plan is essential. Again, all this is understandable from the point of view of giving the player something interesting to do throughout the game. But it's not the way the real world works, where trading and not war-making nations prosper. (*Civilization II*, so I have read, at least strikes a better balance between conquest and trade.)

Railroad Tycoon

My favorite game of the three is *Railroad Tycoon*, also authored by Sid Meier and sold by MicroProse, no doubt partly because no economic or ideological misgivings intrude. A railroad network, as shown by real-world experience with private rail companies, is something that *can* successfully be run according to a single planner's decisions. In the game, as in the real world, that planner is an entrepreneur who decides which cities and industrial sites to serve, where and when to lay the track between them, which engines and cars to buy, and how to schedule trains. Profit is the "scoring" or feedback guide for when a decision is successful or unsuccessful.

With maximum profit—or, as in the game, maximum net worth of the firm—as the goal, market prices indispensably guide the decision-making. The game forces you to consider the prices of track, bridges, and various par-

cels of right-of-way (the land parcel prices even vary with changing phases of an irregular business cycle). You confront prices of buying and maintaining various engines. There is an interest rate, varying with the firm's indebtedness and the business cycle, at which funds can be borrowed to finance the firm's investments. And there are of course passenger and cargo revenues for various routes (known only after the fact, because they vary with cargo, load size, business cycle phase, distance, and realized speed).

Railroad Tycoon does not capture the real-world way in which prices are brought into equilibrium by competition ("rate wars" can arise in the game's "cutthroat competition" mode, but their simulation is disappointingly crude). Nor does it hint at the way in which the profit motive operating within the price system guides the overall economy to the prosperous coordination of plans. But that's okay. A successful real-world economy doesn't need entrepreneurs to comprehend those system-wide processes, only to seek out profits. In contrast to the other simulation games, *Railroad Tycoon* puts the strategic decision-maker in a reasonable place, at the head of a single firm in a competitive marketplace rather than at the head of a whole society. It does not obscure the fact that the overall coordination of a complex real-world society does not and *cannot* rely on a single clever plan, but instead requires an impersonal market system for bringing into alignment the multitude of individual plans. □



Salvation Through the Internet?

by Donald J. Boudreaux

Ours is a wonderful age. Strangers voluntarily communicate around the clock on a worldwide network. News of an event, an idea, or an opportunity in any part of the world is conveyed rapidly hither and yon. Production and consumption opportunities that would otherwise remain unexploited lie within the grasp of almost anyone on earth. Global competition and cooperation intensify and wealth increases. Marvelously, the cost of using this communication system is near zero.

This communications network is centuries old. It is the price system. If not as novel as the electronic Internet, free-market pricing is far more agile, accurate, and effective at sending crucial messages to all who want them.

The Japanese want more houses? No problem. Japanese homebuilders order more lumber. Lumber inventories in Japan fall, pushing lumber prices in Japan higher. Japanese boat builders are persuaded to use less wood and more fiberglass or aluminum. The price system is the network over which some Japanese inform other Japanese that the value of using lumber to build homes has risen.

The price system also speeds messages beyond national borders. Japanese importers respond to higher lumber prices by ordering more lumber from America. Americans export more lumber to Japan. The world price of lumber rises, telling lumber firms everywhere to increase production—and telling

consumers everywhere to economize on lumber use.

Without the swift and sure communication of economic information supplied by the price system, every industrial economy would collapse. But while the price system labors in relative obscurity—so effectively does it do its job—the Internet has inspired bounteous and often utopian speculations about how this high-tech marvel will transform democracy and worldwide cooperation. *The Economist* recently opined that representative democracy will be substantially improved (if not fully replaced) by direct collective decision-making made possible by the Internet.

The Advantages of the Market

Despite such effusive praise, the Internet is stumbling in comparison with the market. However spectacular its mode, verbal communication can never govern people and allocate resources as effectively as does the price system. (Intellectuals dispute this claim because they are word merchants. Intellectuals have incentives to magnify the importance of anything that promises to increase their own influence.) The market enjoys two significant advantages over the Internet.

First, messages sent over the Internet must be interpreted. Recipients must understand the context of the sender's remarks, as well as any special meanings that the sender attaches to particular words or phrases. Though often effective, attempts at verbal communication among large numbers of people can too easily misfire. As evidence, notice how easily de-

Dr. Boudreaux is associate professor of law and economics at Clemson University, Clemson, South Carolina.

signers of opinion polls elicit diametrically different responses with only small changes in the wording of questions.

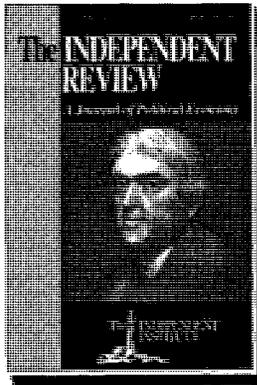
Price signals, in contrast, are more easily interpreted than words. Japanese boat builders see the price of lumber rise 10 percent relative to the price of fiberglass. The meaning of this price rise is clear: it pays to use less lumber and more fiberglass.

Second, market signals are much more trustworthy than opinions sent over the Internet. The market punishes lying as well as uninformed expressions of opinion. If share prices of lumber companies rise, you can bet that someone is genuinely optimistic about the lumber industry's future. For me to issue an opinion through the price system about this industry's prospects requires that I spend my own money either buying or selling shares in corporations whose business is lumber. If I lie or am rash in formulating my opinion, I will likely lose money. People risking their own wealth in the market can be trusted to make the most informed decisions, thereby sending out accurate market messages to others.

Not so on the Internet. Imagine if lumber production were decided by a nationwide "town meeting" over the Internet. Not only would no single message or vote delivered in this debate likely be decisive, but few participants would have a direct and personal stake in the outcome. Thus, few participants would bear personal costs from expressing one opinion rather than another. Environmentalists would exaggerate the ill effects of lumbering, lumberjacks would exaggerate the ill effects of conservation, and masses of other people with nothing at stake and knowing precious little about this issue would solemnly come down on one side or the other. With the personal consequences of expressing opinions virtually nonexistent, plenty of uninformed opinions and votes would flood the Internet.

As a forum for conversation, the Internet is dazzling. As a forum for making collective decisions, it is a formula for disaster. Happily, free markets remain available to elicit informed opinions from nearly everyone worldwide, distilling this information into easily understood prices for the entire world to read. □

THE NEW JOURNAL ON LIBERTY



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Home, Home on the Internet

by Thomas Boustead

Sometimes, all you really need is a better fence. While that advice seems sensible for an 1880s cattle rancher, it might appear less relevant to a pioneer on a novel frontier like today's Internet. After all, straying cattle hardly compare to the data so cleverly routed over the Internet. And rusting barbed wire scarcely resembles modern fiber optics. Still, barriers and fences, even if composed of algorithms rather than steel strands or wooden rails, have a part to play in the evolution of the Internet—a role based in the economic nature of the Internet and the often subtle relationship between well defined private property and economic activity.

The Internet's potential for a commerce in information has generated much excitement. If all goes right, the Internet will be a marvelous marketplace. But will all go right? Accustomed as we are to well functioning markets, we're tempted to presume success for the Internet. Yet market exchange doesn't just happen. To bring a product to market, sellers need the protection granted by property rights.

Simply stated, a property right is an owner's freedom to use, improve, or deal in his or her property with only such interference as the law allows. The protection of property rights permits owners to invest their time and capital in productive activities. Without property rights, markets become precarious: the incentives to create products stifled by free rider-ship or throttled by theft. Here then is the

quandary for the Internet: how to define and protect property in an elusive commodity like information? A little history lesson might help.

Fencing the Open Range

The trade in elusive commodities predates the Internet. For example, nineteenth-century ranchers in the open-range areas of the American West faced the problem of wandering cattle.¹ Initially, this problem was minimal: the sheer abundance of open rangeland prevented overgrazing or the intermingling of herds. But with time, herds grew and ranchers confronted the need to insure adequate pasturage and to prevent theft or unwanted interbreeding of their stock. Their solution involved the creation of systems for protecting their property.

These protective systems focused not only on legal sanctions but also on alternatives to law, such as the restraints of custom and the technology of self-protection. Initially, rights to certain rangeland could be asserted by notice to others. While not supported in law, these range rights garnered an amount of respect through the force of local custom. Eventually, as herds increased, rights to rangelands were formalized by statute, in part because cattlemen associations effectively supported such legislation.² In effect, the larger herds had increased the value of property rights while the growth of cooperative associations had lessened the cost of resorting to legal institutions.

As so often happens, legislation didn't

Dr. Boustead, who recently received his doctorate in economics, is interested in law and economics.

completely solve the problem. Most of the cattle failed to read the law, and continued to stray. Not satisfied, the ranchers turned to improved methods of self-protecting their property. Now if cattle can't understand laws, they do understand fences. Ranchers also understand fences, and more to the point, they understand the economics of fences.

On the prairies, where the scarcity of trees makes wooden rails expensive, traditional rail fences made little sense. Ranchers needed an alternative, and the appreciation in herd values provided an incentive to seek out new and improved materials. Technology provided an assist as the development of cheap barbed wire offered a cost-effective means of enclosing cattle.³ With it, ranchers were able to control and protect their property.

Updating Intellectual Property Law, a Little

The lessons of fencing the range live on in such unexpected places as a recent government report, *Intellectual Property and the National Information Infrastructure* ("the report").⁴ While it focuses on how to modify intellectual property laws for the developing "Information Superhighway," the report also highlights the continuing vitality of diverse systems for the protection of property.

The term "Information Superhighway" conjures up images of some vast, electronic freeway. But a better metaphor for this electronic information infrastructure would be a marketplace for the exchange of information. Here, some buyers shop for works of art, music, literature, or multimedia. Others purchase electronic newspapers, scholarly works, databases, and software as inputs into their own production. In all of these diverse forms, information is just a product: constructed, owned, sold, and bought like any other. Conceived this way, systems for protecting intellectual property are as important for protecting the investments of information producers as earlier systems were for protecting the open-range ranchers of the 1880s. They are needed to provide incentives to bring the product to market.

The issue for the Internet is how to keep

unauthorized copiers out rather than how to fence cattle in. This concern arises from the somewhat unusual costs involved in producing and copying information. A copier avoids the fixed costs of original production, for example, of writing a poem or compiling a database. So the copier can offer to sell copies at a price below that necessary for the producer to recoup the costs of origination. Faced with a copier able to free-ride, the producer may have little or no incentive to create information in the first place.

To create incentives, the intellectual property law of copyright grants the producer an exclusive right to reproduce the copyrighted work and to prepare derivative works based on it.⁵

Wisely, the report proposes only modest changes to current copyright laws—primarily clarifying that a digital transmission over the Internet constitutes a distribution subject to copyright. Current copyright laws have plenty of flexibility. Judges can tailor and stretch existing law as technology offers new challenges, as it will on the rapidly evolving Internet. Rather than accommodate new technology, massive new legislation might prove a hindrance. It could deprive judges of the body of precedent so necessary to a flexible interpretation of existing law.

Try as it might, however, copyright law simply cannot afford perfect protection to Internet information producers even if it wanted to. The most basic difficulty with a purely legal answer to the problem of protecting property in information on the Internet is that copyright law is not self-enforcing. For some, the law's moral force doesn't compel. Information producers themselves must detect and sanction infringing copiers. That prospect doesn't promise to be easy; it's largely compromised by advancing technology and the explosive growth of the Internet. Each day new sites populate the Internet, and the information content of existing sites changes. Despite the efforts of information providers, monitoring even a significant fraction of these sites for copyright violations can prove daunting.⁶ Rational copiers will increasingly discount the law as the likelihood of legal sanction declines.

Fencing Cyberspace

Foretelling the Internet's future would discourage almost any soothsayer. Still, some hint can be gleaned by focusing on property rights. In elusive ways, the passion to protect property can sculpt a landscape as it did when the fences appeared on the open ranges. By themselves, a few strands of wire stretched over miles and miles of rangeland would hardly seem powerful. But the force of property rights resides in the subtleties of incentives. With the fences came greater rewards from investing in cattle and so more cattle, larger towns to service the cattle ranches, and more railroads. With the fences came progress for many and change for all.

Information suppliers on today's Internet face much the same problem as cattle ranchers did in the 1880s. Legal sanction will protect their investment in creating information, but not entirely. For added protection, information suppliers will also build fences although fences of a different sort. Instead of barbed wire, the fences on the Internet will be computer codes.

Superficially, the Internet operates somewhat like the familiar telephone system. It links an information source or "server" computer to a user's computer through a system of leased telephone lines. But unlike the telephone system, a linkage on the Internet has no continuous connection. Instead, a system of protocols breaks the information into packets and ships the packets along various routes from the server to their final destination. Along the way, computers called "routers" direct the packets on their trip through cyberspace. Later the packets are reassembled into usable information.⁷

One place to build fences will be at the server level.⁸ Already, familiar on-line services, such as America Online and the Microsoft Network, require user names and passwords to access their service. Access can then be limited to authorized users who pay for the information. Likewise, many individual sites on the Internet require passwords for access so as to limit access to authorized users.

Encryption technologies will also play an

important role in protecting property. Through encryption of information, unauthorized interception of authorized transmissions can be prevented. Encryption technologies now under development would focus specifically on thwarting copiers. Some of these technologies would forestall unauthorized copying and downloading; other technologies would "provide hidden, digital 'watermarks' that automatically become part of a file and enable providers to identify all users."⁹

Ultimately, each information supplier will face a choice—how much to invest in digital fences? Clearly, not all suppliers will make the same investment since each faces a different profit equation. Much information will continue to be provided for free either because it represents advertising or because the producer (for example, a fan club or a university library) wishes simply to offer it. Other suppliers will build low fences or will rely on the no-trespassing signs of copyright law. For these, the commercial value of information they have available for sale will not justify large expenditures in thwarting copiers. But for some, especially those with highly valuable information, expenditures on protecting their information will be worth it. Here the digital fences will be the highest.

The future of the Internet will not be an entirely open range. There's just too much potential for creating value. People will seize that potential and then build fences to protect it. Unsightly, perhaps, but greater value from the Internet will be gained. □

1. Terry L. Anderson and Donald R. Leal, *Free Market Environmentalism* (San Francisco: Pacific Research Institute for Public Policy, 1991), pp. 26–34.

2. *Ibid.*, pp. 28–29.

3. *Ibid.*, p. 29.

4. Bruce A. Lehman, *Intellectual Property and the National Information Infrastructure*, The Report of the Working Group on Intellectual Property Rights, Information Infrastructure Task Force, Sept. 1995.

5. 17 U.S. Code Sec. 106.

6. Doreen Carvajal, "Book Publishers Worry about Threat of Internet," *New York Times*, March 18, 1996, p. 1.

7. *IPNII*, pp. 179–182.

8. *Ibid.*, pp. 183–185.

9. Robert L. Jacobson, "Internet Tools Designed to Block Unauthorized Use of Copyrighted Works," *The Chronicle of Higher Education*, March 22, 1996, p. A23.

The Electric Car Seduction



Should government enact laws to subsidize “alternative” fuels so that people will use less gasoline? Should government mandate the use of electric cars or other vehicles that don’t use gasoline at all?

Even without expert knowledge of the issues involved, anyone who values liberty will be inclined to answer both questions in the negative. Subsidies are a forcible transfer of wealth from those who have earned it to those who didn’t. Likewise, mandates are edicts that carry penalties for noncompliance. Use of gasoline for transportation purposes would not seem to be the sort of offense that anyone ought to be behind bars for. Both subsidies and mandates are government’s way of declaring, “We’re smarter than the market, so we’re going to have to force the market to change.” How many times have we heard that one—and later lamented the results?

As it turns out, the skeptics are right once again. Subsidies and mandates on behalf of alternative fuels are yet another public folly, motivated perhaps by good intentions but fraught with inherent contradictions. Not only do they whittle away at personal liberty, they flout economics and science as well.

Subsidies and mandates for alternative fuels are being discussed in many state legislatures now. A law passed by Congress four years ago mandated that 75 percent of the half-million vehicles the federal government

maintains be fueled by something other than gasoline by 1999; it also required state governments to start changing the composition of their own fleets to favor more alternative-fuel vehicles (AFVs).

A California law would have forced automakers to begin selling thousands of electric cars to the general public there in 1988, even though in 1995 there were fewer than 1,000 such vehicles on the road in the entire country. By 2003, electric cars were to comprise 10 percent of all cars sold in California—at least 200,000 vehicles. In the wake of withering criticism from scientists, engineers, and economists, the state has backed off somewhat, and the 10 percent mandate will now take effect in 2005. General Motors, Chrysler, and Ford, as well as the big automakers of Japan, will face fines of \$5,000 for each car under the required threshold.

Electricity from batteries is one of several alternative fuels that some legislators want to force-feed the marketplace. Others include methanol, ethanol, and other alcohols, hydrogen, compressed natural gas, coal-derived liquid fuels, and liquefied petroleum gas. All of them are championed as fuels that will reduce oil imports, give the economy a boost, and cut pollution.

Skepticism is countered with a line of reasoning that goes something like this: Good intentions plus the force of law equals positive results. If the market won’t do it voluntarily, something must be wrong with the market. Government says AFVs are a good thing and must order the marketplace to comply. We’re

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all better off as a result of such wise intervention because governments are especially good at foreseeing both the future and the policies needed to make it better. What could possibly be wrong with this picture?

The truth is, skepticism about a product is warranted any time it takes special favors or penalties against the competition to gain acceptance for that product. The questions people need to ask are these: *If alternative fuels are all that they are cracked up to be, why do politicians have to get involved? Why can't AFVs succeed on their own?*

The case for electric cars, it turns out, is more hype than substance. They are extremely expensive—costing between \$28,000 and \$48,000 to make. The batteries, which start at \$1,500, must be recharged for at least five hours after driving less than 150 miles. And while the cars themselves are nonpolluting, the General Accounting Office in Washington says the plants that make the power to recharge them may put more pollutants in the air than gasoline-powered vehicles.

Meanwhile, the cleaner fuels used in today's more efficient cars emit a small fraction of the pollution cars did 30 years ago. Even without any conversion to AFVs, the new cars coming off assembly lines by the end of this decade will simply not pose a pollution problem worth worrying about. Analysts at the Reason Foundation in California argue that alternative-fuel mandates would price new cars out of the reach of many Americans, who would then keep their older, more polluting cars longer.

Furthermore, according to Charles Oliver of *Investor's Business Daily*, a University of Denver chemist found that the dirtiest 10

percent of all cars produce half of all airborne emissions. Relatively inexpensive, low-tech, voluntary approaches could take care of most of that without the intrusive, high-cost problems of electric-car mandates.

The other alternative fuels in use or on the drawing boards share at least some of the same problems. They require huge subsidies to hide their real costs and make them seem affordable, or they have limited application, or they cause substantial consumer inconvenience, or they generate unintended, harmful side-effects. Time and technology may work the bugs out and make them feasible, but that process will be stymied or misdirected if the nearsighted bias of politicians overrules the marketplace.

When it comes to the government planning of the nation's technological future, we should learn from past mistakes. "Washington is no more capable of forcing industry to develop viable and environmentally-friendly technologies," says James Sheehan of the Competitive Enterprise Institute, "than it is capable of centrally planning the economy." Federal technology programs like the breeder nuclear reactor, the supercollider, and the synthetic fuels program wasted billions of dollars and produced few, if any, tangible benefits.

Patrick Bedard put it well in a December 1993 article in *Car and Driver* magazine entitled "Why Alternative Fuels Make No Sense." He stated, "The promises made for the alternatives to gasoline are very seductive. And you know how seductions turn out."

If politicians continue to micromanage the marketplace to artificially benefit alternative fuels, you may want to reach for both your wallet and your oxygen mask. □

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Liberty and the Domain of Self-Interest

by Steven Horwitz

One of the most frequent charges leveled at those of us who support free-market capitalism is that our ideas are just an ideological cover for a defense of naked self-interest. By supporting the right of owners to dispose of their property as they see fit and their right to keep the profits they might make by doing so, the charge goes, we are defending the anti-social selfishness of those owners. By implication, we are opposing the rights of the masses to receive a living wage or fair prices. On this view, the selfish, greedy search for profits is responsible for poverty, crass commercialism, and the general decline of society. The world would be better off if we all acted more altruistically and more out of concern with others' welfare than with our own—and if we won't do it, the state should. The pro-capitalist perspective is ruled out of the discussion because it defends immoral self-interest.

So what are we to do? I suggest that the best way to respond to these charges is not to debate the merits of self-interest in the abstract, but to examine the relationship between the organization of society and the benefits or damage created by self-interest. Empirically, does society work better or worse when self-interest is given freer reign? In what sorts of social groups will self-interest work or not work? These are questions that can be

addressed by economics, sociology, political science, law, and, of course, history. They are theoretical and empirical issues, not just philosophical or moral ones. I propose that we should defend self-interest on the grounds that, at least in the large heterogeneous world of an advanced nation (what F. A. Hayek called "the Great Society"), self-interest "works." Economic and social institutions that give self-interest greater latitude simply produce more wealth and lead to longer and higher quality lives.

Kinds of Societies

Let us distinguish "face-to-face" groups from "anonymous" or "Great" societies. In face-to-face groups, all or most of the members know each other individually, and generally have shared preferences and goals. People can coordinate their plans through ordinary "face-to-face" processes, like talking to each other. Examples of such groups would be tribal groups of an earlier era, families today, small firms, sports teams, college fraternities and sororities, armies, and perhaps religious organizations. Each participant knows a lot about the others. In almost all of them, not coincidentally, the needs of the group dominate the needs or wants of the individual.

By contrast, these features are absent from the anonymous society. In the anonymous society, we know only a very few of the other

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participants at all well. Preferences and goals are quite heterogeneous. Social coordination requires anonymous and abstract processes, such as the market. Examples of anonymous social groups abound: virtually every regional economy on the planet, as well as some other large organizations, such as big firms and much of what happens on the Internet. In anonymous social groups, individuals know little concrete information about one another. Almost all such groups, not coincidentally, are based (or work better when they are based) upon the primacy of the individual over the group.

This notion of interplay among group size, knowledge of the other, and self-interest is not new. In fact we can trace it back to Adam Smith. Consider his explanation for why we need to rely on self-interest:

In civilized society [man] stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons. . . . [M]an has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their own advantage to do for him what he requires of them. . . . It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities but of their advantages.¹

Note that Smith's explanation is not about any moral failing or the like. Rather, it is simply a fact that altruism won't work, because we don't know enough other people, and implicitly don't know enough about them, to be able to determine what it is that they want and what they can provide for us (not to mention how best to produce either). A world run purely on benevolence just isn't feasible, so we must rely on self-interest to get the job done in an indirect way. The key, though, is that for

Smith, the value of self-interest derives from the structure of the society.

Why is that? In the face-to-face world, we can, to a large degree, act selflessly because we know what the interests of others likely are and what the interest of the whole group might be. The adequacy of our knowledge is made possible by the simplicity of the social structure. In a small, homogeneous group, the range of preferences is probably narrow, as are the resources at the group's disposal. The "economic problem" (determining what to do and how to do it) is not overly complex and can be "solved" through face-to-face processes.

In a hunter/gatherer group, for example, the elders understand how everyone fits into the scheme of things. When the tribal elders say "go catch fish today," they speak from knowledge of how this decision will benefit the group as a whole. Or take a sports team: the head coach of a successful hockey or baseball team assigns each player a role on the basis of his knowledge of how and why the person playing that role benefits the team as a whole. The players (and hunters) cooperate, because the hierarchical system works. Of course military examples might be cited as well.

Acting in one's narrow self-interest, in these situations, is gauche or downright anti-social. The athlete who puts himself above the team is usually (although less so than in years past) rewarded with a spot on the bench. In a family, putting yourself above the group is considered a sign of immaturity. In the military, or a tribal clan, putting yourself ahead of the group can mean not just your own death, but the death of the group. To "go your own way" in such groups is to invite the destruction of the whole group by upsetting the delicate web of relationships that defines it and makes its survival possible.

In the Great Society, however, things are radically different. Here, we know very few people very well and this makes it ineffective for us to act selflessly. Those we know well are such a small proportion of the people we directly interact with, to say nothing of those with whom we interact indirectly, that the task of determining others' or the general interest

is hopelessly beyond our capabilities. When we think of interaction in anonymous societies, we might be tempted to only think of direct interaction: those whom we meet face to face in an ordinary day. Yet we interact indirectly with countless others, most of whom are not aware of their relationship with us, nor ours with them. Leonard Read's classic article "I, Pencil" makes this point as simply and effectively as anyone ever has.²

The variety and sheer number of "others" in the Great Society makes intentional altruism very difficult to practice. What does it mean to act in the best interest of others? How do we know and what do we do? Thus self-interest is the solution by default. But, we must still interact with those around us, even if we don't know them personally. We cannot simply go blindly through the world *ignoring* others, just because we can't act directly in their interest. We need to form some expectation as to others' behavior. Thus anonymity poses some different problems for us than does the face-to-face world. Where face-to-face conversation could coordinate all our plans in that world, it won't suffice in the anonymous world of the Great Society. There are too many people we would need to talk to. The question now is: how do we channel self-interest into beneficial results?

Coordination in Anonymity: Markets and Self-Interest

Here is where the market comes in. The institutions of the market allow for self-interest to be channeled in ways that serve the interests of the society as a whole. As Smith pointed out: the lure of profit encourages entrepreneurs to produce the goods that people want, and to produce them as economically as possible. In the Great Society, signals from profits and losses substitute for the direct knowledge available in the face-to-face world.

The development and use of market prices is key to the coordinative role of the market. As Hayek pointed out so carefully 50 years ago, prices convey knowledge.³ That is, market prices enable us to overcome our limited knowledge of others by serving as a symbol,

a substitute, for the vast amount of detailed knowledge we would need to acquire to know what others wanted. Prices are more than "just numbers." They are more like words that convey meanings to those who make use of them.

Prices that are permitted to move freely as people buy and sell, or refrain from buying or selling, reflect the knowledge and preferences of market participants. When I buy a quart of milk at the store, I am not only satisfying my own thirst but also sending a signal to others in the market about what I want and what I'm willing to give up to get it. Market exchanges are a form of communication, and as such, they enable us to overcome the knowledge limitations that are inherent in anonymous societies.⁴ Others in the milk market don't, can't, and don't need to, know exactly what's in my head. They don't even need to know who I am. When I buy that quart of milk, I am providing them with a condensation, or a crystallization, of the information they do need in order to know what to produce and what to charge for it.

On the other side of the ledger, milk producers have to watch the prices *they pay* for the inputs into milk production. If plastic bottles get more expensive, that will perhaps prompt them to switch to paper cartons. The prices of inputs provide information not only about what to produce, but about *how* best to produce things. Of course the milk I buy at the store is for my own personal consumption, but a local restaurateur might buy milk, or other products at the grocery store, to use in her dishes, using the same kind of milk I consume directly as an input into restaurant production. The interconnections of the marketplace are vast indeed. The self-interest of producers and consumers leads both groups to find the most cost-efficient ways of finding what they want to buy and producing what they want to sell.

Prices enable us to calculate profit and loss, perhaps the most powerful bridge between self-interest and social well-being. A restaurant that produces and sells meals that are more valuable than the combination of inputs used in producing them will make a profit, while a restaurant that fails in this regard will

incur losses. Profits and losses link the self-interest of producers to the “public interest” by steering owners of capital to use their resources in ways that increase their value. A successful producer has created value and has benefited society by increasing the value of the total stock of resources. As the economist William Hutt once wrote, “profits are proof of social service.”⁵ An entrepreneur who makes a profit in the marketplace has benefited others by giving them something they wanted more than alternative uses of the resources.

Self-Interest as a Virtue

Despite this argument we continue to hear moral condemnations of self-interested behavior. Sacrifice and altruism are said to be our highest calling. Economic activity is deemed to be beneath the truly virtuous activities, such as providing charity, creating art or music, or pursuing pure science. Why this condemnation of the driving force of the market and, by implication, all of the benefits that the market brings with it?

My guess is that people who condemn self-interest generally don’t understand the factual connection between self-interest and social benefits. Explaining that connection is the real contribution of economics. The connection matters not just for how we understand the social world, but for how we morally appraise actions within that world. Those who condemn self-interested behavior as anti-social should make an effort to understand what the social effects of such behavior really are, beyond those intended by the actor.

Because the immediate motivation of much economic activity is self-interest, such activity is not thought to be as noble as art or science. However, if it is true that self-interested activity in the market creates value and benefits others, then why isn’t it as noble as these other human endeavors? Why are the acts of inspired creativity that invented and marketed the personal computer, or even Velcro, any less noble than the creation of art or music or the pursuit of science? All of those activities benefit others and are driven by the creator’s urge to produce. The only difference is that entrepreneurs are frequently explicitly

and overtly driven by a particular *type of self-interest, namely financial*. But why does it matter what the motivation is, if the results are beneficial? Why do we care so much about why people do things instead of the results they produce? Would the personal computer be any more important or more useful had it been invented by monks seeking to serve others, rather than by business people and engineers seeking profit and the satisfaction of intellectual curiosity?

One of the important unintended consequences of self-interest in the market is an increase in the pleasantness of social interaction. For example, if you call a mail-order company like L.L. Bean to buy something, order takers are normally helpful and treat you with respect. Most restaurants will go out of their way to prepare your food the way you want it. Neither the phone sales clerk nor the waitress knows you as a person, but she treats you with a civility not all that much different than she would treat a friend she cared about. Now it’s true that workers are acting this way because it’s in their self-interest to do so—they lose profits if they lose customers. But who cares? Isn’t this a better way to interact than a world where markets and the self-interest in civility are absent? Customer service in Eastern Europe and the former Soviet Union was largely nonexistent, and is only now emerging with the turn toward markets.

The Limits of Self-Interest

My defense of self-interest in the marketplace is not a blind defense of self-interest at all times and in all places. I’d like to discuss two settings where self-interested behavior is not to be praised.

The first is perhaps the most important. Self-interest, including and especially that of business owners, can do great damage when it works its way through the political process. In the mixed economies that characterize virtually the entire world these days, people have two broad ways of increasing their individual wealth (outside of direct theft): they can operate in the market arena and try to profit by voluntary exchange, or they can operate in the political arena and try to profit

by subsidies or restrictions on their competitors. Both of those options involve self-interested behavior, yet the consequences are dramatically different. Market competition channels the self-interested struggle for profits toward producing what people want and producing it efficiently. When firms pursue self-interest through political action, they seek to benefit themselves by *preventing* the socially beneficial communication process of market exchange and competition from having full force.

Acting on one's self-interest by using the state to coerce others is anti-social behavior. It negates the social benefits which derive from market competition and it prevents the socializing and civilizing process of interdependence which grows out of that competition. The greater coarseness and lack of civility we see in political discourse these days is precisely because wealth-seeking through politics is more important than ever before. The political process is a zero-sum game exactly in the way the market is not. In politics, my gain is someone else's loss: dollars for my spending program require more taxes or funds taken from other programs. In the market, my gain means creating wealth, a positive-sum game. In politics, either you win or you lose. In market exchanges, both sides win.

The other area where self-interest is problematic is in the bits and pieces of the face-to-face world that exist all around us: families, firms, teams, friends, churches and synagogues. A family remains a bubble of face-to-face interaction embedded in the larger world of anonymity. The same for our places of work and worship and our circles of friends. Some "free marketeers," particularly those influenced exclusively by economics or by Ayn Rand, leap to the conclusion that self-interest is always the way to go. Well, it

isn't. There is nothing "unlibertarian" about sacrificing for one's family, or taking on an assignment at work that one really doesn't want but will serve the firm's interest. In these face-to-face domains, we have to play by the appropriate set of rules. Self-interest belongs in only those areas where it generates beneficial consequences and is ultimately a socializing form of behavior. Where self-interest is anti-social, such as politics in the mixed economy or in any of the face-to-face domains mentioned, it does not belong.

Conclusion

Those who vigorously defend the free market should not be uncritical defenders of self-interest. Self-interest is morally praiseworthy in those areas where it unintentionally produces consequences that benefit others. Where self-interest is either inappropriate (the family, firm, or house of worship) or anti-social (political wealth transfers), we should condemn it. As the dominant cultural forces continue to rail against self-interest in almost all of its forms, and never pause to consider where altruism works and where it simply doesn't, we need to be ever vigilant about defending self-interest where appropriate. Misunderstanding the role—and limits—of self-interest can lead to political and economic disaster. □

1. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Chicago: University of Chicago Press, 1976), p. 18.

2. Leonard Read, "I, Pencil," reprinted in *Free Market Economics: A Basic Reader*, compiled by Bettina Bien Greaves (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1975).

3. F. A. Hayek, "The Use of Knowledge in Society," reprinted in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

4. See Steven Horwitz, "Monetary Exchange as an Extra-Linguistic Social Communication Process," *Review of Social Economy*, 50(2), Summer 1992.

5. W. H. Hutt, *The Keynesian Episode* (Indianapolis, Ind.: Liberty Press), p. 76.

The Social Function of Mr. Henry Ford

by Spencer Heath

April 19, 1937

Dorothy Thompson
c/o *The New York Herald Tribune*
230 West 41st Street, New York City

Dear Miss Thompson:

Mr. Ford is a great administrator of a great service organization. It is his social function to own and thereby to administer vast productive properties which consist in (1) materials in process of having services incorporated in them and (2) facilities, such as buildings, machinery, and tools, wherewith to work upon the materials and build into them the values that arise and are measured at the points of exchange and thence transformed into satisfactions.

In order to give socially creative administration to all this capital—these moving and these fixed properties—Mr. Ford calls to his aid many persons having specific training, skills, and capacities. All these persons enter into a contractual relation with him that guarantees to them compensations for their services (wages and salaries) so certain and

definite that they are a first lien on everything that he has or owns. And if those wages and salaries are higher than in other organizations it is only because under Mr. Ford's superior administration and supervision these numerous subordinate persons can create, jointly with him, more of service, of value, and of satisfactions to the public and to themselves than in any other employment or occupation. This is what holds his organization together—the superior creation of wealth and services under his administration and supervision. This is what *socializes* his business, keeps it on a basis of voluntary and mutual service, with ascending values, as between all the persons or interests cooperating and serving each other.

Look at how this carries on. His subordinates give him specific supervised services. He gives to them the supervision, discipline, if you wish, without which their various services cannot be creatively coordinated. He puts materials into their hands and provides them with marvelous facilities wherewith to work upon these materials, building potential values and satisfactions into them. And beyond giving the service of supervision to his subordinates he also must administer all the capital, the physical things, that he puts into their hands. This administration extends not alone to disposition and guidance of the facilities and materials used and worked on by them but also to merchandising of the moving capital into money or credits for redistribu-

Spencer Heath (1876-1963) was a pioneer in aviation manufacturing and the author of Citadel, Market and Altar: Emerging Society. His grandson Spencer Heath McCallum found this letter in the course of cataloguing his grandfather's writings for the Institute for Humane Studies.

Miss Thompson was a well-known journalist whose column, "On the Record," appeared in the Herald Tribune three days a week, alternating with Walter Lippmann's column.

tion—chiefly, among his subordinates as wages and salaries; secondarily, back into his productive properties as extension of capital; and lastly, to his own personal use and subsistence, and this last is probably smaller than that of many of his employees.

While in performing all these services Mr. Ford must supervise his subordinates, he himself is under a sharper and severer discipline. They can suffer no penalty beyond loss of further association of effort with him. In no case can they lose anything that they have already created or accumulated or otherwise own. But Mr. Ford, if his services are not well performed, must lose not only all further cooperation from them but must, if need be, forfeit the last dollar's worth that he has accumulated for a lifetime in his business, even including anything he may have set aside for his own personal use and subsistence. In short, if he fails creatively (profitably) to perform his supervisory and administrative services and to meet his administrative responsibilities his business becomes automatically liquidated, he loses all his property and on top of all this he is separated from further employment in the enterprise as completely and more irrevocably than he might have dismissed a former employee from under his supervision.

Now, Miss Thompson, is Mr. Ford and his work a social disease to be eradicated or is it a manifestation of the healthy functioning of social forces? What heavier responsibilities should fall upon him, what sharper discipline does he merit than he already has? What legal shackles can you imagine or suggest that might increase the volume or the value of the work he now so eminently performs, despite the political restraints and restrictions that are weighing so many down? Should he be set free, nationally and internationally, to extend more widely the scope and range of the *voluntary* obligations and responsibilities he has so far well met or should he be coerced and bludgeoned (democratically or otherwise) into a further subservience to politicians (public servants?) and the political creditors to whom they owe or hope for a continuance of their present office and power? Why not reduce Mr. Ford and all such as he who bear

administrative responsibilities to the status of yes-men under the brute power of public officers with guns and jails and political obligations—and good intentions?

The answer is because, unlike Mr. Ford's business, the public business is not organized, not socialized into an efficient service. It has no department of administration and supervision functioning as such; no owners or responsible administrators of the public properties, no supervisors of the public servants. The public servants are all non-administrative, all wage or salary workers. They are like a horde, under no creative discipline or supervision to restrain their rapacity or their destructive benevolence and their leaders are under no obligation but that of all despots—to do anything that they think necessary to maintain office or otherwise to wield physical power. This is why, unlike Mr. Ford and his organization, they do not create social values but destroy them. This is why they discourage production and create deficits where Mr. Ford and his kind build abundance and profits and sound social values. Mr. Ford does not employ violence or coercion or seek to have government use it on his behalf. He has become socialized. All his dealings with others (except politicians and mob masters) are noncoercive and voluntary on both sides. He practices, so far as he is not coerced, the true democracy of the marketplace where men come together and from time to time call out their wishes and desires as to the exchange ratios between the services and commodities they exchange with and confer upon each other. Here is the democratic process, the basic social process of exchange (as opposed to seizures and enslavement) from which all values arise.

Now look at the technique of the politicians, the public servants (save the mark). They and only they are given the power to take without exchange, to compel without consent. Once the leaders, the Ali Babas, have grasped political power or wheedled it from a harried electorate they become exempt from the democracy of the market. They become anti-social because force and seizure, and not exchange, become their basic technique. Benevolence may be their will but

violence is their only instrument. Everything they receive is taken by seizure of taxes out of socially created values and penalization of social processes. All that they give to their special beneficiaries and mass protégés (to hold their political support) they must first take in the same manner and from the same source.

Of course, all this ought not to be. The acceptance and practice of socialized instead of anti-social methods in public business is long overdue. But until the better methods are discovered and applied let me ask you, Miss Thompson, can it be that you are in favor of reducing Mr. Ford's business to the anti-social level of political operation or control?

When Mr. Ford enters a market for materials or for labor to be combined with his own and accumulated in those materials or when he goes there for greater capital equipment to facilitate this process or to dispose of his finished goods or services where there is most need and demand for them or when he practices that great supervision over his associates without which their labor would be of little avail, would you have him shackled to an enforcement officer of compulsory and prohibitory laws in order to improve his functioning as a creator of social values and abundance? And you who believe in brute dominance over social creators (only so it be under "democratic" forms) support statutory enactments creating crimes—making it criminal for an employer to dismiss an employee or fail to re-employ him at the expiration of his day by day or week by week contract. And then the High Court lays the crime, the gravamen, not in the dismissal but in the reasons for it. The same act is to be lawful or criminal, depending upon what the defendant can be accused of holding in his mind. Where are all the safeguards of ancient law against punishments for psychological crimes? Let any "worker" (so-called) but conspire against the employer whom he has promised to serve and combine with others to oust him from his properties and by violence and otherwise prevent the operation of his business, then such employee must be sacrosanct against dismissal and therefore against every other discipline. Even Satan in revolt did not hurl

his Chief over the battlements and sit down upon the celestial properties.

But you seem to think Mr. Ford is an "economic royalist," an industrial King John, and "labor" must have its Magna Charta. When has he, like John, "betrayed all and served none"? When, indeed, has he seized the persons and properties of his employees? Must he, like King John, be forced to sign a bond and pledge to discontinue such acts? These are the violences and violations of despotic kings and their political descendants, the demagogues and politicians. They are the acts of political, not of social and industrial servants, like Mr. Ford. For he indeed is a servant of his entire nation and of much of the world.

From one like you, Miss Thompson, with your admirable earnestness and honesty of mind and heart, it is fit that gratitude should arise to men like Mr. Ford who have socialized their energies into wealth and comfort for their fellow men. Rather should you wish to deliver them out of the hands of the politicians, of ruthless King Demos and his demagogues whose present-day seizures of property far exceed anything even attempted by the villainous King John. Let us not have Mr. Ford and his employees desocialized out of live service to the public and into dead subservience to politicians. Let us take more thought how it may be possible to socialize the politicians, the government, into an agency of public service by curtailing their perquisite of seizure and thereby bringing them under non-political discipline and supervision and bringing the public property, like Mr. Ford's properties, under responsible, profitable, and revenue-producing administration. Government can be socialized. The creative principle in nature conspires towards this. Let us open our eyes to those forms of social organization in business that build and create. Let their providence and their beauty inspire us to extend them beyond the industrial and commercial even into the political realm. Let our ideal be less seizures and more of exchange, less government methods in business and more business methods in government.

Red-Lining the Federal Government Budget

by Richard H. Timberlake

Throughout the United States, millions of households and business firms routinely balance their annual expenditures with their annual incomes. They look aghast and incomprehendingly at a federal government that has not balanced its budget in the last 25 years, while its debt—the national debt—the sum of the government’s annual budget deficits, has soared to almost \$5 trillion.

Politicians and the media claim that people want too many government services. They argue that the government’s taxing powers cannot keep pace with the spending necessary to satisfy these demands even though tax revenues increase automatically every year without any deliberate legislation to increase them further.

These apologists greatly exaggerate the public’s demand for government services. Much of what the public “demands” is actually a burgeoning supply of something-for-nothing by uncontrolled government bureaus. A more accurate analysis of public preferences shows that while the individual taxpayer wants much less total government, he fears that budget cuts may eliminate the specific program that benefits him without reciprocating cuts in other programs. The net effect is that total expenditures continue to rise out of control so as to accommodate the sum of preferences for specific programs.

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The two major political parties are now locked in a titanic struggle over what both sides label “a balanced budget.” This label, however, violates the common principle of truth in advertising. First, party leaders are not debating on a balanced budget for now or even for now-plus-five years. They are bargaining about an annual budget that would allegedly be balanced seven years hence! Both parties propose tax revenues and spending projections for the intervening years that supposedly would provide a “path” to budget balance. However, even the Republican “path” includes increased government spending of \$50 billion a year, and another \$650 billion increase in the \$5 trillion national debt, before the annual budget is finally balanced in 2002.

Can anyone believe that these spending projections would remain inviolate? That future Congresses would honor the constraints that this Congress is trying to impose on them? That future “crises” would not provide convenient excuses for abandoning the earlier legislators’ pledges?

Most important of all, the Republican strategy for “balance” relies on Congressional Budget Office (CBO) calculations of future years’ tax revenues and spendings. These estimates are subject to endless debate over their accuracy, and what effect they would have on various segments of the electorate and special-interest groups. No one can certify the “numbers” of either party nor the

commitment of future congresses to this Congress's ideals.

A Different Strategy

What is needed, as every private householder and businessman living outside the Washington Beltway understands, is an entirely different strategy. Budget balancers, who sincerely believe their fiscal principles, should concentrate on balancing the 1997 budget, not the one in 20-ought-something. No private householder plans a budget seven years hence, or even two years ahead. She plans it month by month for the next year as it unfolds. And she does not use "projections" of future income. She looks at last year's realized income (what could be more certain?), and bases the coming year's spending plans on last year's certainty.

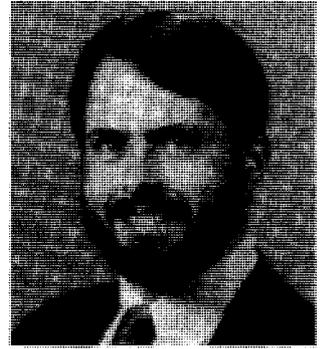
So the government's budgeteers should similarly calculate. Their accountants know virtually to the dollar how much revenue came into the Treasury during 1995–1996. That "number" should be their spending red-line for 1996–1997. They would then be able to prioritize government spending on programs, agencies, departments, projects, deployments, commissions, administrations, and funds. The president, if he is equally sincere about budget balance, should then accept the Congress's total spending limit, based on the last fiscal year's total tax revenues, as his own red line. He should have a line-item veto to take out spending items he thinks are unnecessary. The House of Representatives, however, has the sole constitutional power to initiate fiscal spending. So the president has no authority to add his own line items even though he would be able to bargain quid pro quos with congressional leaders.

Several features of this plan suggest its practicality. First, it establishes a *fiscal rule* for the government's operations that every householder and businessman, regardless of his particular ideology, can understand, appreciate, and accept. Yes, the federal government would still be spending \$1.4 trillion dollars next year—that's a million people each spending \$1.4 million dollars, a mind-boggling amount. However, a rule-based limit would finally be in place.

Second, future Congresses would not be on schedule to take the heat for what the present Congress has planned for them. The Congress now in session would be setting an example and a precedent for subsequent Congresses to follow.

Third, since this year's tax revenues will usually exceed last year's, adherence to this rule would normally result in small budget *surpluses* for the current year. (Yes, I realize that is an unfamiliar word.) These surpluses could be used to reduce especially counter-productive taxes or to redeem the national debt. While the debt problem is so enormous now that it requires other medicine, at least with a budget red-line in place it would not get any larger.

Finally, a tax red-line on total federal spending would prevent individual preferences for spending programs from forcing up total spending. Total federal spending would be fixed first by the red-line rule, and spending on particular programs would have to be tailored to fit this total. The total would still be obscenely obese, but at least it would be under control. Future efforts of economically minded legislators could then be directed to cutting out the most flagrantly useless agencies, departments, and programs without concern that total spending was still hemorrhaging. □



Killing Enterprise

The Big Apple, as New York City is known, is a bustling, energetic metropolis that nevertheless remains a difficult place for all but the very wealthy to live. It is an especially tough town for the enterprising poor seeking entrepreneurial paths out of poverty.

One problem, as described by Raymond Keating in an August 1996 *Freeman* article, is confiscatory taxation. Another difficulty, reports William (Chip) Mellor, president of the Institute for Justice, is that “In occupation after occupation, obstacles to enterprise often far exceed any legitimate exercise of government’s authority to protect public health and safety.” His new study, *Is New York City Killing Entrepreneurship?*, paints a depressing picture of a municipality intent more on enriching special-interest groups than encouraging its citizens to prosper. The result is to hinder the kind of economic growth that offers the best hope for the poor.

New York City is not alone, of course, but it is a symbol of what has gone so badly wrong in America. Observes Mellor, “No city is more famous for its history of bootstrap capitalism than New York City, where traditionally waves of immigrants joined the native-born to create vibrant communities whose pillars were the local merchants, vendors, and shop owners.” But no longer. “Today, New Yorkers

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seeking to follow in this tradition of entrepreneurship face a bewildering array of laws and regulations that prevent or stifle honest enterprise.”

For some, new opportunities simply don’t arise. Other people still succeed, but they must surmount higher barriers. Indeed, many owners of small businesses operate illegally. Unfortunately, evasion is expensive and getting caught is even costlier. Consumers, too, suffer.

The regulations that squash people’s entrepreneurial spirit are obviously many, but Mellor focuses on occupational restrictions, which alone fill 73 pages of the city’s Official Directory. There is, it seems, little that a person can do without government approval. Writes Mellor: “One needs a license to repair video-cassette recorders, to work as an usher or to sell tickets at wrestling matches, to remove and dump snow and ice, to set up a parking lot or a junk shop.” In this way, much work, especially that open to those of modest means, has become essentially a government privilege.

New York City limits economic opportunity in three important ways. It restricts the number of permits for activities (cabs, street vendors, newsstands). The government sets cumbersome requirements for receiving an occupational license (car services, child care, hairdressers). And New York City creates public monopolies (mass transit and trash collection).

The most famous permit ceiling—and certainly the most irritating for a visitor—

involves taxis. In 1937 the city decided that there should be 13,595 cabs. (The number later decreased through attrition.) Today it costs upwards of \$175,000 to buy a taxi medallion. To recoup, drivers naturally focus their attention on the more lucrative sections of the city—lower and mid-Manhattan and the airports. The likelihood of finding a legal cab in Harlem, the Bronx, or most anywhere else is about the same as finding a Martian spaceship. Of course, the lack of a legal supply hasn't eliminated the demand for transportation. Rather, an estimated 30,000 "gypsy cabs" simply operate illegally.

New York has also long been known for its street peddlers. Former Mayor David Dinkins was one, so was the father of Dinkins's predecessor, Edward Koch. But today the city allows only 4,000 food vendors and 1,700 sellers of other goods. (At the same time, the City makes it difficult to apply for permits, even when they are available.) At least three times as many vendors now operate illegally, with their merchandise subject to confiscation. As Mellor puts it, the city seems to treat these sellers as "a liability rather than an opportunity, a problem to be managed or contained rather than a wave to be channeled." Similarly, the municipal government allows only 230 newsstands citywide. It is hard to discern even a plausible justification for such a policy.

At the same time, the city bars home preparation of food. This restriction, in conjunction with the ceiling on street permits, essentially forces anyone interested in selling food to rent kitchen facilities from an established restaurant. Some potential entrepreneurs give up; those who don't must pay more and work often inconvenient hours (usually at night, when a local eatery is closed).

Another means by which entrenched interests protect their privileged positions is occupational licensing. For instance, in New York State, one must take 900 hours of courses to become a hairdresser. (It's even worse in California, where 1,600 hours of instruction are required. Other states, like Massachusetts and North Carolina, fall in between.) And a cosmetology license is necessary just to touch someone else's hair.

This means that hairbraiders, who play an increasingly important role in African-American communities, must learn everything taught to hairdressers, such as how to cut and color hair. The licensing process has nothing to do with public safety—emergency medical technicians, for instance, go through only 116 hours of training. Rather, the requirements, enforced by current practitioners, are designed to restrict competition and thereby enhance earnings. As a result, many hairbraiders must work informally and illegally. Reports Diane Bailey of the International Braiders Network: "This is a cottage industry done in our homes, on our stoops, in our kitchens."

Similar requirements are imposed on day care operators. The problem is not just that New York City's regulations are particularly stringent. It is that they are also utterly irrelevant. For instance, the director of a center must have a master's degree or be enrolled in a master's program. Employees must meet the same certification requirements as teachers. On top of these come the usual intrusive controls—over the kinds and quantities of snacks to be served, for instance. That such regulation is not needed is evident from the success of some 5,000 relatively unregulated providers of "family" day care involving fewer than seven children. Such operations currently exist in the city, without evident harm to New York's children.

About 5,000 vans and minivans are thought to ply New York City's streets, carrying some 20,000 passengers daily, principally through immigrant and minority neighborhoods. Such jitney services operate more cheaply than the government bus monopoly; they are also more convenient, stopping wherever passengers desire. In addition, reports Mellor: "The van services have been the route by which their owners, many of whom now employ numerous drivers, have worked their way up the ladder of economic mobility. Virtually all are Caribbean immigrants, from Barbados, Jamaica, St. Kitts, Guyana and assorted islands, who escaped poverty through this enterprise."

Alas, the city bans any competition with the city bus operation. The power of public offi-

cial and benefits of public-sector employees are considered to be vastly more important than jobs for minority workers and convenience for minority passengers.

New York City similarly maintains a monopoly for residential trash removal. Private haulers compete for the business markets and could serve apartments and individual homes as well. But, again, munificent benefits for government employees, ranging up to \$55,000 annually, have generated a powerful lobby for the status quo. The losers are consumers and entrepreneurs alike.

The problems of New York City and other

major urban areas are manifold, and there is no panacea. But no reform program will work without deregulation. As Mellor points out: "The revival of a culture of enterprise, one in which thousands of poor but ambitious people routinely pursue their occupations, aids both those in business for themselves and others whom they may inspire or, ultimately, employ. Such a culture of enterprise is an essential and powerful catalyst for community building." Such a culture will be possible only when America is truly free—when governments across the country finally get out of their people's way. □

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Law Enforcement by Deceit?: Entrapment and Due Process

by Jennifer Johnson

According to an April 1993 FBI Law Enforcement Bulletin, “Law enforcement officers often employ trickery and deception to catch those involved in criminal activity.” What might surprise you is that the Bulletin just quoted was not designed to discourage or reprimand such trickery, but rather to spell out how law enforcement officers can best conduct it so as to avoid “undercover investigations [giving] rise to successful [defense] claims of entrapment.”

Contrary to popular belief, executed properly, many dubious investigative tactics are perfectly acceptable under the current parameters of the law. The 1992 Supreme Court ruling in *Jacobson v. United States*—that law enforcement “may not originate a criminal design, implant in an innocent person’s mind the disposition to commit a criminal act, and then induce commission of the crime so that the government may prosecute”—establishes only loose and vague constraints on police procedure. The Supreme Court has held that when investigating certain criminal behavior, police may lawfully use a wide array of undercover techniques that, although deceptive, do not legally constitute entrapment.

Ms. Johnson is a freelance journalist living in Tampa, Florida. She writes a monthly column dealing with personal sovereignty issues for Impact Press, a regional magazine distributed in the southeastern United States. Her work also appears regularly in The Hernando Today.

The question is: What does? And why does law enforcement seem to have such extraordinary latitude to conduct lawful investigations that most would deem Machiavellian?

Entrapment is defined, in criminal law, as an affirmative defense (one in which the defendant has the burden of proof) which excuses a criminal defendant from liability for crimes proved to have been induced by certain governmental persuasion or deceit. In considering entrapment defenses, courts have deliberated four questions. Their answers to these questions determine in a particular case whether an entrapment defense is relevant and can exonerate the defendant.

The first question is: Does law enforcement need reasonable suspicion before targeting the accused in an undercover investigation?

Surprisingly, the answer is no. Numerous federal courts have held there is no Federal Constitutional requirement for *any* level of suspicion to initiate undercover operations. The courts have ruled there is no constitutional right to be free of investigation and that the fact of an undercover investigation having been initiated without suspicion does not bar the convictions of those who rise to its bait.

So, a defendant cannot be exonerated of a crime on entrapment grounds merely because he or she can prove that police had no reason whatsoever to suspect even the slightest of criminal inclinations. What he must prove is that he was *induced* by police to commit the

crime. This leads us to the second question: What constitutes inducement?

An officer merely approaching a defendant and requesting that he commit a crime does not. To claim inducement, a defendant must prove he was unduly persuaded, threatened, coerced, harassed, or offered pleas based on sympathy or friendship by police. A defendant must demonstrate that the government conduct created a situation in which an otherwise law-abiding citizen would commit an offense.

For example, in *United States v. Young*, the Internal Revenue Service (IRS) placed an undercover female informant at an IRS site to investigate drug activity. The informant became friendly with the male defendant, who hoped the relationship would develop into a romantic one. During the next four months, the defendant and the informant had contact at work as well as frequent telephone conversations in which they discussed their mutual marijuana habit and the availability of the drug. Five of these conversations were initiated by the informant.

Sometime later, the informant indicated that she had marijuana available for sale and the defendant agreed to find a buyer. The sale was arranged and the defendant arrested and prosecuted.

Clearly, inducement, right? Wrong. The court found that the level of contact between the informant and the defendant was not such as to be harassing or coercive. Nor was the friendship such that the defendant would feel compelled to respond affirmatively to the informant's offer for some sort of personal, lawful gain.

A converse example is that of *United States v. Skarkie*, in which a government informant, who was a distant relative of the defendant's estranged husband, moved in with her and asked her to put him in touch with people who could sell him drugs. Initially, she declined; but, the informant continued to pressure, and ultimately threatened her. He impaled one of her chickens on a stick and left it outside her back door and later stated that, "What happened to the chicken can happen to people as well."

Skarkie subsequently took the informant to meet a source, who later brought approxi-

mately three pounds of methamphetamine to her home. Skarkie and her source were then arrested and tried.

In this case, the U.S. Court of Appeals for the Ninth Circuit found that the government *did* induce the defendant to break the law because the informant initiated the idea of a drug sale, repeatedly pressured Skarkie to agree to his plan, and threatened her when she indicated that she was reluctant to participate.

Defining Predisposition

Even with the finding of obvious inducement, Skarkie wasn't off the hook. Courts usually require that a defendant go further and prove that he or she was *not predisposed* to commit the crime. If this can't be done, even in proven circumstances of coercion and threats, the entrapment defense fails. Thus arises the third question: What constitutes evidence of predisposition?

Although they require predisposition to be proven (or disproved) above and beyond inducement, most courts consider the two elements of entrapment to be closely related and often the same evidence will establish both. There is a primary distinction, though, between the two: Inducement focuses on the government's conduct, while predisposition focuses on the defendant's actions and statements.

Predisposition is not solely based on whether a defendant has previously engaged in criminal activity. Predisposition may be established merely by showing the defendant's desire to make a profit, eagerness to participate in criminal activity, or quick response to the government's inducement offer. Thus, even in circumstances where there was no reasonable suspicion to initiate an investigation where the defendant has proven illicit tactics of government inducement, and where there is no record or suspicion of criminal activity in the defendant's past, an entrapment defense may still fail if the defendant engaged in the induced activity for profit, monetary or otherwise, or did not demonstrate marked reluctance.

The word "draconian" comes to mind. It

apparently also came to the minds of those on the Supreme Court in 1973, who initiated a doctrine in hopes of establishing a system of "checks and balances" to apply to arguments of entrapment.

This doctrine is called "the outrageous government conduct defense." It determines that, although proof of predisposition to commit a crime bars application of the entrapment defense, "Fundamental fairness will not permit a defendant to be convicted of a crime in which police conduct is deemed 'outrageous.'" In very rare and limited circumstances, this defense exonerates a defendant from criminal liability for crimes committed even when predisposition has been established.

This doctrine is the subject of the fourth question: What is the viability of the "outrageous government conduct defense"? Prosecutors and law enforcement officers continually question the legitimacy of the defense, while defense advocates say its scope is much too limited.

By the courts, it is presently regarded as "theoretically viable where the government is overly involved in the creation of a crime."

What exactly does that mean? There are those, both within, and outside of, the legal profession, who would argue that the government was "overly involved" with both Young and Skarkie. But their arguments in our present courts would be to no avail. The outrageous government conduct defense has proved successful only in cases involving the most *extraordinary* degree of government involvement or coercion.

If, before you read this article, you were told of a place where law enforcement officers could legally initiate an undercover investigation with you as the target, go so far as to present you with both the opportunity and the faculties to commit a crime, and then arrest you and convict you of that crime, it's the last place you'd want to go.

Now you know you're already there—U.S. federal law permits this to happen.

The entrapment debate is a heated and complex one. Its consequence reaches far beyond the issue of justice being served to defendants actually charged as the result of undercover investigations. Until entrapment is defined clearly and fairly, all of us face a threat to our right of due process. □

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Why Not Slavery?

by Bertel M. Sparks

Upon first impression, it might appear a bit ridiculous even to ask the question, Why not slavery? At least if anyone anywhere in the Western world should seriously suggest the legalization of slavery, it is doubtful if he would get much of a hearing. Rather than creating any kind of stir, he would probably succeed in nothing more than making himself look like some sort of nut. I assure you that I have no intention of offering any such suggestion.

At the same time, I do propose to talk about slavery. In doing so I hope to talk about slavery in its ordinary and usual sense without attempting to give the term any indirect, obtuse, or unique meaning. And as I understand the term, it means a system or institution that permits some person or persons to hold some other person or persons in bondage to such an extent that the work and labor of the person being held is subject to the control of the person doing the holding. Under that system the person being held has no right to abandon the master or to reject the work or labor that is being demanded of him.

Slavery then is a political and economic system that permits one human being to own another human being in the literal and absolute sense. The slave is the property of the master. Slavery was abolished a long time ago, at least in the Western world. And in this age

that seems to be blessed (or cursed) with more conflicting ideologies than people, and when almost any doctrine or teaching can be heard from some housetop somewhere, no one can be found who is openly proclaiming slavery as a desirable way of life. And I assure you that I have no intention of suggesting any movement in that direction.

In that case, why should we spend our time discussing an issue upon which there seems to be such unanimous agreement? My reason is simply this: When everyone is agreed that a thing is wrong, there is a tendency to forget why it is wrong. And when the reason for a wrong is forgotten, there arises the danger that the wrong itself might reappear and receive a warm reception from the very people who are most convinced that they have long since rejected it. Wrongs that are understood are rarely, if ever, accepted by human beings. But when the wrong is wrapped in a sufficiently attractive package, attention tends to drift toward the beauty and glamor of the package, the understanding falters, and the wrong itself is unwittingly accepted as a model of righteousness. Maybe we all agree that slavery is wrong, but how many of us can articulate a good reason why it is wrong? Why shouldn't people be permitted to own people? Why should there be a law against it?

Slavery is such an ancient practice that the exact circumstances, time, or place of its beginnings cannot be determined with complete certainty. But all indications are that it began as a humanitarian measure. There was a time in the ancient world when the customary way for ending wars was to slay your

Bertel M. Sparks (1918–1994) was a professor of law at New York University and later at Duke University, and a trustee of the Foundation for Economic Education. This previously unpublished article was originally prepared as a speech for a FEE summer seminar.

enemies. That meant the slaughter of whole tribes, cities, or nations. Eventually primitive man conceived the idea that it would be more humane, as well as more profitable, to capture the enemy and make him a slave rather than kill him. In that era when it was a choice between becoming a slave or having your head prematurely removed (and possibly boiled for dinner), slavery did have its attractions and even some humanitarian aspects. But it is doubtful if any degree of humanitarianism or the lack thereof will ever be sufficient to either justify or condemn slavery. Something more fundamental is needed to provide a satisfactory answer to the question, Why not slavery?

That "something more" is well expressed in John Locke's declaration of the fundamental rights to life, liberty, and property; or as Thomas Jefferson put it in the Declaration of Independence, the right to life, liberty, and the pursuit of happiness. That simple, three-point statement is probably the most concise and yet the most complete statement of the fundamental human rights ever written. Although it has not been often used in connection with the slavery argument, its application is sufficient to make slavery impossible. And whether you prefer Locke's or Jefferson's version makes no difference. I hope to illustrate that point in just a moment.

The Right to One's Own Person

The right to life means the right to one's own person. It is a right not to have one's own body interfered with. And if everyone has a right to his or her own person, then no one can have a right to control, own, or interfere with the life, the existence, or the personality of any other person.

The right to life includes the liberty to use that life in the manner most pleasing to the individual concerned. And if everyone is free to use his life as he sees fit, he is free to pursue whatever calling or employment he chooses, and to advance as far in that calling or employment as his abilities and inclinations permit. He may use his life foolishly or wisely; but since it is his life, the choice is his. That is but another way of saying that no one has a

right to dictate or control the manner in which any other person uses or neglects to use his own life. This is the meaning of the word liberty as used in the Locke-Jefferson trilogy. It is also a demonstration of how the right to liberty is an inevitable consequence of the right to life. If one has a right to life, he must have a right to use that life as he sees fit. He has a right to liberty.

And if each individual has a right to choose how he will use his life, it would seem to follow that he also has a right to the fruit of that choice. The fruit of that choice means the product of one's own work and labor. It is what Locke described by the word property and what Jefferson identified as the pursuit of happiness. Different individuals make different choices. They also have differing abilities. Although using different words, both Locke and Jefferson declared that every individual is entitled to the fruit of his own choices. And if each one has a right to the product of his own life as that life is lived in accordance with the choices which he alone is entitled to make, it necessarily follows that no one has any right to the product of someone else's efforts.

Thus it is that if every individual is possessed of an unalienable right to life, liberty, and property (or life, liberty, and the pursuit of happiness if you prefer) slavery cannot exist. Its existence is impossible because where everyone has a right to run his own life, no one can be left free to run the life of another.

The abolitionists tended to center their attention upon the cruelty toward or the living conditions of the slaves. Much was heard of the cruelty illustrated by *Uncle Tom's Cabin* and the inhumanity involved in the frequent division of families in the slave markets and the substandard living conditions of the slaves. The defenders of slavery usually answered these arguments with claims that personal cruelty toward an individual slave was a rare thing and that the forced division of families was almost unheard of. They also alleged that the living conditions of the slaves on the plantations were superior to the living conditions of the free workers in the industrial centers of the growing nation.

No doubt there was at least some measure of truth on each side of the debate. But what of it? Suppose it could have been shown as a demonstrable fact that slaves were actually well treated and that their living standards were superior to those of a majority of the free workers employed in the factories of the country. Would that fact, if it had been a fact, have justified slavery? I would say not.

The Privilege to Walk Away

The real evil of slavery is that it places the slave's productive capacity as well as the expression of his desires in the hands of someone other than himself. It deprives him of any choice as to what work he shall do or what disposition shall be made of the fruit of his work after he has done it. The extent of his misery might be open to question at any particular time or place. But the thing that makes him a slave and the thing that makes his status wrong is that he is bound to a situation where he is legally bound to stay. He cannot voluntarily walk away and take his chances as to whether the thing he walks away to is better or worse than the thing he is leaving.

It is that privilege to walk away, the privilege of making one's own choices, that makes a person free. The thing that makes slavery wrong is that it deprives the slave of the privilege of deciding for himself what it is that will make him happy. His decisions are made by someone else. And whether that someone else is a private master whose authority is approved and enforced by law or a government bureaucrat who is acting as an arm of the law makes little difference. No one is free unless he is free to make his own choices as to what pleases him.

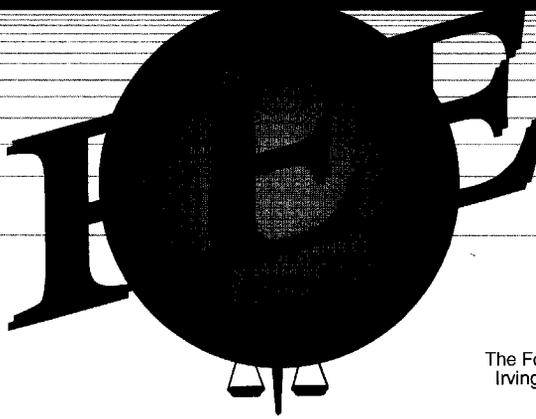
Even if the slave is provided all the material well-being he can use, he is less than a whole person if his work and labor are being coerced into channels that are not of his own choosing. The Locke-Jefferson doctrine would declare that each individual has an inherent right to make his own choices, not because any government or any earthly power gave him that right, but because he is a human being. And according to Jefferson, that right is an unalienable right. It cannot be taken from him

nor can he divest himself of it even by his own voluntary act. When slavery is understood as a deprivation of the right to the productive capacity of one's own body, its appearances in its various disguised forms become harder to conceal.

The building of the ancient pyramids of Egypt was one of the major engineering and technological feats of the ancient world. Although the magnitude of the task was sufficient to impose almost impossible demands even upon modern-day machinery and engineering methods, it was accomplished without any tools except those of a most primitive sort and without any power except human power. The entire work was performed by human labor. The largest of the pyramids is the one known to us as the Great Pyramid. It is estimated that the building of that one alone consumed the labor of 100,000 workers for 20 years. And it appears that most, if not all, of these workers were slaves.

The cinematic productions of Cecil B. De Mille have made most of us intensely aware of the cruelty of Egyptian slavery. Some of us still shrink back in horror as we remember what we saw on the screen years ago. But suppose the Egyptian pharaohs had not used slave labor. Suppose the workers had been left free to seek their own employment and to follow whatever work, trade, or craft they chose. If the pharaohs had then seized the workers' wages through taxation and used that revenue to hire other workers to build the pyramids, would the people whose incomes were being seized be in any better position than they were as slaves? If our attention is centered upon the inhumanity of the lashings that were applied to slaves when they failed to meet their production quotas, we might tend to believe the "free" workers whose substance was being taken were in the more favored position. But if our attention is centered upon the failure of the worker to have any choice as to how the product of his labor is to be used, we will see little difference between the two situations. In either event the worker is being deprived of any choice as to how his productive capacity will be used.

Suppose the tax rate had been fixed at 100 percent and extended to include the incomes



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Sweatshops for the New World Order

Poverty is an anomaly to many Americans. When they encounter it in foreign countries they view it as an aberration of human relations: the rich are exploiting the poor who are forced to work for "slave labor." In contemporary terminology, "profit-seeking multinational corporations are operating monstrous sweatshops for the New World Order."

What these Americans call "sweatshops," the workers in those workplaces may actually hail as "opportunity shops"; and what Americans call "slave wages," foreign workers may welcome as "living wages." The descriptions seem to vary according to the height from which the earnings are viewed. Americans whose wage rates and standards of living are among the highest in the world always look down on the lower earnings of other nationals. Their lofty perspective invites hasty and disparaging explanations. Looking down on poor and primitive workshops they see "sweatshops" paying "slave wages."

A little historical knowledge would help these critics to come down from their lofty perches. During the last century and earlier our forefathers labored long hours in shabby factories and dangerous mines with primitive tools and equipment, earning wages even lower than those paid in poor countries today. It took many decades of economic development to arrive at current levels of productivity and income. It took several generations of

Americans to save and accumulate the productive capital that built our modern apparatus of production. **The savings of the people and the business profits that were reinvested by capitalists together with the technological improvements by inventors built the economy as we know it today.**

Politicians who always labor for the next election are quick to take credit for the improvements. The phenomenal rise in American wage rates and working conditions, they declaim, was the sweet fruit of their own efforts, their labor legislation and regulation. Wise and courageous politicians, they want us to believe, fought valiantly for higher wages and better working conditions. The chorus of these politicians is often sounded out by the agents of labor unions who are singing the praises of their efforts in the form of collective bargaining, violent strikes, and costly boycotts. Both groups often cooperate and give credit to each other for pointing the way and forcing greedy employers to pay American wage rates.

The main activity of politicians and labor leaders is criticizing their opponents. If they actually could improve the working conditions of all workers, they could eradicate the hunger and want of this world, purge all poverty, and bring prosperity to everyone. American legislators and union organizers could bring American working conditions to every corner of the world, from Burundi to Bangladesh.

In reality, working conditions and wage rates depend on labor productivity, which is a direct function of the stock of capital invested per worker. Unless they themselves made investments in their equipment, American workers made no contribution whatsoever to their high standards of living. Wherever they opposed the introduction of modern equipment, or their union agents and political representatives fought or taxed it, they actually resisted the rise in productivity and improvements in their own working conditions.

It was rising labor productivity and increasing levels of living that liberated women and children from the early sweatshops. In the industrial countries, labor legislation merely sanctioned the improvements brought about by capital investments. Naturally, legislators, regulators, and union officials claimed credit for the changes.

Their loud denunciation of child labor in poor countries usually produces unintended consequences. It may actually hurt the very people it is intended to help. The children who are dismissed or never hired usually do not return to school. On the contrary, they are likely to seek new employment in the underground economy that pays lower wages and makes more physical demands than the "sweatshops." Many children manage to return to the shops by buying fake documents that make them older than they actually are.

Few American critics of "monstrous sweatshops" are motivated by their concern for foreign children. They rarely offer to house, clothe, and educate the children after they have been driven out, or merely inquire into the fate of those who have been given the gate. This glaring lack of concern clearly indicates that **many critics of foreign child labor are more interested in protecting jobs in the United States than in improving the lot of foreign children.** They are old-fashioned protectionists who seek to disguise their odious intentions in the sweet talk of great love for children.

Their protectionist agenda also is visible in their open hostility toward "the new

world order." No matter what we may think of the new order, it is preferable by far to the old order of war or preparation for war. The cataclysmic polarization between the democratic and dictatorial worlds, which generated two world wars and numerous lesser wars, has given way to the worldwide dominion of democracy under the leadership of one world power, the United States. The new order created a world of unprecedented interconnection and economic interaction. National trade barriers have come down significantly, which has led to a great extension of international cooperation and division of labor. The new information technology has brought the light of individual enterprise and the market order to all countries, and a new transportation technology has drawn them closer together than ever before.

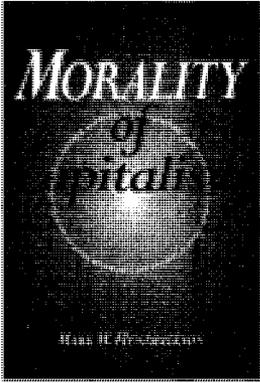
Many millions of people in the developing countries now are laboring diligently and joyfully for Americans. Foreign and American capitalists have built thousands of assembly plants giving employment to people who heretofore had depended on charity or had toiled for mere survival. In exchange for their efforts, several million American workers have found employment in efficient American export industries. Both parties to the exchange, Americans as well as foreigners, benefit visibly from the trade. In fact, the new world order with its great improvements in the international division of labor has helped to offset the horrendous burdens placed on the American economy by the New Deal, Fair Deal, New Republicanism, New Frontier, and all other new political calamities. If it had not been for the phenomenal expansion of world trade with its new "sweatshops," many of us would be unemployed and all of us immeasurably poorer.



Hans F. Sennholz

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THE MORALITY OF CAPITALISM

Edited by Mark W. Hendrickson

Introduction by Hans F. Sennholz

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

—HANS F. SENNHOLZ (from the Introduction)

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



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of workers being employed to build the pyramids as well as others. Under that arrangement the pharaoh could have returned to each worker what the pharaoh determined was sufficient for minimum food, clothing, and housing needs, and retained any excess over that amount to buy materials for the pyramids and to otherwise enhance the royal treasury. By bringing everyone into the system, it could have been used to administer equality of treatment, a doctrine that usually meets with popular approval. But a freedom to work at an occupation of one's own choosing is an empty freedom if the worker loses control of the product of his work. Another difficulty in such a system is that if the fruits of one's work are not his, it is unlikely that there will be much work performed. The usual motive for working is to improve one's own well-being. And the worker might lose interest in the proceedings if it is predetermined that his well-being must consist of his delight in having a beautiful tomb for his ruling monarch.

If all this sounds too artificial or unreal, it might be helpful to look at another country. Let it be an enlightened country where the rulers, whether hereditary monarchs or popularly elected legislators and executives, have lost interest in building impressive tombs for themselves or their families. They prefer to make experimental ventures into outer space. Maybe they want to send a manned spacecraft to the moon or to some distant planet. It might be desirable for some of these fellows to go to the moon. The problem is one of finance. Who is going to pay for the trip? The fellows wanting to sponsor the trip do not have sufficient funds for the job. They do have the power to compel the workers of the country to contribute to the project whether the workers want it or not. The exercise of that power bears remarkable similarity to the using of forced labor to build a pyramid. In both cases the work and labor of the inhabitants of the country are being seized against their wills.

Some may like to distinguish the two cases by insisting that in the space project each worker approved of the expenditure by supporting the government that sponsored it. But it is also quite likely that the Egyptian was

giving loyal support to his government even though he was not voting in popular elections. If that is the case, some better basis for distinction will have to be found unless the two projects are to be considered on the same basis.

Unalienable Rights

It would be dangerous to distinguish the two cases on the basis of the different types of government involved anyway. If the popular election theory is used, it would mean that any sort of tyranny against a minority is all right if it is approved by the majority. The application of that theory would amount to a restoration of the same principle that was involved in the divine-right-of-kings doctrine in its most absolute and authoritarian form. The only difference would be that the ruling authority would be the majority of the citizens rather than a hereditary monarch. But both the Declaration of Independence and the Constitution of the United States take the position that there can be no such absolute authority in a free society regardless of who is chosen to exercise that authority. The Declaration of Independence declares that the right to life, liberty, and the pursuit of happiness are unalienable. The private citizen cannot divest himself of these rights even if he tries to do so. And if the right to life includes the right to one's own body, it necessarily includes a right to the product that is produced by that body. It includes the time and the work of that body.

Although the rights to life, liberty, and the pursuit of happiness cannot be given by any government, the experience of our imperfect humanity has taught us that governments are needed to protect those rights. Since the rights themselves are inherent parts of the human creation, each human being is endowed with a natural right to defend himself. But if each individual must provide his own self-defense, he will have little time for anything else. Government then becomes a kind of organized self-defense. As soon as a government assumes the role of providing that organized self-defense, it begins to collect taxes to support itself. To that extent, the government is using force to take a part of the

substance created by the work and labor of the individual taxpayers. To that extent, the individuals are becoming slaves. Therein lies the reason why no people can remain free unless their government remains a limited government. And unless those limits are wisely defined and clearly understood, the government is in a position to use its taxing power to establish total slavery.

Dominion

The question is one of determining who is entitled to dominion over the things being produced on the earth. And unless that dominion is left in the hands of the producer, the one who provided the time, the investment, and the other factors that went into the product, the producer is being denied the right to his own body, his own life. In essence, he becomes a slave. And whether the product seized is used to build a pyramid, finance a trip to the moon, or build a monument to a deceased head of state makes no difference.

Unless partial slavery in the form of heavy taxation is understood as partial slavery, there is always a danger of its growing into total slavery.

Current estimates show that at least one-third of the wealth being produced in the United States each year is going to the tax collector. The trend is up, not down.

Does the remedy lie in setting a limit on the purposes for which taxes can be used? The answer lies in the function of government itself. If, as we have seen, government is a kind of organized self-defense, made necessary because of our imperfect humanity's attempts to rob each other of our inherent right to life, liberty, and our own property, is any action on the part of government beyond self-defense justified?

How much farther can we go into commonly accepted areas of state activity before leaving self-defense? Is the education of either children or adults a part of this collective protection? Is it a legitimate purpose of government to gather taxes to provide medical services for all citizens, no matter how

desirable that medical care might be? What about feeding and clothing less productive citizens at the expense of the more productive members of the society? Is the forced funding of a national retirement system, euphemistically called social security, necessary to insure domestic tranquility? Can any of these be defended as authentic activities of government?

If the function of government is to feed, clothe, house, and educate all citizens, and to pay for all of it by a redistribution of income in the form of taxation levied on the more productive persons, then we can discuss how this should be done. We can argue endlessly in town meetings and in the halls of Congress over trimming costs here and adding services there, cutting this benefit in order to increase some other "entitlement." And we can finally reach some uneasy compromise by which those resourceful members of the society who are forced to pay the taxes—become partially enslaved—will not become completely discouraged and quit producing. The enslavement and anger of producers must be balanced against continuation of services to other members of the society who might become outraged if services were curtailed. An angry, divided society is the inevitable outcome. We see it developing all around us.

If, however, the only function of government is to maintain an orderly society where citizens can go about activities of their choice unmolested, the considerations that appear so urgent under an income-redistribution system become moot. Businessmen and women can direct resources toward improving their businesses, incidentally creating more jobs, rather than diverting resources to activities aimed at fending off a government bent on enslaving them. The legendary generosity and compassion of Americans toward the fellow down on his luck would re-emerge when private charities no longer had to compete with forced bureaucratic largess.

Why not slavery? The most reliable method for keeping ourselves out of slavery is to demand a government that protects us from each other and from foreign enemies. And that is all. □

Ending Tax Socialism

by James A. Dorn

In 1848 Marx and Engels proposed that progressive taxation be used “to wrest, by degrees, all capital from the bourgeois, to centralize all instruments of production in the hands of the state.” Although communism has failed, the idea of progressive taxation as a means of achieving “social justice” endures.

A progressive income tax violates the very heart and soul of the Constitution. Our constitutional government rests on the principles that individuals are equal under the law, that consent is the basis of just laws, and that the powers of the federal government are strictly limited. None of those principles are consistent with taxing incomes at progressively higher rates. It’s time to expose the pretense of morality that is inherent in progressive taxation and to end the system of tax socialism that has eroded economic and personal liberties in the United States.

A “Calamitous Monstrosity”

Prior to the passage of the Sixteenth Amendment in 1913, the Supreme Court consistently struck down attempts to legislate a federal income tax. There was little public support for such a tax. Indeed, when the first income tax was passed by Congress in 1894, the *New York Times* called the legislation “a vicious, inequitable, unpopular, impolitic, and socialistic act,” and the *Washington Post* added, “It is an abhorrent and calamitous monstrosity.”

Constitutional principle and justice require

Mr. Dorn is vice-president for academic affairs at the Cato Institute.

that individuals be treated equally under the law and that the law itself be just. A progressive income tax, which discriminates against individuals simply because they have higher incomes, is based on an arbitrary precept that would never gain universal consent. The minority would never consent to be enslaved by the majority.

Because there is no objective way to measure social justice, there is no end to the redistribution that can occur under a progressive tax system. Under such a system, neither persons nor property are safe from the hand of the state.

In his *Constitution of Liberty*, the late Nobel laureate economist F. A. Hayek wrote, “Progression provides no criterion whatever of what is and what is not to be regarded as just. It indicates no halting point for its application, and the ‘good judgment’ of the people on which its defenders are usually driven to rely as the only safeguard is nothing more than the current state of opinion shaped by past policy.”

Hayek was right and Marx and Engels were wrong. Yet conservatives and liberals alike fall into a populist trap by trying to justify progressive income taxation on the basis of majority rule. Elevating democratic values above individual rights to achieve equality of result, however, violates the very rules of just conduct that lie at the heart of a free society.

A flat-rate tax is consistent with the rule of law and with the principle of nondiscrimination. Everyone pays the same tax rate on their taxable income, and income from both labor and capital are treated alike—there is no

double taxation of interest and dividends. If the flat-rate tax is applied to consumption rather than income, the current bias against saving would disappear and economic growth would increase.

One major benefit of a flat-rate tax is that it would make the cost of government expansion visible to all taxpayers, especially if government were required to balance its budget each year. There would be a built-in incentive to compare the costs and benefits of new government programs.

Under progressive taxation, on the other hand, there is a constant temptation to raise tax rates on productive citizens to pay for new programs. At the limit, persons with high incomes may face a marginal tax rate of 100 percent, while those with low incomes pay nothing. (During the 1950s marginal tax rates exceeded 90 percent in the United States.) That's tax socialism in spades.

Progressive taxation is not a virtue but a vice. It presumes that the property rights of the wealthy are not as sacred as the property rights of the poor, and that the values of the majority are superior to the rights of the minority.

Those who support progressive taxation pretend to be on the moral high ground but, in fact, they have no ground to stand on. Envy, not justice, is at the root of the argument for discriminatory taxation. If we let constitutional principles be eroded by majority rule, in the name of social justice, then both freedom and true justice will be lost.

"Law is the bond of civil society, and justice is equality under the law," wrote Cicero. If we are to restore civil society and move from tax socialism to tax justice, we need to abolish progressive taxation, institute a fair flat tax, and limit the size of government. Otherwise class warfare and welfare will prevail. □

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For Appearance's Sake

by James D. Saltzman

Don't let people control the appearance of their property. That's the view of Montgomery County (Texas) Judge Alan "Barb" Sadler. During the spring of 1995, he proposed a law to restrict commercial signs on strips of privately owned land along rural highways in his county. Mr. Sadler decried the "general decay of the area, and by decay I mean unlimited signage. . . . It's a classic case of private property rights versus beautification and environmental concerns."¹

This belief that private property rights compromise a "public interest" in "beautification" has generated a host of legal procedures allowing the government to veto an owner's wishes for the appearance of his property. There are ordinances to prescribe landscaping, boards to oversee alterations to "historic" buildings, bodies to govern changes to trees, committees to dictate the design and color of new buildings, commissions to restrict "eyesores" such as strip shopping centers, and laws—as were proposed in Montgomery County—to prohibit such forms of "visual pollution" as billboards and other types of outdoor advertising.

Beautification Without Coercion

All too often, supporters of such regulation presume that private property ownership threatens beautification. But is that a fair

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assumption? Consider the case of trees in Houston. Other cities like Charlotte, North Carolina, and Austin, Texas, have statutes controlling alterations to privately owned trees. In March of 1996, Houston passed such legislation to calm the fears of some politicians and citizens that private property owners—particularly commercial developers—were tearing down too many trees. As one angry citizen wrote to the *Houston Chronicle* (December 1, 1994), "We don't need our day ruined by a greedy jerk with a chain saw."

However, in Houston developers and other private owners have had their way with trees for over 100 years. The result? As another writer to the *Chronicle* (November 20, 1994) pointed out, "[o]ne has only to go to the top of any tall Houston building, look all four ways and admire the forest within the city of Houston, and realize they were nearly all planted by property owners and developers without the help of government or complainers." That's right. A forest. Though Houston has undergone decades of the intensive commercial development that frightens supporters of tree preservation, the city remains blanketed by trees.

It wasn't always. Before private development, Houston contained large areas virtually without trees. One such area included Rice University, in a section of Houston now extensively developed and filled with trees. A July 25, 1996, article in the *Rice News* pointed out that "[p]hotos from the turn-of-the-century show campus grounds as a coastal prairie where trees were the exception not the

rule." In fact, much of Houston was once part of what the article calls "bald prairie," prime grazing land in frontier days.

But with extensive private development—both commercial and residential—came trees.² For example, the December 1995 issue of *Bellaire Monthly* shows before and after photographs of the same street in Meyerland, one of Houston's most upscale neighborhoods, first developed in the 1950s. The first photograph shows the neighborhood brand new—and bereft of trees except for a sapling or two in each front yard. In the second photograph, shot from the same location and angle approximately 40 years later, it's hard to see the houses because of all the mature trees.

That's not surprising because trees improve the value of property 3 to 5 percent for single-family residential tracts, according to one study cited in a November 13, 1994, article in the *Houston Chronicle*. The article also pointed out that The Woodlands, a privately planned and developed community 30 miles north of Houston, has been "the top selling new home community in the Houston area in the 1990's." Why? "The Woodlands leaves large stands of trees and undisturbed forest underbrush throughout the project," according to the *Chronicle*. As one spokeswoman for the Woodlands explained: "When we do surveys, the No. 1 reason people move here is the vegetation and trees."

In other words, private property rights encourage improvements in the appearance of what people own because the owners benefit. As economists James D. Gwartney and Richard L. Stroup explain: "If private owners fail to maintain their property or if they allow it to become abused or damaged, they will bear the consequences in a decline in the value of their property. . . . With private ownership, wise stewardship is rewarded. . . . Private owners can gain by figuring out how to make their property and its services more attractive to others." It's just common sense. The people crowding into Home Depot on weekends to buy paint or shrubs aim to make their property look better, not worse.

And what of the homeowner who worries about the tastes of his neighbors? He can choose to buy property in a neighborhood

with aesthetic controls enforced through private contracts known as deed restrictions.

Such restrictions, also known as restrictive covenants, are usually initiated by developers to blanket entire subdivisions. The restrictions are enforced by homeowners' associations, and residents of the subdivision typically have the opportunity to vote periodically, often every 20 or 25 years in Houston, to reinstate, revise, or even cancel the restrictions.

And these rules have teeth. A June 3, 1993, article in the *New York Times* reported that one homeowners' association in Seattle successfully sued a husband and wife for painting their house an unapproved color. These defendants, "under a court order and facing the threat of imprisonment or fines of up to \$2,000 a day . . . finally agreed to repaint their house. They . . . already had their wages and checking account garnisheed and a lien put on their home."

And according to the article, paint color is not the only exterior feature that private controls can regulate. Under deed restrictions, homeowner groups can "control a myriad of things, from how often homeowners must mow their lawns to whether to allow basketball hoops in the driveway" and even "that old cars cannot be left in the driveway . . . and that trailers, boats and motor homes must be stored out of sight."

Deed restriction can also govern fencing, flagpoles, the types and configuration of bedded flowers, and even architectural features, such as façades and the number of stories. On September 7, 1986, the *Houston Post* explained how a Houston couple was prevented by their civic club from adding a residential second story to their home.

Yes, deed restriction enforcement can be harsh on non-conformists, but non-conformists need not buy into a restricted neighborhood in the first place. As an attorney told *The American Legion* (February 1996), "These agreements are voluntary contractual arrangements where you have agreed that this is how you are going to live." As they shop around for property, home buyers can choose how much "aesthetic protection" they desire, without the government deciding for them.

Private controls over the appearance of property, however nitpicky, operate through elective contracts with terms explicitly spelled out.

Government Run Amok

Meanwhile, the government's controls operate through coercion. Everything is up for grabs. Just ask Stephen Page.

According to his article in the *Wall Street Journal* (December 24, 1994), he had bought a 1.08 acre lot on the seaward side of the Monterey Peninsula in Pacific Grove, California, in 1991 to build his "dream house." But rather than a dream the city's design review process gave Mr. Page a nightmare.

"Over a two year period," Mr. Page recalled, "we endured 20 public hearings regarding the size, shape, height, siting, texture, materials, and color of our proposed residence." During one of 11 public hearings with the Pacific Grove Architectural Review Board, a commissioner objected to Mr. Page's plans for the design of his house because "[i]n my former life as a seagull, I was flying up and down the California coastline and saw your house built shaped as a seashell, built out of driftwood and feathers, with the aperture facing out to sea."

Apparently, Pacific Grove leads the country in protecting the feelings of reincarnated seagulls from the aspirations of property owners.

To appease the city's wishes for a smaller house, Mr. Page shrank his request for a 4,200-square-foot residence to 3,600 square feet. But then the Pacific Grove Planning Commission and City Council reduced it to a 1,900-square-foot house with a 600-square-foot garage, hardly enough space to justify Mr. Page's investment at that point of "approximately \$1.4 million" for "the lot and carrying costs to date." When the Planning Commission chairman was asked to justify the 1,900-square-foot figure, he replied, "I pulled the number out of a hat."

After two years of hearings, Mr. Page sued the city to gain his development rights. A year later the city backed off and voted to allow Mr. Page to build a 3,680-square-foot house with a 600-square-foot garage.

Mr. Page's story shows how capricious and cruel government inevitably becomes when it sees its purpose—sees justice—not as protecting individual liberties but as trashing them for some crusade like making the community "look right." As Frederic Bastiat points out in *The Law*:

The mission of the law is *not* to oppress persons and plunder them of their property, even though the law may be acting in a philanthropic spirit. Its purpose is to protect persons and property. . . .

If you exceed this proper limit—if you attempt to make the law religious, fraternal, equalizing, philanthropic, industrial, or *artistic* (emphasis added)—you will then be lost in uncharted territory, in vagueness and uncertainty, in a forced utopia or, even worse, in a multitude of utopias, each striving to seize the law and impose it on you. This is true because fraternity and philanthropy, unlike justice, do not have precise limits. Once started, where will you stop? And where will the law stop itself?

Perhaps at requiring you to dole out an extra \$3,400 to put a wall around your yard.

That happened in Galena, Illinois, where historic preservation rules would not let Jim Holman build the wall with \$200 worth of railroad ties. Only a stone wall costing at least \$3,600 would suffice, the *Houston Chronicle* (November 25, 1989) reported.

Yes, for appearance's sake, it's easy to spend someone else's money. In Seattle in 1993, Zymogenetics Inc., a biotech company, had spent \$25 million renovating the city's defunct steam plant into a laboratory. But the building was a designated landmark, so the city's historic preservation officials forced the company to shell out an additional \$500,000 "to add half a dozen fake smokestacks" to resemble the ones that had been part of the original structure, according to the *Wall Street Journal* (September 19, 1995).

Dictating how private property should look is also a good way to encourage people you don't like to leave your community. In Flossmoor, Illinois, that meant cracking down on owners of pickup trucks. In this town of 8,000 just south of Chicago, the open display of

pickups by the town's blue-collar residents offended an affluent elite. So the village passed "an ordinance that bans the parking of pickup trucks in one's driveway or on the street." As one resident of Flossmoor for 32 years told *Insight* magazine (May 21, 1990), "I moved to this community because it was beautiful, quiet, upper-class. . . . If they want a pickup truck and there's an ordinance in the village that says you cannot have one on your property, then go live somewhere else." But given that there was no such ordinance when they moved in, why should the pickup owners be the ones to relocate, rather than those who wish to avoid seeing pickup trucks?

In 1990, people who lost their homes to the Painted Cave fire in California weren't told to relocate. They were only not to rebuild without meeting Santa Barbara County's exacting standards for architectural correctness. Although they eventually settled for dictating detailed landscaping plans to him, county officials initially told fire victim David Pritchard that he could not "replace the house he had completed just seven months earlier" because it had been too tall.

At one meeting, Mr. Pritchard explained that before burning down, his hillside home had blocked the view of no neighbor. But a planning commissioner replied that allowing him to rebuild his home as tall as it had been would allow it to be "in view of everybody who drives up [Highway] 154."

Fostering Censorship, Thwarting Consumers

That's a typical excuse for censoring how someone thinks his property should look: It might offend the tastes of someone else. But is this a good reason for the government to regulate what we see? As Bernard Siegan notes in his book *Land Use Without Zoning*:

People differ greatly in their perceptions and concepts of beauty, and this makes it most unfair and perilous to progress to allow any one person or group to impose aesthetic controls. History readily bears out that society will be enriched by being subjected to a great variety of artistic or visual

experiences; modern culture is enormously indebted to creations that were highly unpopular and virtually subversive in the past.

Controls on the appearance of property allow intolerance to masquerade as high-mindedness, stifling innovation and creativity.

In Siegan's view, a historical preservation commission that stops controversial buildings is engaging in a kind of censorship, no more justifiable than censoring controversial books or museum displays. The result is that "we may be creating through [land-use] regulation a society in which aesthetic diversity is highly limited."³

And in revoking the right of citizens to determine the appearance of their property, the government only weakens general consumer welfare. When the New York City Landmarks Commission vetoed the building of a tower over Grand Central Terminal, it also vetoed the interests of the tower's potential residents and of the surrounding businesses that would have served those residents. As Siegan has remarked elsewhere, "the aesthetic ideals of a publicly appointed body" were allowed to "deny material comforts to a significant segment of the community." Only individuals exercising their private property rights, not government committees exercising dictatorial powers over property, can satisfy the widely diverse tastes and desires of people.

Take strip shopping centers. Advocates of aesthetic control may condemn them as "eyesores" and seek to use zoning to prevent their construction. Yet the outlets they contain—laundromats, convenience stores, repair shops—serve the needs of the "poor and less mobile in the population."⁴

Or take billboards. Scenic America, a national lobbying organization devoted to "cleaning up visual pollution," dismisses billboard advertising as "a parasitic industry benefitting a small interest group at enormous cost to the public," according to the group's "Sign Control News" (March/April 1990). In fact, outdoor advertising benefits consumers by increasing business rivalry. Roadside signs are often the cheapest way for new business to challenge more established firms for the pa-

tronage of customers. Billboard price advertising allows consumers to find lower-priced gasoline more easily, reducing the average price paid.⁵ In others words, billboards and other commercial signs exist, not because a "parasitic" outdoor advertising industry forces them onto an unwilling public, but because these media provide information consumers desire.

Sorry, Charlie

A free market ruled by consumers is not what Scenic America wants. Neither do other advocates of coercive controls on the appearance of property. Unfortunately, Prince Charles of England is such an advocate.

According to the November 5, 1988, edition of *The Spectator*, "Prince Charles does not like tall buildings." When viewing the plans for an 800-foot skyscraper, Prince Charles asked the architect, "Why does it have to be quite so tall?"

The answer is simple: Because the developers think enough consumers want to purchase or lease space in a building that tall.

Individuals who must bear the economic consequences of what they do with their property are competent to decide how it should look. □

1. Paul McKay, "Sign, sign everywhere a sign . . ." *Houston Chronicle*, June 4, 1995, p. 33A.

2. See Ralph Bivens, "A growing conflict" in the *Houston Chronicle*, November 13, 1994, p. 1E. This study of the tree controversy in Houston shows how commercial developers often save trees to enhance their company's image or to improve the value of property they own. The article says that merchants in shopping centers worry that keeping too many trees will prevent potential customers from seeing their stores. However, the article shows how one developer saves trees from a commercial project to transplant elsewhere on the same site or move the trees to a residential project with the hope of making the area more attractive to home buyers. The article also alludes to the fact that Houston has many office parks extensively adorned with trees.

3. Bernard H. Siegan, *Land Use Without Zoning* (Lexington, Mass.: D.C. Heath and Co., 1972), p. 143.

4. Siegan, p. 143.

5. Countering claims that billboard advertising—or other advertising—of alcohol and tobacco could contribute to the public health problems associated with increased consumption of those products, Ekelund and Saurman note that the "1971 ban on the broadcast advertisement of cigarettes apparently had only a small effect on overall consumption." Moreover, advertising restrictions for such controversial products retard the introduction of their safer versions, as the "ban on TV cigarette advertising slowed the introduction of low-tar and low-nicotine cigarettes." See Robert Ekelund and David Saurman *Advertising and the Market Process* (San Francisco: Pacific Research Institute for Public Policy, 1988), pp. 149, 137.



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Our Most Precious Resource

by Earl Zarbin

More often than I can recall, I have heard people, especially at school graduations, say that “children are our (the nation’s, the country’s) most precious resource.”

This declaration always chills me. Children are not a resource, metaphorically or otherwise. Children are growing, maturing people, dependent upon their elders for moral, spiritual, ethical, and practical guidance. They are not something to be shaped, fabricated, or spent in the manufacturing, production, or political process.

Children are not the resource of either the nation or parents. Children are individualistic souls with the ability to exercise their own free will. In formative years, when they are subjected to the wisdom, or lack thereof, of parents and others, their judgment likely will reflect immaturity. It is to be hoped that by the time they reach adulthood they will know enough to make choices that will enhance rather than injure themselves. In any event, they are likely to make some good decisions and some bad ones, just as the rest of us do. The most that we can ask of young individuals is that they extend to other people the degree of respect and appreciation they want for themselves. If they do, chances are excellent that as young adults they will fit readily into the larger community.

Children are not the nation’s to mold. They are born with no debt, obligation, or other service to the state or to the government. (There is, of course, the politically created

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national debt that will be paid in taxes, inflation, or be repudiated, but that is not the subject of this essay.) They will learn soon enough that there are adults who would use, abuse, and corrupt them in the name of the mystic nation or state. There is no antidote to this beyond training children and adults to understand that their liberty and freedom may depend upon uniting to resist oppression and oppressors.

Nor do parents possess children except in the familial sense of accepting responsibility for the physical and spiritual nurture of their offspring until they are ready to take responsibility for themselves. It is the duty of parents to direct their children toward understanding and acceptance of this responsibility.

It should be clear that children are not possessions, they are not property, they are not someone’s resource. But what children are, and what they become, is to considerable measure dependent, at least initially, upon the condition of their progenitors.

If parents are schooled and believe in freedom, it is likely their children will, too. The reason should be obvious: the superiority of freedom as a way of life exceeds by far any other choice or means of existence. It is only as free, independent, thinking people that we can cooperate voluntarily and aspire for truly decent lives.

We are born of woman to be no man’s, no woman’s, no country’s, no nation’s resource, property, or servant. With that understanding, it is easy to see that our most precious resource is freedom. □

Externalities and the Environment

by Andrea Santoriello and Walter Block

We operate under a free enterprise economic system that produces plastic milk jugs and redwood picnic tables. The market is therefore responsible for such environmental problems as too much plastic trash and too little conservation of forests. So goes a common belief, anyway. In fact, it is governmental failure to maintain and defend the institutions of a free market that is responsible for the environmental damage caused by private businesses.

In the case of solid-waste management, plastic companies and their customers escape from the cost of disposing of plastic after the consumer is finished with it.¹ This is because most garbage collection is organized through the public sector. The cost of disposing of the plastic and the other waste is undertaken by the government, and a citizen is typically taxed without regard to the amount of trash he generates. Once the citizen pays his taxes, he has no incentive to choose environmentally sound goods because disposal costs are in effect free to him.

If, instead, there were complete privatization of the garbage disposal industry, those who generate trash would directly pay for disposal costs. The owner of a private dump tends to charge tipping fees that vary with different kinds of trash. The price will be significantly higher for material that creates

toxic waste² because the dump owner will be liable for any harmful leaks from his site. The hauling firm, which collects the garbage from the homeowner and must pay the tipping fee, will pass the price onto consumers. Consumers, knowing that they will have to pay more for the disposal of more plastic, will tend to substitute toward less costly, and thus more environmentally sound, containers. In the jargon of economists, the “negative externality” will disappear; the cost of trash disposal will be “internalized,” brought to bear on the responsible parties.

It is clear from this example that the negative externality currently related to solid-waste management is a governmental failure, rather than a market failure. By not allowing the free market to operate, the government pushes the costs of waste disposal onto the taxpayers. In a free market the price system accurately enables us to compare resources to determine which courses of actions are most economically and ecologically sound.³

Critics argue that the market fails to consider environmental concerns. In *Making Peace With the Planet*, Barry Commoner insists that the free-market system conflicts with a social concern for environmental quality, and thus argues that ecologically sound production decisions must be implemented through planning.⁴ Commoner fails to realize that when we turn away from the market, we are unable to compare resources and their values. Nor does he realize that the incentive

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structure in the political sector fosters an economically unsound approach to the environment.

The distorted incentives that operate in the public sector are responsible for many of our forest removal and logging problems. The difficulty stems from the fact that 42 percent of all U.S. land is owned by government.⁵ The public forestry services do not operate by maximizing the value of "their" resources. Rather, they subsidize special interest groups who in turn support public ownership. For example, the U.S. Bureau of Land Management (BLM) uses a method known as chaining, which uproots trees, leaving holes and unsightly tracks, to remove trees from grazing lands. Although this costly method is seldom practiced in the private sector, the BLM has no incentive to minimize costs. It maximizes its budget by providing subsidized grazing rights for ranchers who in turn lobby for BLM expenditures.⁶ The U.S. Forestry Service subsidizes logging companies to cut down trees on public lands by building logging roads for them.⁷ The private firms thereby shift some of the costs of logging onto the public. Again, prices do not reflect the full costs of environmental destruction. Certainly if the business firms actually owned the land, they would better care for it because abusing it would reduce their prospects for future income.⁸

Government ownership of so much land artificially encourages logging for another reason as well. Private firms with large landholdings are discouraged from using them for hunting or recreational purposes; the government provides parks for these purposes at a zero or nominal price. In the national forest surrounding Yellowstone National Park, the Forest Service charges no user fee for elk hunting. This reduces the value of elk resources on private land and discourages private firms from devoting their forests to hunting rather than logging. The low level of private development of recreational land is likewise due to the minimal prices the federal government charges for use of its recreational facilities.⁹

Unfortunately, because the federal government owns the land, environmental groups generally have to work through the political

sector. They lobby to persuade the government to preserve land, in conflict with the opposing special interests of logging, ranching, and extraction industries. If the demand for environmental amenities were instead channeled through the marketplace, tremendous progress would be possible.

Voluntary trade allows for creative deals in which all parties gain, or else the trade does not take place. If current leasing arrangements were changed, environmental groups could bid to purchase or lease public resources.¹⁰ On land that becomes their property, they can either preclude development entirely, or sublease the land for development on their own terms. When natural gas was discovered in the national Audubon Society's Rainey Wildlife Sanctuary in Louisiana, for example, the group itself faced the tradeoff between strict preservation and drilling income, and struck a balance that allowed drilling under specified environmental conditions. The Audubon Society received royalties, which gave them the funding to purchase still more land for preservation.¹¹ In this case both the Consolidated Oil and Gas Company and the Audubon Society gained. Economic efficiency and environmental interests were both served.

The key to environmental protection is a free market with defendable and transferable property rights. □

1. William Rathje, "Rubbish," *Atlantic*, December 1989, pp. 99-109, calls this assumption into question.

2. Walter Block, "Resource Misallocation, Externalities, and Environmentalism: A U.S.-Canadian Analysis," *Proceedings of the Twenty-Fourth Annual Pacific Northwest Regional Economic Conference*, 1990, p. 93.

3. Walter Block, "Environmental Problems, Private Property Rights Solutions," in Block, ed., *Economics and the Environment: A Reconciliation* (Vancouver, B.C.: Fraser Institute, 1990), p. 287.

4. Barry Commoner, *Making Peace With the Planet* (New York: The New Press, 1992), pp. 223, 227.

5. Progressive Environmentalism Task Force Report, p. 27, National Center for Policy Analysis, Dallas, Tex., 1991.

6. John Baden, "Crimes Against Nature: Public Funding of Environmental Destruction," *Policy Review*, Winter 1987, p. 38, cited in Walter Block, "Environmental Problems, Private Rights Solutions," pp. 296-297.

7. Joseph L. Bast, Peter J. Hill, and Richard C. Rue, *Eco-Sanity* (Chicago: The Heartland Institute, 1994), p. 203.

8. Terry L. Anderson and Donald Leal, *Free Market Environmentalism* (San Francisco: Pacific Research Institute for Public Policy Research, 1991), p. 71.

9. *Ibid.*, pp. 60, 62.

10. *Ibid.*, p. 93.

11. *Ibid.*, p. 90.

Raoul Wallenberg, Great Angel of Rescue

by Jim Powell

How can a single individual fight tyranny? What can be done for liberty against overwhelming odds? There are few stories as stirring as that of Raoul Wallenberg.

He defied the evil forces of Adolf Hitler and Joseph Stalin, two of history's worst mass murderers. He confronted racists, torturers, assassins, and even Hitler's chief executioner, Adolf Eichmann, while saving almost 100,000 lives. More astounding, he saved lives inside enemy territory, since escape was impossible. He was armed only with a pistol, which he never used.

Working in Nazi-controlled Hungary, Wallenberg liberated thousands of Jews from boxcars bound for the gas chambers. He pulled Jews out of the death marches. He saved Jews from being shot and dumped into the Danube. He singlehandedly thwarted Nazi plans to massacre 70,000 Jews remaining in the Budapest Central Ghetto.

After the Red Army captured Budapest, Wallenberg was taken away by Stalin's dreaded NKVD secret police. Apparently they tortured him and tried to turn him into a Soviet spy, but he remained defiant.

Wallenberg, greatest libertarian hero of the twentieth century, vanished into the wretched Soviet gulag and continues to be an agoniz-

ing mystery today. But for people around the world, he is the Angel of Rescue, and the mere mention of his name brings tears.

Wallenberg certainly didn't look like the stuff that heroes are made of. He was medium height with brown eyes, a large nose, small chin, and receding curly brown hair. Tibor Baranski, an associate, described Wallenberg as "a thin man, rather shy, and virtually fearless. He dressed elegantly and was always clean-shaven."

Björn Burckhardt, who had met Wallenberg in South Africa, described him this way: "Raoul did not do things in a normal manner. His way of thinking was so winding and involuted. But his intellect impressed everyone. And he could outtalk anyone. Perhaps his greatest asset was his charm, which influenced people to respect him."

Wallenberg, recalled Swedish diplomat Per Anger, "was not a superman type. We met in Stockholm some years before he came on his mission to Budapest in 1944, and we became very good friends. I learned to know Raoul more as an intellectual. . . . He spoke with a soft voice and sometimes looked like a dreamer. . . . It did not take long, however, till you discovered that he had a remarkable inner strength, a core of fighting spirit. Furthermore, he was a clever negotiator and organizer, unconventional, and extraordinarily inventive. I became convinced that no one was better qualified for the assignment to Budapest than Raoul."

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Raoul Gustaf Wallenberg was born August 4, 1912, in his maternal grandparents' summer home on Kapptsta, an island near Stockholm. He descended from a long line of Lutheran capitalists who built banks, factories, ships, and railroads—some 50 businesses altogether. His father Raoul Wallenberg, Sr., a 23-year-old naval officer, died of abdominal cancer three months before young Raoul was born. His mother, Maj Wising, was the great-granddaughter of a Jewish jeweler.

Raoul's paternal grandfather, Gustaf Wallenberg, Swedish ambassador to Turkey, became his mentor. Gustaf was an individualist, an entrepreneur, and a free trader who believed people should be bound together by peaceful commercial relations rather than military alliances.

Gustaf arranged for Raoul to broaden his vision by spending summers in France and Germany, and he learned French and German as well as English. To better understand America, Raoul enrolled at the University of Michigan, where he earned an architecture degree in 1935. Then Gustaf arranged for the young man to serve as an intern with the Wallenberg family bank in Capetown, South Africa, where Raoul discovered that banking wasn't for him. After six months, he became an intern with a Dutch business in Haifa, Palestine. He heard European refugees tell horrifying stories of Nazi barbarism. "I think I have the character for positive action rather than to sit at a desk and say no to people," he wrote Gustaf.

An Unpromising Future

Back in Stockholm, Wallenberg seemed destined for failure. He unsuccessfully tried his hand as an architect, an importer, and a speculator. Discouraged, he asked his father's cousins, Marcus and Jacob Wallenberg, about a job at their Enskilda Bank, but they vetoed the idea.

Gustaf Wallenberg died in March 1937, leaving Raoul without a sponsor. He soon discovered that each branch of the Wallenberg family protects its own kin but not the others. His mother, who had remarried

health services administrator Frederik von Dardel, wasn't in a position to help.

Wallenberg heard about a job with Kálmán Lauer, a Hungarian Jew whose Stockholm-based company Mellaneuropeiska Handelsaktiebolaget (Middle European Trading Company, or Meropa as it was called) mainly shipped grain, chickens, and goose-liver pâté from Hungary to Sweden. Since Hungary had allied itself with Hitler in 1941, Lauer couldn't safely travel through Europe, so he needed a Gentile fluent in the major European languages and adept at negotiation. Wallenberg went to work. While traveling through Germany and occupied France, Wallenberg became skilled at negotiating with Nazis. And through Lauer's family, he got to know the Budapest Jewish community.

"The Final Solution"

January 20, 1942, in a villa at 56 Am-Grossen-Wannsee, Wannsee, a town outside Berlin: a key meeting of high-ranking officers of the SS, Hitler's elite secret police. Among those present were General Reinhard Heydrich and SS Lieutenant Colonel Adolf Eichmann. They agreed it wasn't practical to rid Europe of Jews through emigration. The Jews had to be deported east and exterminated. In his conference notes, Eichmann described this as "the final solution." The killing agent would be Zyklon B, a compound of hydrogen and cyanide which had been developed to kill rodents. It turns into lethal gas at room temperature. Orders went out to build gigantic gas chambers.

The Allies soon learned about these plans, but they did little. President Franklin Roosevelt rejected pleas that Allies should take direct action against the Nazi extermination campaign. Convinced that winning the war was the fastest way to stop the Nazis, Allied military leaders claimed they couldn't afford to divert any forces—even though U.S. bombers flew right over Auschwitz and hit other targets only five miles away. By 1944, the only European Jewish community that hadn't been wiped out was in Hungary, an Axis power which still retained some independence from Germany. Following German losses on the

eastern front, Hungarian diplomats started sounding out the Allies for an armistice. This would have cut off Germany from its Axis allies Romania and Bulgaria—and from vital oil supplies. Accordingly, Hitler ordered his soldiers to occupy Hungary on March 19, 1944.

Among the arrivals was Adolf Eichmann, who came with a mile-long column of his special forces. Eichmann headed the Gestapo's Section IV B4 (Jewish affairs) and organized the extermination of Jews in Germany, Austria, and Czechoslovakia. If Nazi political wrangling hadn't gotten in the way, he would have exterminated Jews in Poland, too. He had developed a four-step killing process: mark Jews by requiring them to wear yellow Star of David patches on their outer garments; collect Jews from their scattered residences, commonly in the middle of the night; isolate Jews in ghettos; and, finally, deport them to the death camps.

Eichmann didn't want Jews to panic and disrupt his plans before he was ready, so he ordered leading members of the Budapest Jewish community to form a "Jewish Council." He told them what they desperately wanted to hear: "I will visit your museum soon, because I am interested in Jewish cultural affairs. You can trust me and talk freely to me—as you see, I am quite frank with you. If the Jews behave quietly and work, you will be able to keep all of your community institutions."

On May 15, 1944, the death trains began rolling to Auschwitz. There were as many as five trains a day, each with about 10,000 Jews. By mid-June, 147 trains had taken 437,000 Jews. "It went like a dream," Eichmann bragged.

At last, the Allies stirred. Western diplomats pressured Hungarian representatives. The Pope urged the 75-year-old Hungarian Regent Miklós Horthy to stop the slaughter. The American Air Force and Britain's Royal Air Force bombed Budapest. None of these external methods worked.

Roosevelt approved an effort to save some Jews by working within Hungary. Funding would be provided through the War Refugee Board, but Americans, as belligerents, couldn't operate openly behind enemy lines.

The War Refugee Board's representative in Sweden, Iver Olsen, was assigned the task of finding somebody from a neutral country. This person had to be a Gentile, fluent in European languages, capable of dealing successfully with the Nazis—and unimaginably courageous. Olsen heard Wallenberg's name in the elevator of the eight-story building on Strandvagen Street where American diplomatic offices were located. He heard it from Kálmán Lauer, whose import-export company's offices were in the same building. Olsen arranged a meeting and was impressed with the 31-year-old Wallenberg's passion and apparent ability to size up people quickly.

Wallenberg didn't get much guidance, because nobody knew exactly what would be involved. He spelled out his terms. He must have diplomatic status—he was named Second Secretary of the Swedish legation. He could send his own messages by diplomatic courier. If funds provided by the U.S. War Refugee Board and the American-Jewish Joint Distribution Committee were inadequate, he could raise funds by other means. He could contact anyone including the ruler of the country and the anti-Nazi underground. He could use whatever means he considered necessary, including bribery. He could provide asylum to persecuted people with Swedish documents. After these terms were accepted, Wallenberg spent 48 hours reading diplomatic messages between Stockholm, Washington, and Budapest.

On July 6, 1944, Wallenberg caught an airplane from Stockholm to Berlin, and two days later was on a train for Budapest. His train probably passed the 29-boxcar train carrying the last of Hungary's rural Jews to Auschwitz.

According to Nazi statistics, there were about 230,000 Jews left in Budapest. Eichmann relished the prospect of shipping them out in a few days, but Regent Horthy still retained nominal independence from Germany, and he suspended the deportations. While he was certainly anti-Semitic—he had approved laws persecuting Jews—he feared execution as a war criminal by the Russians advancing in the East or the Americans and English who had landed in Normandy.

Wallenberg's Mission Begins

Wallenberg arrived in Budapest July 9. The city had representatives from five neutral nations—Portugal, Spain, Switzerland, and Turkey, as well as Sweden. There were also representatives from the International Red Cross and the Pope. Some of these had already made limited efforts to save Jews. The Swedish representative had issued about 650 protective passes to Jews who could document family or business connections to Sweden. The Swiss issued several hundred emigration certificates to British-controlled Palestine, although it was impossible for these people to leave Budapest.

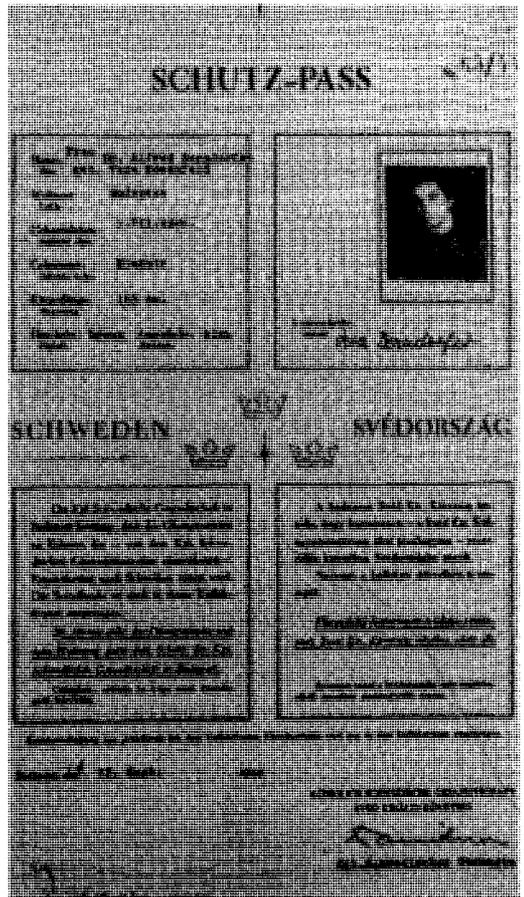
Wallenberg spent a couple of weeks getting to know the Jewish community better, finding recruits, and building an organization. Budapest Jews were so demoralized, and Wallenberg looked so unfit for the task, with his fresh face and clean-cut dark blue suit, that he had considerable difficulty persuading people they could help themselves.

Wallenberg recognized there were several ways he could appeal to those in power. First, Horthy's puppet regime did want the legitimacy that comes with international acceptance. Second, Swedish representatives handled Hungarian and German business in several countries. Third, many in the regime feared possible execution by the Allies after the war. Finally, there were many others whose cooperation could be bought with food or cash bribes.

Wallenberg took immediate steps to make his mission look impressive. He designed a *Schutz-Pass* certificate which was much snazzier than the drab Swedish passport. He gave it an official-looking triple crown of the Royal Swedish government. He had it printed in Sweden's colors, yellow and blue. He embellished it with seals, stamps, and signatures.

These passes suggested the holder had some kind of connection to Sweden and intended to leave Hungary for Sweden. Until that could happen, the holder was under the protection of the Royal Swedish Legation.

Although these *Schutzpässe* had no standing in international law, they worked. One of Wallenberg's drivers noted that he "under-



One of the *Schutzpässe*, designed by Raoul Wallenberg, which helped save thousands of Jews from the Nazi death camps.

Courtesy of Raoul Wallenberg Committee of the United States.

stood the German mentality. He knew that Germans reacted to formal documents and authority."

It's likely, too, that the Nazis tolerated the passes as long as they affected a minority of the Jews. The Nazis probably figured they could disregard the passes whenever they wished, but Wallenberg's strategy was delay. With the Allies winning the war, he believed that the longer people could be maintained under Swedish protection, the more survivors there would be.

Wallenberg got permission from the Hungarian Foreign Ministry to issue 1,500 *Schutzpässe*, but he kept after officials there, and they upped his quota to 4,500. Eventually, he issued over three times that many.

But Jews couldn't leave Budapest, and their situation became ever more desperate. Wallenberg stockpiled food, clothing, and medicine. He built up a staff of around 400 people with shifts working around the clock, and they established medical facilities, nurseries, and food distribution points.

Wallenberg versus Eichmann

Wallenberg feared that Horthy's order suspending the deportations wouldn't last long, so he tried to get as many Jews as possible under international protection. He needed housing. This meant dealing with Eichmann, who controlled properties taken from Jews. Eichmann liked to spend evenings at Budapest's mirror-lined Arizona nightclub, and Wallenberg observed him closely there—and twice bribed headwaiters to seat him at a table next to Eichmann. Then Eichmann proposed a get-acquainted discussion. Wallenberg explained that he wanted about 40 Budapest buildings for his operations. Eichmann asked how much he would pay, and Wallenberg replied the equivalent of \$200,000 in Swedish kroner. Eichmann scoffed at such a low price for Jews, but he was willing to talk, because from his standpoint wherever the Jews lived, he would get them.

Wallenberg ended up renting 32 Budapest buildings, each displaying the Swedish flag. They became the core of the "international ghetto," which eventually accommodated some 50,000 Jews. Usually, they were moved in under the cover of night, so the individuals would be less vulnerable to attack, and the government wouldn't be aware how many Jews were sheltered. Wallenberg provided food for these people. He maintained hospitals on Taytra and Wahrman streets, serving 200 patients at a time.

He hit on a brazen strategy which saved more and more Jews from the death trains. As one of his drivers explained: "Raoul usually had with him a book with names of passport holders. Sometimes the book had all blank pages. When he arrived at the train, he then made up Jewish names and began calling out. Three or four usually had passports. For those who didn't, I stood behind Raoul with another

fifty or more unfilled passports. It only took me ten seconds to write in their names. We handed them out calmly and said, 'Oh, I'm terribly sorry you couldn't get to the legation to pick it up. Here it is. We brought it to you.' The passport holder showed it to the SS and was free."

On October 15, 1944, Horthy announced that his government was negotiating with the Russians for an armistice. This news triggered a Nazi coup. Horthy was out, and fanatical Arrow Cross (Hungarian fascist party) head Otto Skorzeny was in command. He ordered that the deportations of Jews be resumed. Wallenberg's whole campaign was in jeopardy. He redoubled his efforts.

"I was forced out of one of the Swedish safe houses and taken to a brick factory yard," Ferenc Friedman remembered. "It would be only minutes before we boarded the death trains. Suddenly two cars drove up. There was Wallenberg in the first one, with Hungarian officials and German officers in the second car. He jumped out, shouting that all those with Swedish papers were under his protection. I was one of 150 saved that day. None of the others ever came back."

Dr. Stephen I. Lazarovitz described what it was like to be saved by Wallenberg: "I was an intern, just before my final exams. When the Arrow Cross came to power I was not allowed to continue my studies and was drafted to a forced labor camp in Budapest. On October 28 we were yanked to the freight railway station of Józsefváros, where we boarded the freight wagons. The doors of the wagons were locked from the outside.

"Suddenly two cars drove up between the railway tracks. Wallenberg jumped out from the first car, accompanied by his Hungarian aides. He went to the commanding police officer in charge, talked to him, and presented official papers. Soon the officer made an announcement. He said that those who had authentic Swedish protective passports should step down from the wagon and stand in line to show their papers. Should anybody step down from the cattle cars who had no Swedish protective passport, he would be executed on the spot. The authenticity of the passports would be checked by him and by



November 1944: here on the platform of the Józsefváros train station, Budapest, Raoul Wallenberg (back toward camera, marked by an "X") negotiates with Nazi officers (left) to keep Jews from being herded into boxcars bound for the death camps.

Photograph by Thomas Veres

Wallenberg from the books of the Swedish embassy, which Mr. Wallenberg had brought with him.

"In the meantime, Mr. Wallenberg's aides pulled out a folding table from the car, opened it, placed it between the rail tracks, and put the big embassy books on top of it. The commanding Nazi police officer put his gun in front of the books. We, who were in the cattle cars, watched all this from the small barred windows of the cattle cars. The doors were opened.

"I did not know what to do because my protective passport was not authentic but forged. Suddenly I saw from the window that one of the aides was Leslie Geiger, a member of the Hungarian national hockey team, a patient of my father, and a personal friend. I decided to step down from the cattle car. It was one of the most difficult decisions of my life.

"I stood in line for an hour because I was at the end of the line. When I was close to the table, I stepped forward, went to Leslie Geiger, and whispered in his ear that my passport

was forged. I asked him if he could help me. He said that he would try. When it was my turn, Leslie Geiger whispered a few words in Wallenberg's ear. Raoul Wallenberg looked at me, holding my forged passport in his hand, and said, 'I remember this doctor. I gave him his passport personally. Let's not waste our time because it's late. We need him now at the Emergency Hospital of the Swedish embassy.' The Nazi commanding officer then said, 'Let's not waste our time! Next.'"

On another occasion, according to Wallenberg driver Sandor Ardai, "we had come to a station where a train full of Jews was on the point of leaving for Germany and the death camps. The officer of the guard did not want to let us enter. Raoul Wallenberg then climbed up on the roof of the train and handed in many protective passports through the windows. The Arrow Cross men fired their guns and cried to him to go away, but he continued calmly to hand out passports to the hands which reached for them. But I believe that the men with the guns were impressed by his courage and on purpose aimed above

him. Afterwards, he managed to get all Jews with passports out from the train.”

In early November, Nyilas, as Arrow Cross goons were called, held several hundred Jews at Dohany Synagogue. Joseph Kovacs recalled that “on November 4, Wallenberg burst into the temple and stood himself in front of the altar and made this announcement: ‘All those who have Swedish protective passes should stand up.’ That same night a few hundred Jews were freed, and they returned to their houses under the protection of Hungarian policemen.”

Dr. Jonny Moser, one of Wallenberg’s assistants: “I remember when we were told . . . that 800 Jews were to be transported away. The deportations had started on foot to Mauthausen. Wallenberg caught up with them at the frontier. ‘Who of you has a Swedish protective passport? Raise your hand!’ he cried. On his order I ran between the columns and told the people to raise their hand, whether they had a passport or not. He then took command of all who had raised their hand, and his attitude was such that nobody of the guards opposed it, so extraordinary was the convincing force of his attitude.”

The Angel of Rescue

After Regent Horthy was overthrown, Eichmann returned to Budapest, but he faced serious obstacles. Since the Red Army was advancing from the east and south, roads to the Polish death camps were blocked. The German military needed all available railroad capacity for moving war matériel. The only way out of Hungary was to Austria, so Eichmann decided Jews would walk the death march to the Austrian border 25 miles away. Between mid-November and mid-December, some 40,000 Jews were forced out of their homes or picked up on the street, then ordered to march 15 to 20 miles a day without food, in frigid weather. A quarter of them died.

According to Per Anger, a compatriot of Wallenberg, “The persecuted Jews’ only hope was Wallenberg. Like a rescuing angel he often appeared at the very last moment. Just

when a deportation was about to start . . . he used to arrive at the station with a written . . . permission to set free all Jews with Swedish protection passports. . . . [He] manufactured all kinds of identification and protection documents on an endless scale. Uncountable were those Jews who during the march toward Vienna had given up all hope, when suddenly they received from one of Wallenberg’s ‘flying squadrons’ a Swedish protection document, like their ancestors once upon a time during their long journey were rescued by manna from Heaven.”

Susan Tabor remembered: “My mother, my husband, and I had been two nights without food. Then we heard words, human words, the first we had heard in what seemed like an eternity. It was Raoul Wallenberg. He gave us that needed sense that we were still human beings. We had been among thousands taken to stay at a brick factory outside Budapest. We were without food, without water, without sanitation facilities. Wallenberg told us he would try and return with safety passes. He also said that he would try to get medical attention and sanitary facilities. And true to his word, soon afterward some doctors and nurses came from the Jewish hospital. But what stands out most about Raoul Wallenberg is that he came himself. He talked to us, and . . . he showed that there was a human being who cared about us.”

Wallenberg bombarded the fascist Arrow Cross government with memoranda demanding an end to barbarism. At the very least, these memoranda let officials know that they were being observed and could be held accountable.

Wallenberg cultivated friends at the highest level. He even tried to influence Eichmann himself. Shortly before Christmas 1944, he invited the Nazi to dinner. “The war is over,” Wallenberg told Eichmann. “Why don’t you go while you still can and let the living live?” Eichmann: “I have my job to do.”

Swedish diplomat Lars Berg reported that “Wallenberg fearlessly tore Nazi doctrines to shreds and predicted that Nazism and its leaders would meet a speedy and complete destruction. I must say that these were rather unusual, caustic words from a Swede who

was far away from his country and totally at the mercy of the powerful German antagonist Eichmann and his henchmen.”

Stunned by Wallenberg's bold attack, Eichmann reportedly replied: “I admit that you are right, Mr. Wallenberg. I actually never believed in Nazism as such, but it has given me power and wealth. I know this pleasant life will soon be over. My planes will no longer bring me women and wines from Paris nor any other delicacies from the Orient. My horses, my dogs, my palace here in Budapest will soon be taken over by the Russians, and I myself, an SS officer, will be shot on the spot. But for me there is no rescue any more. If I obey my orders from Berlin and exercise my power ruthlessly enough here in Budapest, I shall be able to prolong my days of grace.”

Eichmann added: “I warn you . . . I shall do my very utmost to defeat you. And your Swedish diplomatic passport will not help you, if I consider it necessary to do away with you. Even a neutral diplomat might meet with accidents.” Several days later, a big German truck smashed into Wallenberg's car and totaled it. Wallenberg, who wasn't inside, filed a formal complaint, and Eichmann declared: “I will try again.”

The Red Army began its siege of Budapest on December 8, 1944. That day, in his last letter to his mother Wallenberg wrote, “I really thought I would be with you for Christmas . . . I hope the peace so longed for is no longer so far away.”

Wallenberg's people were increasingly at risk. Tibor Vayda: “There were more than three hundred men and women at our office, which was also a Swedish protected house at 4 Üllői Street. The Nyilas stormed in and shouted, ‘Wallenberg is not here. Everybody, get out. Swedish protection means nothing. Protective passes mean nothing.’ People wanted to take their luggage, but the Nyilas sneered. ‘You don't need luggage because you will be dead soon.’ About noon we were marched to SS headquarters. We expected to be shot after being thrown into the Danube. Somehow—and I still do not know how—a message was gotten to Wallenberg. At 2:00 in the afternoon his car roared through the courtyard. Not one of the three hundred was

lost. He simply put it straight to the SS commando: ‘You save these men, and I promise your safety after the Russians win the war.’”

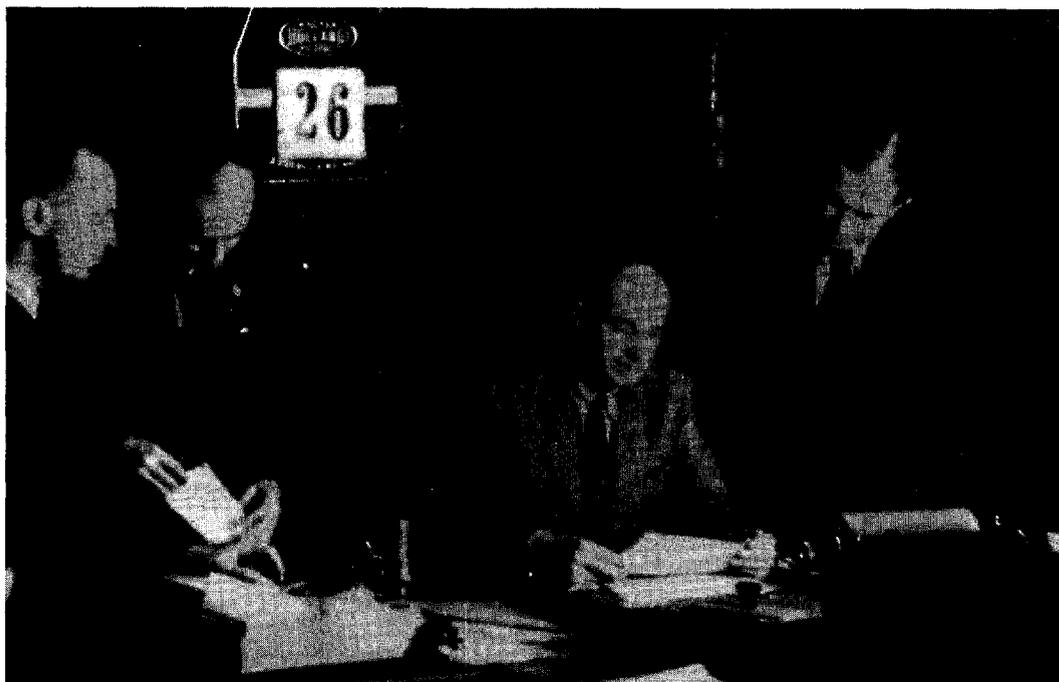
Eichmann fled Budapest on December 23, but the crisis for the Jews got worse as Russian guns pounded the city. Nyilas goons pulled children out of an International Red Cross children's home and a Jewish orphanage, and many were shot. The Institute of Forensic Medicine, Budapest, reported: “In the most brutal manner, the Nyilas made short work of their victims. A few were simply shot, but the majority were mercilessly tortured.”

On January 4, 1945, the Nyilas announced their intention to dismantle the international ghetto and force inhabitants into the Central Ghetto where living conditions were the worst—and where goons could easily find large numbers of Jews. Wallenberg persuaded Ernő Vajna, brother of the interior minister and an official in the Ministry of Foreign Affairs, to suspend transfers into the Central Ghetto in exchange for some of the food which Wallenberg had stockpiled.

Wallenberg organized a new campaign to help save Jewish children. Working with the International Red Cross and the Swedish Red Cross, he provided food, shelter, and medical care for some 7,000 children.

Wallenberg's Crowning Achievement

Finally, just days before the Russians entered Budapest, Wallenberg learned that about 500 SS and Arrow Cross soldiers were preparing to murder all 70,000 people in the Central Ghetto. Wallenberg contacted German General August Schmidhuber, an SS commander, and demanded that he stop the planned massacre. Wallenberg warned that he would make sure the general got hanged as a war criminal if the bloodbath occurred. Apparently frightened at that prospect, Schmidhuber ordered the conspirators to desist. He made it clear that if necessary he would uphold the order with his own forces. This was Wallenberg's crowning achievement, a single negotiation which saved the lives of 70,000 people.



Raoul Wallenberg at his desk in Budapest.

Photograph by Thomas Veres

“It is of the utmost importance,” wrote the Hungarian author Jenő Levai, “that the Nazis and Arrow Crossmen were not able to ravage unhindered—they were compelled to see that every step they took was being watched and followed by the young Swedish diplomat. From Wallenberg they could keep no secrets. The Arrow Crossmen could not trick him. They could not operate freely. . . . Wallenberg was the ‘world’s observing eye,’ the one who continually called the criminals to account.”

Wallenberg looked forward to better times following the defeat of the Nazis. But the Russians came in the tradition of conquerors, not liberators. They considered the local population as an enemy. They seized thousands of Budapest civilians for forced labor, many never to return. Accustomed to the misery of Stalin’s socialist paradise, Russian soldiers went wild robbing people everywhere. They broke into apartments—“bourgeois” janitors’ apartments were especially vulnerable, since they were invariably on the first floor. Most Budapest women had horrifying stories to tell about brutal rape by Russian soldiers.

On January 13, 1945, Russian soldiers banged on the door of the cellar apartment where Wallenberg was sleeping. He showed his papers and asked to see the division’s commanding officer—he hoped to discuss plans for relieving the Jewish population. Four days later, January 17, 1945, he was transferred to the KGB secret police and whisked away to Moscow’s Lubyanka prison.

The Soviets were aware that Wallenberg was someone to reckon with, since thousands of documents circulated around Budapest with his signature. The Soviets considered him to be a likely adversary because of his well-known capitalist family and his education in the United States. The Soviets suspected that Wallenberg’s work must be a cover—they didn’t see why Christians would put their lives at risk to save Jews. He wasn’t a diplomat. Why else would somebody stay in such a hellish war zone except as a spy?

Recently released CIA documents suggest that Wallenberg did, in fact, help keep Washington informed about anti-Nazi resistance forces struggling to break the alliance between Budapest and Berlin. But there can be

no doubt such work was a by-product of his mission to save human lives.

By April 1945, Wallenberg was transferred to Leftortovo Prison, a sure sign that he was in for a long haul. An Italian diplomat claimed that he was in an adjacent cell and communicated for three years by tapping on the wall.

American and Swedish officials made a number of inquiries about Wallenberg's whereabouts, but Soviet officials denied they knew anything. The Swedish government, which was controlled by socialists who both feared and admired Stalin, didn't push him hard. Swedish officials refused to try getting Wallenberg out by trading him for the next major Soviet spy they caught.

Despite official denials that Wallenberg was in the Soviet Union, dozens of prisoners emerged from Soviet prison camps and claimed to have seen or communicated with him. By 1957, the Soviets admitted they had taken Wallenberg, but claimed he had died of a heart attack in 1947, when he would have been just 35 years old.

Wallenberg's mother, Maj von Dardel, and his half-sister Nina Lagergren and half-brother Guy von Dardel remained on the case. In early 1973, Maj von Dardel wrote U.S. Secretary of State Henry Kissinger, urging him to make inquiries. One of his assistants drafted a reply to her, but it was stamped "Rejected by Kissinger, 10.15.73" and never sent. Apparently Kissinger wouldn't take action for Wallenberg because Sweden had been critical of President Nixon's decision to bomb Cambodia.

Fortunately, plenty of people remembered Wallenberg's heroic deeds. Spurred by reports that he might still be alive, Wallenberg Committees were formed around the world during the late 1970s. The Raoul Wallenberg Committee of the United States organized an exhibition which traveled across the country.

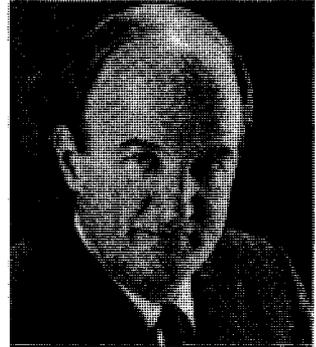
Schools, hospitals, parks, and streets were named after him. Soviet dissident Andrei Sakharov demanded that the government turn over its Wallenberg files to independent investigators. President Ronald Reagan pushed the Soviets for answers and urged Congress to pass a bill naming Wallenberg an honorary U.S. citizen; he signed it into law on October 5, 1981. A bust of Wallenberg, by the Israeli sculptor Miri Margolin, was placed in the U.S. Capitol. In 1985, NBC broadcast a two-part, four-hour miniseries, *Wallenberg: A Hero's Story*, starring Richard Chamberlain.

Despite the much-heralded political opening up of the Soviet Union, it had nothing new to report about Wallenberg. Guy von Dardel and Nina Lagergren got no new information when they visited the Soviet Union in October 1989, although they were given a few of Wallenberg's personal effects—diplomatic passport, diary, address book, cigarette case, and some foreign currency. President Reagan raised the issue with Soviet boss Mikhail Gorbachev when he visited the United States in December 1989, but again nothing. Nor has the subsequent collapse of the Soviet Union brought any solution to the mystery.

Optimism faded as the years passed without encouraging news. Observers like Abe Rosenthal of the *New York Times* believe the Soviets murdered him, and coming clean would be too embarrassing because "they were all involved." But Guy von Dardel says Russian human rights organizations continue to pursue government archives for clues.

Raoul Wallenberg long ago joined the ranks of immortals. People will continue to be inspired by his heroism, which saved so many human beings from hideous evil. Wherever this beloved man is now, he will endure as the great Angel of Rescue who redeemed hope for humanity and liberty. □

Single Policy Change— Double Economic Growth?



“Shifting to a pro-savings, pro-investment economic policy can lift the economy over the next few years to a long-term growth rate of 3% or more.”

—*Business Week*, July 8, 1996

The establishment journal *Business Week* is typically pro-government and skeptical of free markets, but in the July 8, 1996, cover story, “Economic Growth: A Proposal,” it shocked the world by highlighting a single change in a major social program that, they claim, could dramatically increase the U.S. economic growth rate: Convert Social Security to a fully funded pension plan, complete with individual savings accounts. “Privatizing Social Security would boost national savings and increase U.S. plant and equipment by 25 percent by 2020. The massive flow of funds into the equity markets would substantially reduce the cost of capital and encourage investment.” *Business Week*’s endorsement of privatized Social Security follows *Time* magazine’s cover story on March 20, 1995, entitled “The Case for Killing Social Security.” The article wrote favorably about the Chilean model, which privatized its own Social Security program in 1981.

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

The Social Security Fraud

Free-market economists have been highly critical of national social insurance ever since the Social Security Act of 1935 was signed into law. Milton Friedman wrote in the early 1960s that Social Security is “without justification”; he was partly responsible, through his Chicago students, for creating the Chilean model.¹ Twenty-five years ago, New York attorney Abraham Ellis dissected the pay-as-you-go system as “conceptually flawed” and an offshoot of “the something-for-nothing philosophy, the free lunch syndrome.”²

The continuing crisis of Social Security—growing deficits, higher taxes, poor payouts—has led many policy-makers to seek fundamental reforms. The reforms instituted by the 1983 Commission on Social Security, led, ironically, by Alan Greenspan, are no longer viable. (Oddly enough, Greenspan refused even to consider privatization as an option!) Privatization has grown in popularity as the Chilean private alternative has proven so successful, especially for low-income workers. (See my column, “\$4,000 from Social Security?”, *The Freeman*, June 1995.) Private worker pensions are particularly popular in Latin America—Peru, Bolivia, and, most recently, Mexico—as well as Great Britain.

Right now, Social Security is a drag on America’s economy. It funnels workers’ savings into consumption—in the form of transfer payments to retirees or into a trust fund which is invested entirely in Treasury securities (thus funding the deficit and government

spending). Imagine what the result would be if everyone's FICA taxes were invested in a true retirement program, into the capital markets instead of consumption? It could turbocharge the U.S. economy, just as it has done in Chile, where the economic growth rate is more than double the U.S. rate. The Cato Institute, a free-market think-tank in Washington, D.C., has been in the forefront of advocating radical reform of Social Security. It has released numerous reports written by pension experts, including Peter Ferrara, William J. Shipman, and José Piñera, the official responsible for establishing Chile's privatized pension system. Recently, Cato issued a study showing that low-wage workers would gain the most from privatized Social Security. The poor, who rely almost exclusively on Social Security for retirement income, would earn "as much as three times the income available under the current system."³ According to a Cato Institute poll, two-thirds of American voters, and more than three-quarters of young voters, support privatization.

What's truly amazing is there is wide-ranging support for this kind of positive reform—from the libertarian Cato Institute to the establishment World Bank, from Republican Steve Forbes to Democrat Sam Beard, author of *Restoring Hope in America, The Social Security Solution* (ICS Press, 1996), which claims that with privatization, the middle class could retire as millionaires. MIT Professor Rudi Dornbusch, no friend of supply-side economics, recently endorsed privatizing Social Security and education as two key sources of growth. "The resulting capital formation will support rising real wages and therefore offer a long-term answer to the eroding standard of living."⁴

Ideas have consequences!

1. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago, 1962), p. 182.

2. Abraham Ellis, *The Social Security Fraud*, 2nd ed. (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1996), pp. 105, 201.

3. Michael Tanner, "Privatizing Social Security: A Big Boost for the Poor," Cato Institute, July 26, 1996.

4. Rudi Dornbusch, "Dole Blew a Chance to Be Bold," *Business Week*, September 2, 1996.

HAD ENOUGH?

Had enough of the liberal bias in the popular news media? Had enough of "donating" an increasing amount of what you earn to support inefficient, bloated social programs? Had enough of watching our culture degenerate before your eyes? Do you feel like a stranger in an increasingly strange land?

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BOOKS

The Return of Thrift: How the Collapse of the Middle Class Welfare State Will Reawaken Values in America

by Phillip Longman

Free Press • 1996 • 241 pages • \$25.00

Reviewed by Chris Weinkopf

The notion that welfare dependency breeds bad habits, and that the end of welfare will restore good ones, is sound, but unoriginal. What distinguishes Phillip Longman's rendition of this conservative staple from previous takes is that he applies it not to the underclass, but to the American middle class, which, he reports, is every bit as dependent on sundry benefits as welfare mothers are on food stamps and AFDC. Middle-class entitlements, he argues, will soon bankrupt the federal government, as they already have bankrupted the bourgeois ethic of hard work and thrift.

Longman painstakingly documents the insolvency that awaits Social Security, Medicare, military-retirement and veterans' benefits, federal pensions, and myriad lesser-known others. The big lie behind these programs is that they have been paid for, in advance, by regular deductions from their beneficiaries' paychecks. Historically, however, federal-entitlement recipients have collected far more than they have put in, leaving the financial burden to future generations. The debt cycle cannot exist in perpetuity, and the baby boomers' imminent retirement is sure to break the bank. When that happens, Longman claims, the middle class will have to give up welfare—and all the excesses it permits—cold turkey.

This is good news. But advocates of limited government are sorely mistaken if they think Mr. Longman is an ally. *The Return to Thrift* offers no principled opposition to wealth transfers per se; Longman merely resents that they are administered inefficiently and benefit mostly members of the middle class. He is in favor of redistributing of wealth as long as it goes to the "needy." A "reason to expect higher taxes in the next century," which he gladly accepts, is that "as the size of the American underclass continues to grow . . . the cost of social programs targeted toward the poor no doubt will escalate dramatically." He never thinks to extend his argument—that the end of welfare

will restore self-reliance to the middle class—to the lower rungs of the economic ladder.

Longman's prescription for "thrift" is compulsory savings, deducted automatically from paychecks on a fixed, progressive scale. He never considers that the government could reduce its debt or spur individual savings by cutting taxes. Instead, he calls for tax *hikes* by urging that Congress eliminate "loopholes" in the tax code, such as deductions for mortgage payments and medical insurance, without proposing other reductions to take their place.

When discussing Medicare reform, Longman favors rationing (he laments that new technology is keeping seniors alive longer than ever before), without even mentioning medical savings accounts, let alone outright privatization. *The Return of Thrift* is a hard-bound oxymoron, its first twelve chapters chronicling the inherent liabilities of government planning, its final two demanding more. Longman is prescient, however, when he warns that like narcotics, big government can be so addictive that junkies will defy common sense, at their own peril, to get a fix. He'll have ample time to meditate over the theory in rehab. □

Mr. Weinkopf is an editorial associate at National Review.

Creating the Commonwealth: The Economic Culture of Puritan New England

by Stephen Innes

W. W. Norton & Company • 1995 • 405 pages • \$25.00

Reviewed by Russell Shannon

Some 90 years have now passed since the German sociologist Max Weber published his famous study *The Protestant Ethic and the Spirit of Capitalism*. In it Weber argued that the areas of the Western world inhabited by people whose religious beliefs caused them to consider ordinary work—not just seclusion in a monastery or a career as a priest—to be a *calling* were those in which economic development was most rapid. Much ink has been spilled on this issue in the interim, including most recently Michael Novak's *The Catholic Ethic and the Spirit of Capitalism*, in which the author suggests that entrepreneurial endeavors promoted by the Roman church also contribute significantly to extraordinary economic performance.

Now Stephen Innes, an historian at the University of Virginia, has entered the fray with a detailed and distinguished description of the Puritan settlement in Massachusetts during the seventeenth century. In his book, called *Creating the Commonwealth*, Innes shows how the New Englanders, who settled a relatively inhospitable land with no obvious "cash" crop such as tobacco, achieved a rate of economic growth that could only be called stunning.

Certainly, attitudes such as the work ethic were a crucial ingredient of the story. But so too were political institutions. Here, where labor was scarce, the regulatory crust of European mercantilism tended to crumble. Gone were the guilds whose rigid rules on apprenticeship and product quality hampered competition and diminished consumer options. Missing also was the notion of monopoly rights, which stifled much initiative back in England; in Massachusetts, it evolved into something akin to our modern idea of patents, which meant that monopoly powers were limited both in scope and duration.

Vigorous development of the fishing, ironworks, shipping, and timber industries, all essentially interrelated, laid a vital groundwork for rapid economic development. Innes suggests that our modern concept of "synergy" is applicable here, for each of these industries helped promote the development of the others, the whole exceeding the sum of its parts.

Yet, as Innes stresses, the capitalism of this era was not individual but communal. Development of the ironworks and shipbuilding industries was deliberately fostered by both the Massachusetts General Court (the governing body) and individual communities, which provided free land, tax exemptions, and exclusive rights to individuals and groups willing to invest in establishing factories—much as our states today seek to attract industries by offering tax advantages and other benefits. Sales of materials such as timber were likewise sometimes limited so as to encourage shipbuilding, which settlers believed would offer their community more long-run benefits than would accrue if the wood were used for more transitory purposes.

Of course, there was vastly more individual freedom than the settlers had enjoyed in their homeland, but the Protestant ethic also imposed a social discipline provided by community constraints which curbed what Innes sees as the myopic tendencies of short-run profit-seeking.

Expressed another way, Innes finds much evidence of civic engagement. He does not propose that our federal government should emulate this system, for in his account these are all local

arrangements which tapped the energies and the far-sighted wisdom of local residents. It should also be remembered that modern institutions such as stock markets had not yet emerged. Nor were the settlers' efforts always an unmitigated success: while they favored cattle raising over growing crops to economize on the use of scarce labor, the large expanses needed for grazing cattle forced the settlers to become more dispersed, thereby diluting the sense of community. And the technical difficulties involved in operating the early iron works forced the colonists to attract from Britain men and women who were highly skilled at their tasks but who were also given to "armed robbery, rape, arson, assault, battery, lewdness, profanity, and chronic drunkenness"—all distinctly non-Puritanical behavior.

Yet, by not resorting to slavery, as the plantation economies to the South had sadly done, the New England Puritans escaped the implied notion that hard work is degrading. On these principles of hard work, community concern, investment in the development of strategic productive facilities, and reduced regulation, the New England colonies set a standard for economic, social, and political development which was not only remarkable for its time but which has seldom been matched. □

Dr. Shannon is professor of economics at Clemson University.

The Road Ahead

by Bill Gates

Viking • 1995 • 286 pages • \$29.95

Reviewed by Raymond J. Keating

An odd breed of business executive regularly appears on the public-policy landscape—the supporter of big government in business.

Big government boosters favor not only corporate welfare initiatives, but a host of other interventions, including research and development, education, pork-barrel subsidies, and even expanded social welfare programs. Interestingly, many—but not all—of these statist business executives tend to serve in large companies. Many were never entrepreneurs, but instead dutiful managers who worked their way up through the ranks of large businesses. Their experiences, in some ways, more closely reflect the careers of bureaucrats rather than economic risk-takers.

Readers of *The Road Ahead* fortunately will find an author that is an entrepreneur, not a corporate bureaucrat. Indeed, Bill Gates stands as one of the

most successful entrepreneurs of the late twentieth century. (An entrepreneur, we find out, who raised some of his seed capital through poker winnings in college.)

Gates's book is a highly readable, informative, and non-technical installment in a long line of recent volumes regarding computers, telecommunications, and the future of technology.

From the outset, Gates exhibits a clear preference for private economic actions over government. He dislikes the metaphor of the "information superhighway" to describe the unfolding developments in the information economy. He worries about the implication that a "highway" should be built by government, an option Gates considers "a major mistake."

Gates also recognizes that emphasis on information infrastructure and government could turn the highway into a costly white elephant. In contrast, markets emphasize "applications." Indeed, Gates prefers the phrase "the ultimate market."

Gates argues persuasively that government also should not get involved in trying to set some kind of compatibility standards for the emerging information market. Gates observes that de facto standards "are supported by the marketplace rather than by law, they are chosen for the right reasons and replaced when something truly better shows up—the way the compact disc has almost replaced the vinyl record." Later, Gates sagaciously declares: "The range of uncertainties about the information highway is very large, but the marketplace will design an appropriate system."

Being involved firsthand, Gates naturally is an optimist regarding the revolution in information technology—a nice antidote to today's many neo-Luddite economic and social prognosticators. Gates writes favorably of the mix between free markets and information technology advancements: "Capitalism, demonstrably the greatest of the constructed economic systems, has in the past decade clearly proved its advantages over the alternative systems. The information highway will magnify those advantages. . . . Adam Smith would be pleased. More important, consumers everywhere will enjoy the benefits."

In the end, entrepreneurs lie at the center of the capitalist economy as the sources of creativity, innovation, and invention. Gates correctly notes: "Entrepreneurship will play a major role in shaping the development of the information highway, the same way it shaped the personal-computer business." And he grasps the full benefits of entrepreneurship as well: "The good news is that people learn from both the successes and the failures, and the net result is rapid progress."

As for government, Gates offers sound advice: "deregulate communications." □

Mr. Keating serves as chief economist with the Small Business Survival Foundation.

Private Means, Public Ends: Voluntarism vs. Coercion

Edited by J. Wilson Mixon, Jr.

The Foundation for Economic Education • 1996
• 150 pages • \$14.95 paperback

Reviewed by Fred Foldvary

Do you have friends who are socialists? Show them Robert Zimmerman's chapter, "New York's War Against the Vans" in *Private Means, Public Ends*. Zimmerman shows private enterprise efficiently providing much-needed transportation, while the city transit police block passenger pickup, issue summonses, and otherwise harass van operators and passengers. If government is needed to provide such public goods, why does government keep blocking private services?

The essays in *Private Means, Public Ends* demonstrate how private efforts have effectively provided public goods. This collection of mostly recent articles reprinted from *The Freeman* will challenge those who doubt the workability of free markets and buttress the thinking of those already oriented to liberty with excellent examples. Case after case, nicely combining stories with analysis, shows voluntary and market means as more effective than government, despite state barriers and imposed costs.

The introduction by Professor Mixon begins with the metaphor of free human action as a wildflower field, in contrast to the potted plants of state institutions. If wildflowers disappear and all we see are flowers in pots, who can imagine the breathtaking beauty of the wild field—nature's spontaneous order?

Henry Hazlitt's classic critique of central planning provides a cogent starting point. Why do good folks oppose peaceful and honest voluntary exchange? They believe that free markets produce too many wrong goods and not enough right goods. Hazlitt points out that the private sector is voluntary, and the government's "public" sector is coercive. The subsequent essays demonstrate that the voluntary sector does indeed provide for those "right" goods the public wants.

The next section of the book deals with language, art, and communication. John Finneran's

"Tale of Two Dictionaries" contrasts the French Academy's clumsy committee-produced dictionary with the elegant English dictionary created by the individual genius of Samuel Johnson. Johnson's motivation due to private financing sped the work along while yet allowing scope for his personal creativity.

One of the "right" goods allegedly required of government is promotion of the arts. But what kind of "good" is that "twisted, rusted iron pipe" that William Allen and William Dickneider depict in "Art and Representative Government"? They note that privately financed art has long flourished without government subsidies. Art can be useful, as Barbara Dodsworth informs us in "Art and Commerce." Historically, art has always been commercial and applied, with much "fine art" produced under sponsor direction.

But what about bad "art," such as billboards? Lawrence Person's "In Praise of Billboards" notes the useful information signs provide. If ugliness is to be banned, it not only violates property rights, but, taken to its logical conclusion, would lead to banning ugly cars—or people! The author notes also that the First Amendment does not distinguish between commercial and personal speech.

Government police power has extended even into the kosher food market, as Jacob Sullum describes in "Kosher Cops." He notes that the conditions that invite fraud have led to a private system of consumer protection by religious authorities. God has help enough.

This section is rounded out with chapters by Ray Keating and Clint Bolick on communications. Keating notes that the convergence of various media reduces the rationale for regulation. Bolick shows how free speech fostered communications technology.

Section III, on a "caring society," gives examples of how health, education, and welfare are promoted without coercion. Hannah Lapp describes her personal experience with home schooling, which government officials tried to stifle despite its effectiveness.

Scott Payne's "School with a Money-Back Guarantee" is an eye-opener. It describes HOPE Academy in Lansing, Michigan, inspired by Marva Collins's school in Chicago. If the kindergartner can't read by year's end, HOPE parents get their money back. The Academy uses phonics for reading and emphasizes proper conduct, and the cost is much less than what government spends.

What about the poor? John Fargo spins a yarn in "Charity in the Land of Individualism" of how the "rugged individuals" of the corn belt went all

out to help a fellow farmer, even a rather shiftless one, demonstrating how "true charity lies deep within the fertile soil of authentic individualism."

Daniel Bazikian, reviewing *The Tragedy of American Compassion* by Marvin Olasky, shows how earlier American charity, influenced by biblical themes, strengthened affiliations, bonded donor and recipient, distinguished among needs, discerned fraud, employed for responsibility, and fulfilled spiritual needs. Contrast this with today's "give me" welfare mentality! Gerald Wisz in "Ending Welfare as They Knew It" describes how the Broadway Presbyterian Church in New York City teaches responsibility.

The proposition that only government can provide a social safety net is refuted by John Chodes's chapter on the "friendly societies," which pooled members' savings to provide health care and insurance for unemployment and old age. David Beito's chapter shows how fraternal societies hired "lodge doctors" at affordable rates, a practice killed by the medical establishment.

Section IV examines the "bases of a dynamic economy." Richard Sylla recalls the era of private, unregulated bankers in the United States, while Richard Timberlake writes on the private money that was used in coal-mining communities. Even policing can be adequately provided privately, as shown by Nicholas Elliott.

Markets have also provided transportation, as illustrated by William Irvine on trains and Daniel Klein on the private turnpikes and plank roads built in nineteenth-century America, later usurped by government. New York City's subways operated privately until 1940; is it surprising that with government operation, service deteriorated while charges went up? Henry Hazlitt called this "Socialism, U.S. Style."

Environmentalists often misunderstand how markets protect wildlife and habitat, so John Kell's refreshing essay shows how environmentalists who voluntarily compensate ranchers who lose animals to wild predators are indeed "A Species Worth Preserving."

The epilogue of the book is freedom as the *sine qua non*, the indispensable requirement. Ross Korves asks "What Makes a Market?" A market is voluntary exchange, and "markets develop spontaneously as people interact." This anthology shows how the freedom to act does indeed, in practice, provide for our social wants, if only we have the liberty to do so. □

Dr. Foldvary is the author of Public Goods and Private Communities: The Market Provision of Social Services (Edward Elgar, 1994).

Learn to Earn

by Peter Lynch and John Rothchild

Fireside • 1995 • 272 pages • \$13.00

Reviewed by Philip R. Murray

If anyone doesn't know U.S. economic history or how exciting business can be, wait until this book makes its mark. Although Peter Lynch and John Rothchild direct this book to a young audience, older readers will also find several worthwhile lessons to learn in economics and business.

It starts with "A Short History of Capitalism." Don't be misled by the title. Lynch and Rothchild devote 70 pages to the subject. Economic historians will respect their interpretation, which emphasizes individuals. We learn that the colonists at Jamestown and Plymouth abandoned communism for private property. The authors paraphrase Adam Smith as follows: "... when each person pursues his own line of work, the general population is far better off than it is when a king or a central planner runs the show and decides who gets what."

This tale of U.S. capitalism features inventors, immigrants, and the companies rooted in our past and still alive today. Free-market economists will quarrel with the authors' assertion that: "Another factor that may have contributed to the national prosperity is that our borders were effectively closed to many foreign-made goods by prohibitive tariffs." But elsewhere the authors sound like students of Ludwig von Mises: "with more efficient machinery, the workers' time became more valuable, not less, and the factories could afford to raise the workers' wages." Concerning the Great Depression, the authors cite government mismanagement of the money supply as the cause, but not the Smoot-Hawley Tariff Act.

Lynch and Rothchild are pro-saving and investment, as they make clear in the introduction: "Investors are the first link in the capitalist chain." Their advice is: "Save as much as you can! You'll be helping yourself and helping the country." Take this to mean that we may safely ignore John Maynard Keynes and his followers who reason that consumption spending leads to economic growth and worry that saving will not become investment. In fact, discussion of Keynes is conspicuously absent from this book.

In the chapter on "The Basics of Investing" the reader will learn, among other things, that cash investments fail to keep pace with inflation, that a house is a smart purchase, and that stocks

outperform bonds. Of course, Lynch and Rothchild prefer stocks and encourage the reader to use what he knows to pick his own stocks. The beginner will encounter stock market basics such as dividend yield, P/E ratio, and the important role of profit. The authors do their part for economic education by recommending *The Wealth of Nations* and explaining such statements as: "Capitalism is not a zero-sum game."

Their discussion of the business cycle endorses an environment of low taxes and minimum regulations but is marred by the view that government has the responsibility to stabilize the economy. They do, however, note that government deficit-spending is crowding out private investment.

Lynch and Rothchild do a superb job of making entrepreneurs into heroes. They give a bullish description of contemporary American business and address the public concern over layoffs. Of 25 large companies they select, such as Exxon and General Electric, layoffs amounted to 400,000 from 1985 to 1995. However, the 25 small companies in their sample, such as Microsoft and Toys R Us, created over 1,000,000 jobs during the same period. This phenomenon of big companies downsizing to survive while small companies add jobs to grow is an excellent example of what Joseph Schumpeter dubbed "creative destruction."

Try *Learn to Earn* for a solid introduction to the workings of the market economy and business. □

Philip Murray is an associate professor of economics at Webber College in Babson Park, Florida.

Global Bondage

by Cliff Kincaid

Huntington House Publishers • 1995 • 208 pages • \$10.99

Reviewed by Laurence M. Vance

If you think that U.S. income taxes are too high, the tax code too complex, and IRS methods too harsh, then think again. How would you like to pay a global tax collected by faceless bureaucrats at the United Nations?

Global Bondage, by journalist Cliff Kincaid, who regularly contributes to the conservative weekly *Human Events*, is a fully documented introductory study of the globalist ambitions of the United Nations that will appeal to conservatives and libertarians who don't subscribe to conspiracy theories.

Although the U.N. did not exist until 1945, its roots go back to the end of World War I. In a speech before Congress on February 11, 1918, President Woodrow Wilson declared: "What we are striving for is a new international order." Wilson's "new international order," however, was never established, for the U.S. Senate rejected Wilson's League of Nations on March 19, 1920. It took another war for Wilson's "new international order" to come to fruition. Now, with the 50th anniversary of the U.N. and the continued utilization of its "peacekeeping forces," the U.N. is once again being examined and exposed as what Kincaid calls "a horribly mismanaged bureaucracy with tremendous waste, fraud, and abuse."

In six chapters, Kincaid lays out the case against the U.N.'s support of terrorists and communists, government-mandated universal health coverage, forced abortion and sterilization under the guise of "population control," gross mismanagement of funds, and massive corruption.

Those who on principle oppose the twin evils of foreign aid and foreign interventionism should be especially alarmed at the continued U.S. funding of the organization. The U.S. taxpayer support of the U.N. and its member states is foreign aid at its worst, for many of the nations we lavish subsidies on regularly vote against us in the U.N. According to Kincaid, member nations vote "in favor of U.S. positions only 17 percent of the time." The United States also contributes billions of dollars every year to fund the various U.N. operations. Global intervention in the affairs of other countries by the United States is bad enough, but supplying troops for U.N. "peacekeeping" and subordinating American troops to foreign command is even worse. Kincaid cites figures from the General Accounting Office showing that "U.N. peacekeeping cost the United States more than \$10 billion from fiscal year 1992 to fiscal year 1995."

Although, as Kincaid points out, "most U.N. opponents are dismissed as members of the John Birch Society," recent developments have confirmed claims he makes in *Global Bondage*. In order to have a world government, the U.N. must have a continuous source of revenue like any government. Thus, early in 1996, U.N. Secretary General Boutros Boutros-Ghali called for a "light international tax" to finance the U.N.

The globalist goals of the U.N. should be a cause for alarm to any defender of liberty and limited government. Quoting the late Murray Rothbard, Kincaid makes the case that U.N. activities amount to "international government despotism to be exercised by faceless and arrogant bureaucrats accountable to no one." But as Kincaid further

points out, "international government despotism" by the U.N. is "more insidious and dangerous" than the U.S. variety because it is "further beyond the ability of most Americans to do anything about."

Although Kincaid recognizes that the U.N.'s concept of free trade "involves giving international bureaucracies the power to manage trade relations between states," he neglects to make a case for real free trade. And aside from some remarks about the evils of "predatory trade partners such as Japan," and his puzzling statement that the "legalization of drugs would entail a massive expansion of government power," Kincaid is to be commended for his documented exposure of U.N. activities that are not only deleterious to the United States but financed by it as well. □

Mr. Vance is an instructor at Pensacola Bible Institute and a free-lance writer living in Pensacola, Florida.

Command Science and the War on AIDS Inventing the AIDS Virus

by Peter H. Duesberg

Regnery • 1996 • 649 pages • \$29.95

Reviewed by Neil DeRosa

When I first heard about Peter Duesberg a few years ago, I was only half skeptical. This professor of molecular and cell biology at Berkeley was claiming that AIDS is not caused by HIV, is not even contagious, that long-term use of "recreational drugs" is the real cause of AIDS, and moreover that AZT, the "antiviral" medication most often prescribed to treat AIDS is instead hastening the death of AIDS patients. Duesberg has been making these claims since 1987. Now his long-awaited book is out.

AIDS was first reported in the news in the early 1980s as a kind of "Andromeda strain," a deadly new virus that could wipe out mankind. The reporting hasn't changed much since then. In spite of dire predictions, the disease still has not broken out of its "risk groups" and spread to the general population. But for those afflicted there is no cure, no vaccine, no ability to predict its course. And in spite of billions of tax dollars spent, the best treatment for it kills instead of saving lives. Nobody is saying why. Nobody but Duesberg, and a very few others. The present book is dynamite.

The facts are all here, beginning with a history of the "microbe hunters" who, by following the

lead of Koch and Pasteur, conquered most of the infectious diseases known to man. But they also spent years, at a cost of thousands of lives, trying to blame microbes for the diseases of malnutrition. More recently in Japan, there was the SMON epidemic in which evidence that an anti-diarrhea drug was causing a polio-like disease, was silenced for over ten years by government-sponsored "virus hunters." Then, in America, there was the medical empire-building and dismal failure dubbed the "War on Cancer," in which many of the current AIDS players "made their bones," and during which the virus hunters developed some of their most dubious theories—such as the "slow virus" hypothesis.

Duesberg next provides ample evidence to support his contentions. Chapters crammed with facts answer the questions some of us had. What's behind Magic Johnson's "miraculous" comeback? What killed Arthur Ashe, Kimberly Bergalis, and Allison Gertz—was it AIDS or AZT? But more importantly, he scientifically challenges the assumptions of the HIV hypothesis and finds its predictive ability to be inferior to that of his drug hypothesis. Also interesting are the thousands of recorded cases of *HIV-negative* AIDS at the CDC (Centers for Disease Control) renamed ICL.

Anyone who has followed this controversy—and anyone who reads this book—will see what's going on. Namely, a power grab and the politicization of medicine. The goal? Command science.

On the one side: the vast multi-billion dollar tax-supported, "peer (read insider) reviewed," medical establishment, including the NIH and the CDC; drug companies, activists, and scientists with conflicts of interest, lobbyists in Congress, and royalties on patents for failed medications; insider control of grant monies for research, and of which drugs get approved; and even censorship and control over publication in professional journals.

On the other side? One man stands alone. Duesberg. For that, he deserves credit—and our gratitude. □

Mr. DeRosa is a freelance writer from Poughkeepsie, New York.

The Failure of America's Foreign Wars

Edited by Richard M. Ebeling and Jacob G. Hornberger

Future of Freedom Foundation • 1996 • 380 pages • \$24.95 cloth; \$17.95 paperback

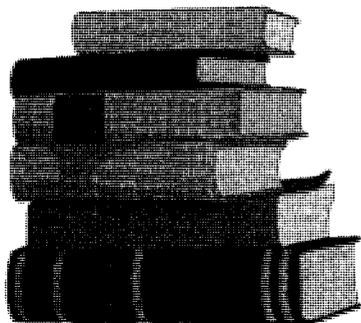
Reviewed by Hans-Hermann Hoppe

History is invariably written by its victors. Because the twentieth century is uniquely the American century, with the United States emerging victorious from both world wars and ultimately rising to the rank of the world's only military superpower, official twentieth-century world history today is above all history as seen from the perspective of the U.S. government and its intellectual bodyguards. Thus, it is in particular U.S. foreign policy, and especially the policies of Woodrow Wilson and Franklin D. Roosevelt and of U.S. allies such as Churchill and Stalin, which come under closer scrutiny and are subject to critical re-evaluation and revision in *The Failure of America's Foreign Wars*.

The articles in this book survey critical episodes in U.S. foreign policy over the last hundred years, beginning with the Spanish-American War, centering on World War I and World War II, and continuing to the Panama Invasion and the Gulf War. The editors wish to illustrate the thesis that the replacement of the "isolationist" U.S. foreign policy by a globalist-interventionist foreign policy has been an utter failure. As a result of the great moral crusade "to make the world safe for democracy," the twentieth century has been one of the most murderous centuries in all of history and the century *par excellence* of socialism: of communism, fascism, national socialism, and social democracy.

Several times in the book the question is raised: what would have happened if Wilson, in accordance with America's isolationist foreign policy tradition and his own election campaign promise, had kept the United States out of World War I? By virtue of its counterfactual nature, the answer to a question such as this can never be empirically confirmed or falsified. This does not make the question meaningless or the answer arbitrary, however. To the contrary. Based on an understanding of the actual historical events and personalities involved, the question concerning the most likely alternative course of history can be answered in detail and with considerable confidence.

If the United States had followed a strict non-interventionist foreign policy, the intra-European conflict likely would have ended in late 1916 or



early 1917 instead of late 1918. Moreover, it would have been concluded with a mutually acceptable (face-saving) compromise peace rather than the one-sided terms actually dictated. Consequently, Austria-Hungary, Germany, and Russia would have remained traditional monarchies instead of being turned into short-lived democratic republics. With a Russian Czar and a German and Austrian Kaiser in place, it would have been practically impossible for the Bolsheviks to seize power in Russia, and in reaction to a growing communist threat in Western Europe, for the fascists and the national Socialists to come to power in Italy and Germany. The victims of communism, national socialism, and World War II—some 100 million European lives—would have been saved. The extent of government interference with and control of the private economy in the United States and Western Europe would have never reached the heights seen today. And rather than Eastern Europe (and consequently half of the globe) falling into communist hands and for more than 40 years being plundered, devastated, and forcibly insulated from Western markets, all of Europe (and the entire globe) would have remained integrated economically (as in the nineteenth century) in a world-wide system of division of labor and cooperation. Accordingly world living standards would have grown immensely higher than they actually did. In helping its reader recognize this “realistically possible” alternative course of history, *The Failure of America’s Foreign Wars* contains a sharp moral condemnation of twentieth-century U.S. foreign policy and a vigorous plea for a return to a non-interventionist-isolationist foreign policy.

While the facts and the conclusions reached are largely correct and reasonable, the book is not without shortcomings. Even a professed “revisionist” such as Ebeling cannot free himself entirely from orthodox-leftist historical myths when he appears to liken and classify as on a par the “evils” of Stalin and Hitler and the socio-economic character of Soviet Russia and Nazi Germany. From 1929 to 1939, *in peace time*, Stalin and the Bolsheviks killed about 20 million Soviet citizens, for no predictable reason. Hitler and the

National Socialists ruined the businesses and careers of hundreds of thousands of German citizens, but the number of people killed by them before the outbreak of the war was only a few hundred, most of them fellow Nazis and all of them for a predictable reason. Even immediately after the onset of the war, when it became known that the Nazis had begun to engage in “mercy killings” of the incurably insane (euthanasia), the Catholic bishops, led by Bernhard von Galen, openly protested, and German public opinion compelled the Nazis to halt the program. Bishop (later: Cardinal) von Galen survived the Nazi regime. Under Stalin and the Bolsheviks, any such opposition was impossible and Bishop von Galen would have been quickly disposed of. Also irritating is Hornberger’s inclination toward psychobabble, according to which Hitler and national socialism are somehow the outgrowth of parent alcoholism and child abuse.

More serious is a structural defect. In collecting in their book almost exclusively articles previously published in the *Freedom Daily*, and mostly (29 of 47) written by themselves, Ebeling and Hornberger missed the opportunity of assembling a far superior product. The quality of the articles is rather uneven, and there is quite a bit of repetitiveness. Many articles qualify as hardly more than journalistic exercises; and with only two professional historians (Ralph Raico and Robert Higgs) among the authors, the book has a somewhat amateurish flavor. Despite these shortcomings, however, the book contains a vitally important message and makes for genuinely refreshing reading. The two marvelously insightful articles contributed by Ralph Raico alone—on “The Case for an America First Foreign Policy” and “The Turning Point in American Foreign Policy”—are well worth the price of admission. □

Dr. Hoppe is professor of economics at the University of Nevada, Las Vegas, senior fellow of the Ludwig von Mises Institute, and co-editor of the Review of Austrian Economics and the Journal of Libertarian Studies.

THE FREEMAN

IDEAS ON LIBERTY

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The Welfare State and the News

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In the welfare state, news reporting has been taken over by lobbying that masquerades as news. Nearly every news item in magazines and the papers, or on radio and television, except for something truly earth-shaking and unique (a peace agreement between England and Northern Ireland or winners of the Nobel Prize), amounts to featuring some event or situation in which people want something and are asking government to provide it. Editors and broadcast producers appear clearly to be focusing on stories that generate some kind of government action. Indeed, it is a feather in the cap of a news organization if its story provokes some politician to introduce a bill, call a hearing, or promise some kind of reform. If this is related to the demands of some sizable group in our society, success is nearly assured. Pulitzer Prizes tend to be delivered to those who make the "news" do public service work.

Clearly, in a welfare state the prospects for such "news" casting are fabulous. Why should reporters, commentators, or producers ever consider that it could be in the public interest to shut the doors of government to all such demands? Doing so would bar a large percentage of their stories from making a difference. The media might even have to explore going after genuine news, maybe some good news.

But so long as the welfare state is the status quo, we can pretty much count on floods of stories about demands for additional government action from day to day, week to week, month to month, depending on the broadcast schedule of the next program, or the issue date of the next publication.

Except for the editors of the few papers and magazines that champion liberty, none of those in charge will encourage truly critical scrutiny of mainstream political affairs. None will raise such questions as "Why should government deprive the successful of the fruits of their success, or even the fortunate of their good fortune, just because others do not enjoy the same? What justifies such Robin

Hoodism?" Or who among those who feed off the welfare state so successfully would ever raise the question: "Mr. President, if we spend borrowed money our children will have to be taxed to repay, does this not violate the principle 'No taxation without representation'?"

Would any such journalist raise the question to some politician or bureaucrat: "If in the criminal law it is wrong to punish people unless they have been proven guilty of a crime, why is it right that government regulations may impose enormous economic burdens on people who have done nothing wrong? Isn't this a kind of prior restraint that has no place in a free society?" What about the question: "If the 14th Amendment prohibits the unequal application of the law, why are producers prohibited from discriminating, while consumers can do so with total impunity? And why can government regulate every profession but the press, arts, and clergy—is this not a built-in inequality, a state-sponsored discrimination?"

When news organizations feed off the welfare state so successfully, why would they ever express even the most natural doubts about it as they deal with the leaders of state on *Meet the Press*, *This Week with David Brinkley*, *Face the Nation*, and the rest? Doing so would take some genuine journalistic integrity, the kind many people seem to praise only when observed in foreign reporters who risk life and limb as they challenge their dictators. When nothing but one's cushy existence as a reporter is at stake and no firing squad threatens, the courage to challenge the status quo can be readily surrendered.

—TIBOR R. MACHAN

(Dr. Machan is professor of philosophy at Auburn University.)

Why the Anxiety?

For some time, pundits and columnists have busied themselves pondering a puzzle: although Americans are better off than ever before by various measures, they seem discontented; they worry excessively about what the future will bring.

Populists blame multinational corporations for shifting jobs abroad. Ross Perot hears a "giant sucking sound" that, he claims, arises from jobs being relocated to Mexico, thanks to NAFTA.

Left-liberals blame big companies for downsizing themselves and setting adrift thousands of employees who had anticipated a lifetime of secure employment. Once laid off, these workers are said to be fit for little but flipping hamburgers. Hence the ballyhoo about the disappearance of the middle class.

The facts provide little support for these popular notions. Mexico is not snatching away American jobs wholesale. The gains from trade are mutual, and labor markets are always in flux. As for the demise of the middle class, the claim is sheer hyperbole.

But I too hear a giant sucking sound, which may have to do with the anxieties so many Americans are feeling. It is the sound of governments at every level sucking away our liberties. Day after day, unchecked by so-called "contracts" with America or bogus "revolutions," government grows relentlessly. The Code of Federal Regulations swells, and state and local governments follow suit with new controls of all kinds.

Americans have sound reasons for apprehension. While nearly every country on the planet is turning away from invasive government controls, Americans continue doggedly down the road to serfdom.

—ROBERT HIGGS
Guest Editor

Consumer Information and the Calculation Debate

by E. C. Pasour, Jr.

Government intervention has been common throughout the world over the past half century, whatever the type of political and economic system. In socialist countries such as the former Soviet Union and its satellites, government assumed primary responsibility for all economic activity, making major decisions about what and how to produce. Piecemeal regulation is widespread even in the United States and other democratic societies. Heavily regulated areas include agriculture, education, employment, medicine and health care, and the environment.

“Market failure” is the stated rationale for the pervasive role of government in piecemeal regulation. In this view, the unfettered market economy is unrivaled in its ability to produce goods and services for private consumption but falls short in producing things for the common good.¹ Thus, according to conventional wisdom, government *should* intervene to improve consumer information and to cope with other problems, including pollution, monopoly, poverty, and unsafe working conditions. The market-failure approach assumes away the problems of information and incentive that hamper all government activity.

The lure of classical socialism has largely disappeared following the breakup of the

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Soviet Union. There is an emerging consensus that comprehensive central planning is inconsistent with both economic progress and individual liberty. However, the death of the socialist dream has not affected public attitudes about government regulation of particular areas of economic activity.

Using insights from the socialist calculation debate, we can show that information problems are just as important in piecemeal intervention as in comprehensive central planning. The analysis here challenges the common assumption that government can improve on the information provided through markets and other voluntary arrangements. Problems arise in government efforts to supplement information available to consumers through normal market channels.

Government and the Use of Knowledge in Society— An Evolving View

Public attitudes about the appropriate role of government in economic planning have changed dramatically since the end of World War II. During most of the period since 1945, economists throughout the world argued that central planning was indispensable for the development of poor countries.² Indeed, according to Nobel Laureate economist Gunnar Myrdal, in the mid-1950s all competent economic development advisers recommended

central planning as the first condition of progress.³ This approach presumes that government planners can determine the pattern of production most consistent with consumer preferences and successfully implement the plan.

The rosy view of government's ability to coordinate economic activity through central planning grew out of the economic or socialist calculation debate. The calculation debate among economists, continuing from 1920 until the late 1930s, had to do with the feasibility of socialism. Ludwig von Mises started the debate in an article published in 1920, arguing that socialism was incompatible with rational economic planning.⁴ Mises was responding to various socialist theorists who had argued that central planning was superior to the market system in coordinating economic activity.

A fellow Austrian economist, F. A. Hayek, soon joined Mises in arguing that alternatives to a private-property market order cannot succeed. He showed that the structure of production under socialism *cannot* reflect consumer desires effectively because government planners cannot acquire the knowledge necessary for economic calculation.⁵ Hayek stressed that the knowledge needed to achieve a rational economic order consists of dispersed bits of knowledge held by individuals. This knowledge is highly specialized: only individuals involved in deciding resource use know the relative importance of the various ends or purposes for which resources might be used. Thus, the crucial problem confronting society is how to use the specialized knowledge of different people in the production of goods and services to satisfy consumers.

The debate inspired attempts by socialists to duplicate the efficiency of markets. Oskar Lange was the best known socialist theorist. In the mid-1930s, he argued that a socialist economy could establish a market-type mechanism that would eliminate the need for private property and market prices. Lange demonstrated that a socialist system could be *more* efficient than a real-world market economy if the central planning board were *given* the necessary information.⁶ The re-

quired information includes data on available resources, production alternatives, and consumer preferences.

In 1945 Hayek published a classic paper, "The Use of Knowledge in Society." There he showed that while central planning, as proposed by Lange and other socialists, may not be logically contradictory, information problems make it impractical. "To assume all the knowledge to be given to a single mind in the same manner in which we assume it to be given to us as the explaining economists is to assume the problem away and to disregard everything that is important and significant in the real world."⁷

No Workable Substitute for the Market Order

Economic planning in a socialist system must necessarily founder on the rocks of ignorance. First, the "data" necessary to find out the pattern of production that best fits consumer preferences are never "given," as often assumed by planning proponents. Second, and even more important, the central planner cannot obtain the necessary data. Much of the data on available resources, production alternatives, and consumer demand constantly changes as economic conditions change. Thus, decentralization is the only means of coordinating economic activity through which the specialized knowledge of individuals can be taken into account and used promptly. In short, Hayek and Mises showed that in the production and marketing of goods and services the market order has no workable substitute. Without price and profit signals based on private property, there is no way to use resources productively or to preserve a society based on extensive division of labor.

Despite the merits of the Austrians' challenge to collectivism, the socialists won the calculation debate—at least for a time. The Hayek-Mises insights about the uniqueness of the market in generating and communicating information did not find a place in mainstream economic theory. Instead, these insights remained largely unrecognized and were nearly lost in the aftermath of the

Keynesian revolution that occurred during the late 1930s. Socialists and nonsocialists alike continued to discount the importance of Hayekian information problems until the breakup of the Soviet Union in the early 1990s. In 1967, some 30 years after the publication of his original essay on the theory of socialism, Lange argued that the computer revolution had made the market obsolete!

Were I to rewrite my essay today my task would be much simpler. My answer to Hayek . . . would be: so what's the trouble? Let us put the simultaneous equations on an electronic computer and we shall obtain the solution in less than a second. The market process . . . appears old-fashioned. Indeed, it may be considered as a computing device of the pre-electronic age.⁸

In 1989 Leonid V. Kantorovich, a Nobel Laureate Soviet economist, echoed Lange's fascination with the use of mathematical optimization techniques, even as the death knell sounded for Soviet collectivism: "I am looking optimistically on the prospects of wide spread of mathematical methods . . . in all-level economic control. It can give us a significant improvement of planning activity, better use of resources, increment of national income and living standards."⁹

Failure to recognize the importance of the market system in generating and using information was not limited to socialist theorists. In the 1989 edition of his famous textbook, *Economics*, American Nobel Laureate economist Paul Samuelson defended the efficiency of socialism, remarking that "the Soviet economy is proof that contrary to what many skeptics had earlier believed, a socialist command economy can function and even thrive."¹⁰

The crumbling of collectivism has vindicated Hayek and Mises in their contention that information is the Achilles' heel of socialism. Nearly everyone agrees that successful planning is impossible without private property and the associated market prices. Without these signals, as Mises emphasized, no one can calculate costs or determine the most highly valued products.

Ironically, the economic crisis that led to

the breakdown of collectivism was directly associated with the revolution in communications technology involving electronic computers, fax machines, and modems. But this revolution in the generation, processing, and transmission of information has increased the relative importance of and dependence on market signals.¹¹

Nobel Laureate economist James Buchanan observes that the death of socialism has discredited "politics in the large" in the sense of central planning at the national level but has not reduced the appeal of "politics in the small."¹² Government efforts in the United States to cope with alleged market failure, including inadequate consumer information, reflect the appeal of piecemeal socialism. The economic calculation debate has implications for piecemeal regulation of consumer activity, too.

Problems in Regulating Consumer Information

The efficient coordination of economic activity hinges on the discovery and use of information by individual decision-makers. Individuals seek more information only if the expected benefits exceed the costs. Thus, it would be uneconomic for a person to get complete information, even if it were possible to do so. In the words of Nobel Laureate economist George Stigler, "information costs are the costs of transportation from ignorance to omniscience and seldom can a trader afford to take the entire trip."¹³ The most appropriate amount of information will vary from person to person because expectations are subjective. Consequently, government officials have no standard to determine whether consumers have "too little" or "too much" information. Individuals may often regret not having acquired more information before making a decision, but such hindsight regret is beside the point.

The conventional wisdom holds that individuals relying solely on market-based data have inadequate information. But supposing that government intervention can correct this "market failure" is a heroic assumption. It

assumes that public officials can determine when individuals have “too little” knowledge and that officials then will act in a way that improves welfare. But one has little basis for thinking that individuals will use knowledge more effectively if government intervenes to second-guess market decisions. People acquire different amounts of information because of individual differences in knowledge, risk preference, and so on. Thus, the knowledge problems that plague government efforts to improve on the amount of information provided through markets are similar to those in central planning. Therefore, government efforts to improve consumer knowledge through piecemeal regulation are likely to be futile or counterproductive.

Consider nutritional information. The rationale for government efforts to improve consumers’ nutritional knowledge is inadequate response by food manufacturers and consumers to medical evidence showing links between diet and health. Individual consumers face formidable obstacles in obtaining the *desired* amount of information about the nutritional contents of prepared food and food products. It is difficult and costly for food manufacturers to provide information to consumers willing to pay without providing it also to those who haven’t paid. This difficulty limits the availability of nutritional information. Moreover, the costs to the individual consumer of obtaining nutritional data on various food products are likely to be prohibitively high.

The “free-rider” incentive also may stymie action by a group of consumers willing to pay for additional information. Consider the problem of supplementing currently available nutritional information through voluntary group action. If it is not feasible to keep the information from those who don’t pay, everyone has an incentive to free ride on those who pay. Therefore, one might argue, government should force food manufacturers to provide nutritional information to all consumers. This commonly cited justification for government intervention is based on high transactions costs and the incentive of individuals to free ride. Trouble is, similar problems plague the political process.

Who Decides?

In nutritional information, and in other areas, the relevant question is who is to decide, and on what basis, that consumers are not adequately informed. The fact that individuals appear to have too little information does not necessarily mean that they would benefit from additional information or that government intervention would be beneficial. Information problems are inherent in the political process because of the *separation of power and knowledge*, as revealed in the economic calculation debate. Political decision-makers do not have and cannot find out the relevant costs and benefits of nutritional data to individual consumers.

Perverse incentives also distort actions of political decision-makers because of the *separation of power and responsibility*. In politics, those who make decisions do not bear responsibility for their actions to the same extent as decision-makers in the market. In markets, entrepreneurial decisions depend on perceptions of profit opportunities and only the firms that best anticipate market conditions survive. In contrast, there is no “bottom line” in government, where political decisions replace the discipline of the market.

The market process may appear to provide too little of some goods and services, including information. Market outcomes, however, must be compared with outcomes of the political process. A government agency has an incentive to price its services below cost. Thus, government agencies tend to produce *too much*. For example, information provided by the publicly funded Cooperative Extension Service typically is free to U.S. farmers.¹⁴ The tendency of government agencies to price below cost is no accident, as lower prices lead to more clients, larger budgets, more jobs, and more political influence.

Consider again the example of government attempts to improve consumers’ nutrition knowledge. The U.S. Food and Drug Administration (FDA) recently imposed an additional labeling requirement on manufacturers of food products. The FDA now requires that food manufacturers provide nutritional data, including amounts (per serving) of calories,

fats, cholesterol, carbohydrates, protein, and sodium on product labels. This information presumably enables consumers to make more informed dietary choices. The nutritional labeling mandate ostensibly solves the free-rider and high-transactions-cost problems that hinder consumers' attempts to obtain more nutritional information. However, the political action creates a new class of free riders. The labeling mandate enables those who use the information to benefit at the expense of those who pay and do not use it. It is likely that a minority of consumers benefits from the required (costly) information. Moreover, government action also creates a new class of "forced riders." In the example, forced riders are consumers paying higher prices for food who consider the benefit of the additional information to be less than the cost.

Government efforts to increase public awareness of the links between diet and heart disease or cancer illustrate the difficulties encountered when government intervenes to improve market outcomes. The scientific evidence linking diet to heart disease was well established by the early 1960s. Articles stressing the relationship between diet and heart disease appeared regularly in *Reader's Digest* and the general press. The American Heart Association issued a major public health advisory in 1964. Articles in the popular press on the increased incidence of cancer associated with high-fat diets began to appear in the 1970s. Following this publicity, food manufacturers began promoting their products' fat and cholesterol profiles. Thus, the market responded, as expected, to the increased demand for nutritional information.

Government has played an important role in providing diet-disease information, but these efforts lagged private manufacturers' actions by at least ten years.¹⁵ Moreover, government actually banned food manufacturers' advertisements of their products' fat and cholesterol profiles in the 1960s. Although the ban was lifted in 1973, government did not allow manufacturers to explain the health reasons to be concerned with fat and cholesterol! The policy prohibited any claim that directly linked a dietary component such

as fat or cholesterol to disease risks. Government regulators argued that such claims were inherently misleading because diet-disease issues were too complex for advertisers to deal with.¹⁶

What is the lesson from government's attempt to correct the alleged failure of the market to provide consumers adequate nutritional information? Implementation problems stymie government planners' attempts to improve consumers' dietary knowledge. These problems are even more formidable than the information problem faced by the individual. In short, when government intervened to improve nutrition information, government failure appears to have been worse than market failure—as it is generally.¹⁷ Thus, it is unwise to concede monopoly power to government in the provision of nutrition information.

Implications and Challenges

The primary challenge in achieving a productive economy is to overcome the knowledge problem created by dispersed information. Widely held information can be most effectively used through the discovery process of a decentralized private-property market system. Hayek stressed that because much of the information is highly specialized to time and place, the "man on the spot" makes the best decisions.¹⁸ The explosion in communications technology heightens the advantage of decentralization. Consider the ongoing revolution in the transmission of information in industrial societies. The use of fax machines, computers, and modems has significantly eroded the effects of government's traditional monopoly of first-class mail.

It is important to distinguish between knowledge and information. Individual action is based on knowledge, which consists of information plus judgment.¹⁹ Knowledge is always scarce, but information constantly bombards people in industrialized societies. Print and electronic information sources include newspapers and magazines, radio, television and, increasingly, E-mail. Thus, the individual decision-maker must assess the accuracy and relevance of new information to

decide whether it effectively contributes to knowledge useful in decision-making. Both the current knowledge base and the cost and benefit of getting additional information are subjective and vary from person to person. Consequently, any attempt by government to second-guess a consumer's decision concerning the most appropriate amount of information is problematic.

Government's attempts to correct perceived problems in consumers' nutritional choices through a mandated food-labeling requirement highlights the distinction between information and knowledge useful in decision-making. Information provided through the FDA-mandated nutrition profile on labels of food products has little significance for consumers lacking a stock of nutrition knowledge. Consider a food product that has 20 grams of fat in a standard serving that contains 360 calories. The food label would show that 50 percent of the product's calories are from fat. Without a stock of nutrition knowledge, however, the consumer would not know whether the indicated fat content is high or low. Thus, the nutritional data standing alone, although costly to provide, has little meaning for the typical consumer.

In compensating for consumers' lack of nutritional knowledge, the FDA requires that food manufacturers also provide information on "recommended daily allowances." The FDA dietary guidelines, for example, recommend that fat consumption be no more than 30 percent of total energy intake. However, many nutrition experts believe that this recommendation constitutes misinformation. The medical evidence suggests that a much lower rate of fat consumption would be safer.²⁰ The government's recommendations apparently arose from what authorities setting the guidelines thought the public would accept instead of epidemiological evidence! If so, the legally required nutritional data are misleading consumers who would reduce fat consumption further if informed of the lower risks associated with a lower-fat diet. The tentative nature of knowledge on diet-disease issues makes futile all attempts to regulate nutrition information in the public interest. Furthermore, the FDA nutrition-labeling

example illustrates the pitfalls of conceding monopoly power to government in regulating information.

What is the alternative? When quality has aspects that are hard for consumers to detect, a market for information is likely to arise in the absence of government regulation.²¹ For example, Best Western is a private regulatory agency for motels that enables travelers to identify easily the motels that meet the quality standards specified by Best Western. Similarly, Underwriters Laboratories establishes standards for electrical equipment and then tests it to see if it meets those standards. The use of brand names is another market contribution to the efficient use of knowledge in society. Finally, some firms independently test and evaluate products and report results to their subscribers in publications such as *Consumer Reports*. Market-generated information undoubtedly would be more common were it not for the current widespread government regulation. Government regulatory activity, as shown by the food-labeling example, may both crowd out and legally restrict privately produced consumer information.

Conclusions

Individuals' actions necessarily rest on imperfect knowledge, and people often appear to act without sufficient information. However, intractable problems of knowledge and incentives impede government officials' attempts to improve on market-generated knowledge. Knowledge, consisting of information plus judgment, is highly subjective. Therefore, the "optimal" amount of information varies from person to person, depending on the expected costs and benefits. It should not be surprising that government attempts to improve consumer knowledge frequently are disappointing. Hayek labels as the "fatal conceit" the idea that human beings can determine what is best for society and use the political process to shape the world according to their wishes.²²

The economic calculation debate showed that central planners cannot overcome the knowledge problem. Knowledge is highly specialized to time and place and much of it is

unavailable to the planner. Thus, successful planning hinges on private property and the information and incentives conveyed by market prices. Moreover, knowledge problems encountered in piecemeal intervention resemble those that stymie central planning. Thus, the implications of the calculation debate are just as important for politics in the small (piecemeal regulation) as for politics in the large (socialism). Recent dramatic advances in technology heighten the importance of keeping decisions decentralized. Consequently, central control of information, whatever the application, in a way that promotes rather than impedes effective decision-making is highly dubious.

Government cannot determine the most appropriate amount of information. Thus, the use of knowledge in society is unlikely to be improved by government action that overrides outcomes of decentralized information markets. Government can, however, encourage the development of private institutional arrangements that enable decision-makers to obtain the information necessary to act in their own interests. Brand names and private regulatory agencies like Best Western, Underwriters Laboratories, and *Consumer Reports* show that markets can, and do, cope with information problems. Why are such institutions not more widespread? Privately supplied consumer information, as shown by the food-labeling example, is not more common because government regulation is so widespread. It will be a major challenge in the twenty-first century, as during the twentieth, to foster private institutions for providing consumer information. □

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The Market Didn't Do It

by Dwight R. Lee

Critics of the marketplace are often both appallingly ignorant of why markets are so valuable, and anxious to believe that markets possess powers that they simply don't possess. The marketplace is an extraordinary social institution, but if it caused as many problems as its critics claim, it would be even more extraordinary than it is. Few problems have not been blamed, either directly or indirectly, on the neglect, the callousness, or the greed of the market. People tend to discuss the market as if it had a will of its own, made its own choices, and generated its own outcomes. It doesn't. As James M. Buchanan states, "Choices are made only by humans rather than by personified abstractions such as 'the market.'"¹ By arguing that "the market causes poverty" or that "the market lacks compassion," one misunderstands the important role the market plays, and encourages policy recommendations that aggravate rather than solve problems.

As F. A. Hayek informed us in 1945, the advantage of the market is that it allows us to communicate with each other in a way that motivates each of us to consider the interests of others. "We must look at the price system as . . . a mechanism for communicating information if we want to understand its real function. . . . The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action. . . . It is more than a

metaphor to describe the price system as . . . a system of telecommunication."² So when people blame the market because baseball players earn more than teachers or because more is spent on bowling than on ballet (as if these were serious problems), they need to be told, "the market didn't do it." These critics are really blaming other people for having and communicating objectionable preferences. When people call for government to solve the problems caused by the market, they are commonly calling for government to censor those with whom they disagree.

Of course, the market often seems responsible for problems more serious than differences in preferences. The market is commonly blamed for layoffs and bankruptcies that shatter the hopes and disrupt the lives of diligent workers who play by the rules. But again, such problems result from people's communicating with one another in ways that motivate a cooperative response. Layoffs and bankruptcies result when people are allowed to inform suppliers that the resources used to produce some products would create more value if used to produce other products. This information is communicated through prices, profits, and losses—forms of communication that get attention and motivate appropriate action.

Of course, no one enjoys being told that consumers would prefer that he or she go out of business or get a different job. Those who receive such market messages are understandably upset with what is easily seen as the ruthlessness of the market. But even they are better off living in an economy in which both

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good news and bad news can be transmitted through market communication. No matter how unpleasant the news, blaming it on the market is misguided. And using the bad news conveyed through the market as justification to impose political restrictions on markets is even worse.

Blaming the Messenger

If you got a call informing you that a good friend had died, you would not blame the telephone system for your friend's death. And certainly no one would argue that the friend's death could have been prevented if only restrictions had been imposed on telephone communication. But it makes as much sense to impose restrictions on telephone calls to prevent death as it does to impose restrictions on the market to prevent bankruptcy and unemployment.

Unfortunately, the market and the telephone system differ in ways that explain why people clamor for so many harmful restrictions on market communication. In the case of bad economic news communicated through the market, one group can use government to distort the message so as to deflect the bad news and improve its situation at the expense of others. For example, a firm about to go bankrupt can insulate itself against the negative communication of consumers by securing a government subsidy. Consumers, having less after-tax income to spend, now signal that other, more productive firms should lay off workers or go bankrupt. To continue the analogy, imagine that by imposing restrictions on telephone communication you could directly prevent the death of your friend (and receive all the credit that goes with such a noble accomplishment) by causing the deaths of two other people in such a way that no one would connect those two deaths with your actions.

Poverty is another item of bad news commonly blamed on the market. But this problem too would be worse than it is if it were not for the efficiency of market communication. People are poor not because of the market, but because they have little of value to communicate through the market. Blaming pov-

erty on the market is analogous to blaming freedom of the press for the inability of some people to write well. No serious person would argue that the best way to help the inarticulate would be by discouraging people from communicating, or by restricting their ability to do so. Unfortunately, this approach is equivalent to what many government policies do in the name of helping the poor. Programs that provide transfers to people earning less than some specified income certainly discourage the type of market communication involved in developing and exercising productive skills. The minimum-wage law, union restrictions (sanctioned by government), and the Davis-Bacon Act prevent those lacking productive skills from communicating their desire to develop those skills by working at wages agreeable to both them and employers. The poor would be better served if we reduced the restrictions on market communication instead of blaming, and further restricting, the market for the message of poverty it allows the poor to deliver.

The Market and the Environment

Another common complaint against the market is that it causes excessive pollution. Again, the problem isn't the market, but the lack of markets and the need for more market communication. Markets are said to cause excessive pollution because negative externalities are created by some market transactions. When I purchase gasoline, for example, I pay the oil company for the cost of obtaining, shipping, and refining the petroleum, and then distributing it to my local gas station. But I pay nothing for the cost I impose on those who are exposed to the pollution generated by my use of gasoline. Therefore, gasoline consumption and air pollution are excessive. Such externalities are used to justify government action to correct a "market failure." In fact, most market failures are testimonials to the success of existing markets at giving a clear voice to people. The best policy approach would emphasize extending the benefits of market communication instead of distorting the communica-

tion occurring through existing, successful markets.

Pollution externalities result when people are effectively communicating the value they place on products through existing markets but, because we have no markets for the use of airsheds and waterways, cannot communicate the value they place on the environmental amenities lost as a consequence of producing and consuming those products. Unfortunately, government tries to correct excessive pollution by imposing restrictions on markets that are working well. The government approach to environmental protection has been to mute, or censor, market communication with bureaucratic restrictions on a host of business practices. Many of these restrictions are intended more to protect special interests than to protect the environment. These restrictions on market communication, even when they have reduced pollution, are one-size-fits-all mandates that insure pollution is reduced at far greater cost than necessary. A better approach is to expand the communication network by creating markets for the use of the environment with policies that emphasize property rights and such market-based approaches as transferable pollution permits.³ I acknowledge that some of these approaches create a less-than-ideal market and are subject to manipulation by organized political interests. But by enhancing communication, rather than stifling

it, a market-based pollution control approach is superior to the existing command-and-control approach, which appeals to those who believe that the market causes pollution.

The market is the world's most effective means for moderating the problems of scarcity by allowing people to communicate and cooperate with one another. Because it necessarily transmits a steady stream of information about scarcity, much market information will be seen as bad news. The temptation is to blame the communication system for bad news, and this temptation is exploited by interest groups constantly seeking justifications for manipulating information and censoring those with opposing views. So problems are worse than they need to be, because we restrict the market communication that is essential in responding appropriately to the inevitable consequences of scarcity. Until people understand that "the market didn't do it" every time a problem is communicated through the marketplace, we will continue to be taken in by self-serving interest groups espousing policy recommendations harmful to the general public. □

1. James M. Buchanan, "The Metamorphosis of John Gray," *Constitutional Political Economy*, Vol. 6, No. 3 (1995), pp. 293-95.

2. Friedrich A. Hayek, "The Use of Knowledge in Society," *American Economic Review*, Vol. 35, No. 4 (September 1945), pp. 519-30.

3. See Terry L. Anderson and Donald R. Leal, *Free Market Environmentalism* (Boulder, Colo.: Westview Press, 1991) for an excellent discussion of ways to utilize market arrangements to protect the environment.

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Making the Case for Liberty Stick



Rolling back an intrusive, overweening government is no simple task. A remarkably tenacious creature, it spares no expense as it struggles to retain its grip on society. It is greatly aided in that fight by many of those who rely on transfer payments for all or part of their livelihood. Meanwhile, the liberty of all the people hangs in the balance.

As veteran readers of *The Freeman* know, ideas are what matter most. Pointing fingers, naming names, and unmasking duplicitous politicians can never by themselves win the battle for liberty. Indeed, such tactics can be counterproductive when they lull people into thinking that changing faces in government is enough to change results. Ideas must change, and if they do, the faces will take care of themselves.

For some, focusing on ideas seems to be an unbearably long-term strategy. They yearn for the magic button that, when pressed, will make things better. They think everything depends on who gets into office in the next election. They want to win elections now, so they put their money and time into yard signs and bumper stickers instead of books, articles, seminars, and other educational tools.

These impatient friends fail to understand that politicians rarely operate outside a box framed by public opinion which, translated, means the demands and expectations of those politicians' particular constituencies. One wealthy patron of hundreds of candidates

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over the years recently expressed this frustration to me: "I wish I could do something so that once the people I support get elected I won't have to keep calling them to find out why they cast so many bad votes and make so many wrong decisions." I told him that the one most effective thing he could do is to invest in ideas. Give someone a book, I told him, not a bumper sticker.

What better evidence do we have of the importance of education than the experience of the 104th Congress? The Republicans ousted the Democrats for control of both houses, for the first time in 40 years. Most of the freshman class elected in that tumultuous year of 1994 pledged themselves to shrinking the federal government and "turning power back to the states and to the people."

But by early 1996, enthusiasm gave way to disappointment. Government had been nicked here, shaved a little there, but the "revolution" had fizzled. The more thoughtful among the revolutionaries didn't lay the blame on the president or the media; they knew they had been thwarted by the "sunshine patriots" back home—people who buy the rhetoric of less government but run in the other direction at the prospect of actually achieving the real thing. This suggests that much work remains to be done on the idea front. People must deepen their understanding of liberty so they'll stick with it when the going gets rough.

Making the case for liberty stick, so that it isn't simply some short-term rhetorical exercise, is a multi-faceted task. It draws support from a

range of intellectual disciplines—economics, political science, sociology, and history, to name a few. It requires a nurturing of many personal virtues—self-reliance, enterprise, respect for others and their property, moral inspiration, and optimism about what free people can accomplish. It encourages a patient, long-term perspective over the instant gratification of short-term obsessions. To this list I add one more ingredient that is worthy of our increased attention—*demystifying government*.

Too many battles are lost to statisticians because of a misplaced and hard-to-shake faith in government itself. For all its endless failures, now more widely perceived than at any time in decades, government is still regarded as real and tangible while free-market alternatives are often thought of as nebulous and imaginary.

For example, take Social Security. Most Americans now acknowledge its inherent flaws and impending debacle. Suggest ending Social Security and making retirement security a purely personal and market-based responsibility and many of those same people wince in fear. “Who would take care of Grandma?” they ask. Of course, they want you to answer with a list of names and addresses; anything less will leave them in grudging acceptance of the status quo.

Far too many Americans think that if government provides education, it may do so ineffectively but at least some basic level of schooling will exist. Likewise, they think that if government gets into the low-income housing business, the result may be scandal-ridden but at least the poor will be housed.

It constantly amazes me that defenders of the free market are expected to offer certainty and perfection while government has only to make promises and express good intentions. Many times, for instance, I’ve heard people say, “A free market in education is a bad idea because some child somewhere might fall through the cracks,” even though in today’s government schools, *millions* of children are falling through the cracks every day.

Our task as friends of the free market is to reverse this state of affairs. We must portray the promises of government and *politicized society* for what they are—nebulous and imaginary. We must explain the benefits of free markets and *civil society* for precisely what

they are—real and tangible. After all, isn’t the evidence on these points overwhelming? Where do oppressed people flee when given the chance—to free countries or socialist countries? Where do they conquer more poverty by producing more goods that sustain life the longest and at the highest levels? In which environment do people attain the greatest satisfaction and self-fulfillment—an environment of dependency and sloth, or one of self-reliance and effort? Americans should be embarrassed even to ask such questions.

The Myth of the Magical Bureaucracy, a recent booklet co-authored by Congressmen Pete Hoekstra, Mark Neumann, Sam Brownback, and Mark Souder, demystifies the federal government with a goldmine of facts and figures. For example, Americans have come to assume that since Washington became involved in education in the mid-1960s, education has been advanced; efforts to abolish the Department of Education and its 760 separate programs have been met with stiff resistance.

The facts, however, are these: Educational performance in the United States has been in steady decline since the mid-1960s. Average SAT scores have dropped 35 points since 1972. Sixty-six percent of 17-year-olds do not read at a proficient level. U.S. students scored worse in math than all other large countries except Spain. And 30 percent of all college freshmen must take remedial classes.

For another example, consider the AmeriCorps program, which propagates the myth that “magical bureaucrats” can create a renewed volunteer spirit in America. The facts are these: AmeriCorps displaces true volunteerism by paying people with tax money to “do good.” Designed just three years ago to cost taxpayers “only” \$16,000 per “volunteer,” it now costs between \$25,797 and \$31,017 per volunteer. Worse yet, only \$14,000 of that money goes to the actual “volunteer,” while the remaining \$11,000 to \$17,000 goes to overhead and administration!

Making the case for liberty stick will take a lot more of this sort of compelling analysis, marketed in an articulate fashion. The Emperor has no clothes; we merely have to encourage people to take their blinders off and see reality. □

Free-Market Economics in a Phone Booth

by Russell Shannon

In *The Wealth of Nations*, published 220 years ago, Adam Smith argued that the interests of consumers would be better served by an open system of free markets than by the regulated regime of mercantilism that prevailed. Competition, Smith maintained, was more efficient than monopoly. Could anyone oppose Smith's policy prescription?

We have before us now a simple, straightforward example of Smith's point, which also shows why some people oppose his principles. An article in the *Washington Post National Weekly Edition* dealing with the breaking up of AT&T, the giant telephone company that was once a monopoly protected by the federal government, includes some statistics obtained from the Federal Communications Commission, AT&T, and the U.S. Labor Department that are marvelously pertinent to Smith's thesis.

In the early 1980s, in part as a result of rapid technological improvements (such as fiber optics), not only was AT&T forced by judicial decree to break up into several regional components (the so-called "Baby Bells"), but also other firms were allowed to compete with AT&T for long-distance telephone service. As everyone who has seen the ensuing barrage of TV commercials surely knows, new firms did enter the market—with a vengeance.

What has been the result of replacing monopoly with competition in long-distance telephone service?

First, the average cost of long-distance service has dropped dramatically, from about 50 cents per interstate minute in 1982 to less than 20 cents in 1994, a decline of more than 60 percent. Second, interstate consumer telephone use has almost tripled since 1982. (In the jargon of economists, it could be said that consumers' demand for long-distance telephone service was "elastic," causing the total amount of money spent on such service to go up when the price fell.)

Of course, AT&T has not been the sole recipient of all this new demand for phone service, and as a result has been engaging in drastic downsizing and reorganization. So a third result is that many of its employees have lost their jobs. Indeed, this impact was the focus of the *Post's* article, "Ma Bell's Changing Tone." The subtitle told the whole story: "In a reordered corporate world, it's employees who pay the toll." The article gave a detailed account of how AT&T had changed from a company that provided a virtual assurance of lifetime jobs when it was a protected monopoly to a firm in which a worker's future is far more precarious.

As the *Post* article notes, because customers no longer felt loyal to AT&T (nor did investors, who were unhappy with its profit performance), why should AT&T be loyal to

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its employees? Since the company was broken up, employment has dropped by about 60 percent, from nearly one million employees in the early 1980s to about 400,000 today.

But to focus on this fact is to miss the doughnut for the hole. The *Post* data also reveal a fourth effect of this movement to freer markets: employment in the communications industry as a whole has remained high; it peaked at about 1.6 million in the early 1980s and is around 1.5 million today. So breaking up AT&T did not destroy jobs—it relocated them.

The hardships imposed on employees who must suddenly seek new work should not be overlooked. The costs of retraining and relocation can be significant, and crippling. Political power is often used to alleviate such woes; after all, that is the argument behind unemployment compensation.

But surely it is equally important to note that, when competition replaces monopoly, the costs imposed on the few are vastly offset by the benefits that accrue to the many.

A very similar story has been told by the economist Russell D. Roberts in his splendid little book *The Choice: A Fable of Free Trade and Protectionism*. Roberts explains that opening up to free trade may destroy some domestic jobs in the present, but it will create vast new opportunities for our children in the future.

Of course, the world-wide movements toward privatization, given initial impetus when Margaret Thatcher was Prime Minister of the United Kingdom, and *perestroika*, the decentralization of economic activity proposed (but not actually pursued) by the Soviet leader Mikhail Gorbachev, are both ongoing efforts toward creating more competitive economies. Communism and socialism differ from mercantilism in that communist governments directly own industries, while mercantilist governments simply regulate them. But the practical economic effects are largely the same; stagnation and low incomes are the prices people pay for such extensive intervention in economic activity.

Our federal government no longer protects AT&T's long-distance monopoly. The benefits of the new competition to telephone users are dramatic—and should be clear to all who care to look.

Yet much resistance to free enterprise remains, both in the United States and abroad. Those of us who live and work in this country today have benefited enormously from the free markets of the past; our standard of living is substantially higher because our ancestors paid the price, accepting less job security in exchange for the expectation of a rising standard of living. Don't we owe it to future generations to carry on this tradition? □

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Perspectives on Capitalism and Freedom

by Edward W. Younkins

Capitalism and freedom are inseparable. In our society we believe that human beings, merely by virtue of being human, possess the capacity to exercise freedom and the right to do so. Each person should be free to own property, choose a job and a career, worship, speak, move freely within the society and to other societies, promote and protect one's self-interest, contract, compete, create, innovate, trade, and associate with others.

Those of us who favor freedom and free markets are a diverse lot. Our worldviews differ, too. To find common ground, let us briefly consider in turn the libertarian, Judeo-Christian, and Objectivist perspectives on the nature of capitalism and its relationship to liberty.

The Libertarian Perspective

Libertarians elevate personal freedom to the highest good—as an end to be achieved. Freedom is viewed as prerequisite to, and integral with, the achievement of any of man's goals. Libertarians defend each person's right to be protected against all forms of external aggression initiated by the state or by private individuals. A basic principle of libertarianism is that individuals have the right to live life as

they choose, as long as their actions do not constitute an aggression against the freedom of others.

This nonaggression or noninitiation-of-force principle is related to the libertarian idea of self-ownership. Self-ownership means that one's own decisions about what to do with one's life, property, body, energies, and speech are the decisions that count. Because individuals are equal, not only does a person own himself, every other person owns himself as well.

The self-ownership principle creates a zone of privacy and freedom of action for each individual. When dealing with others each person should respect them as equals in moral status and human dignity who have the right and responsibility to make their own decisions regarding their own life, property, body, energies, and speech.

Libertarians reject the notion that people need a guardian to protect them from themselves or to tell them what is good and bad. The state should therefore confine itself to the minimum necessary to protect individuals in the way they choose to pursue happiness. The proper state is therefore neutral with respect to its commitment to one or another conception of happiness or the good life. The role of the state should be limited to providing the freedom that allows individuals to pursue happiness or the good that each defines for himself.¹

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The Judeo-Christian Perspective

According to this worldview, God, the ultimate moral authority, created man. Each person is free, self-responsible, and accountable before the Creator. Between a man and God, the appropriate relationship may be viewed as one of agent, steward, or trustee to owner. Each person has a God-given responsibility to answer to Him for his choices including the uses he makes of his individual human potential and his possessions held temporarily as a steward of God.

Only when a man has choice and its inherent responsibility can he be moral. Choice (free will) is the foundation of virtue. Morality involves choice and the use of reason in making that choice. Freedom, a gift from God, does not mean freedom from the law or license to do whatever is not forbidden. Real freedom is not the power to do whatever we like but, rather, to choose to do what we ought to do.

The purpose of freedom is not freedom for its own sake but for the purpose of serving God through self-actualization and the promotion of human flourishing and the common good. Freedom is simply the means toward a higher end and should not be viewed as an end in itself. When one has freedom, the important choices become how to order one's life, what values to pursue, and which virtues to practice.

Each person should be politically free to choose and pursue his own values and should allow others to choose and pursue their own values. Man is endowed by God with inalienable rights, the exercise of which is strictly a matter between the individual and the Creator, until he trespasses on the rights of another person. To force another to adhere to my value judgments is to deny him his right and responsibility to answer to God directly for the choices he makes.

The underlying idea is that each individual should be able to encounter God without the mediation of any other person, group, or nation. When self-responsibility before God is viewed as prior to, and determining of, political philosophies and systems, it follows

that government should be limited to protecting this relationship between man and the Creator. The state is simply a man-made means of securing liberty and justice for all men alike. The legitimate aim of government is to provide the social and political conditions that protect each citizen's right to individual action.

From the Judeo-Christian perspective, governmental authorities are the civil distributors of God's higher law. There is a realm of natural law, over and above positive man-made law, involving unwritten and unalterable laws of God. Natural law, the ultimate source of right and wrong, is timeless and well beyond the political realm. The idea of governmental restraints rests on the premise that a natural law higher than that of the state limits and qualifies the power of the state. Capitalism properly emerges from such a political system, is consistent with Judeo-Christian values, and involves the voluntary exchange of goods and services between free and self-responsible persons.²

The Objectivist Perspective

Objectivism, the philosophy of Ayn Rand and her followers, contends that the universe has existed eternally and repudiates the idea of its creation by a rational, omnipotent God. For Objectivists, the idea of God is offensive and humiliating to man, because it denies that man is the highest being in the world. The Objectivist position is that without God it is up to man alone to pursue his own happiness and create his own values. Freedom for Objectivists comports with the non-existence of the Creator.

The Randian view is that reality is objective, absolute, and comprehensible, and that man is a rational being who relies upon his reason as his only means to obtain objectively valid knowledge and as his basic tool of survival. The concept of value presupposes an entity capable of acting to attain a goal in the face of an alternative. The most basic alternative in the world is existence versus non-existence. Life makes the concept of "value" meaningful. An organism's life is its standard of value. Whatever furthers its life is good, whatever

threatens it is evil. The nature of living persons is to determine for themselves what they ought to do.

Man's life is therefore identified as the proper standard of man's value, and morality is identified as the principles defining the actions necessary to maintain life as a man. If life as a man is one's purpose, he has the right to live as a rational being. To live, man must think, act, and create the values his life requires. In other words, since a man's life is sustained through thought and action, it follows that the individual must have the right to think and act and to keep the product of his thinking and acting (the right to life, liberty, and property). As men are creatures who think and act according to principle, a doctrine of rights is intended to ensure that an individual's choice to live by those principles is not violated by other human beings. All individuals possess the same rights to freely pursue their own goals. These rights are innate and can be logically derived from man's nature and needs—the state is not involved in the creation of rights and exists merely to protect an individual's natural rights. Because force is the means by which one's rights are violated, it follows that freedom is a fundamental social good. The role of government is to protect man's natural rights, through the use of force but only in retaliation and only against those who initiate its use.³

Metaphysical Agreement Is Not Required

Capitalism may be defined as a system of voluntary relationships within a legal framework that protects individuals' rights against force, fraud, theft, and contract violations. Advocates of capitalism differ in their arguments for a social system that maximizes individual freedom and in their views with

respect to the nature of man and the universe. Underlying these separate views, however, is the need for freedom of the individual to choose how he wants to integrate himself into society. All agree that:

1. Freedom is the natural condition of the individual—each person from birth has the ability to think his own thoughts and control his own energies in his efforts to act according to these thoughts.

2. Individuals are free to initiate their own purposive action when they are free from man-made restraints—coercion by other individuals, groups of people, or the government; freedom is not the ability to get what one desires—other non-man-made obstacles such as lack of ability, intelligence or resources may result in one's failure to attain his desires.

3. Freedom is a necessary but not a sufficient condition for one's happiness.

It is not necessary to first reach metaphysical or religious agreement to agree on the desirability of a system in which individuals do not use violence or fraud to injure others or to deprive others of their legitimately held possessions. Various proponents of capitalism therefore agree that the proper role of the state is limited to that of protector of property and punisher of those who rob and cheat others. □

1. Exemplars of the libertarian perspective include Murray N. Rothbard, *For a New Liberty: The Libertarian Manifesto* (New York: Collier Books, 1978) and Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, Inc., 1974).

2. Models for those who work within this worldview include Edmund A. Opitz, *Religion and Capitalism: Allies, Not Enemies* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1993 [1970]), Ronald H. Nash, *Poverty and Wealth* (Richardson, Tex.: Probe Books, 1986), and Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon and Schuster, 1982).

3. See Ayn Rand, *Atlas Shrugged* (New York: Random House, 1957) and Leonard Peikoff, *Objectivism: The Philosophy of Ayn Rand* (New York: Dutton, 1991).

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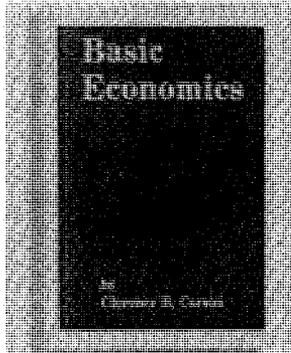
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Frank Chodorov: Champion of Liberty

by Aaron Steelman

December 28, 1996, marks the thirtieth anniversary of the death of Frank Chodorov, one of the giants of the American Old Right. It seems appropriate to look back at his life and career, not only to pay homage, but also to rediscover some of the fundamental insights he brought to the fore in his many books, articles, and speeches.

Frank Chodorov had a profound influence on the postwar American Right. Murray N. Rothbard, William F. Buckley Jr., James J. Martin, and many other exponents of the free market have cited Chodorov's work as vital to the formation of their worldviews. Indeed, Buckley once said, "It is quite unlikely that I should have pursued a career as a writer but for the encouragement he gave me just after I graduated from Yale."¹

Born in New York City in 1887, Chodorov graduated from Columbia University in 1907, and spent the next 30 years working in a variety of jobs, including a stint as an advertising representative and running a clothing factory. "From four to seven years was about all I could take of any occupation throughout my life. I went at each job I undertook with verve, mastered it and when it became routine I lost interest and went looking for

something else," Chodorov wrote in his 1962 autobiography, *Out of Step*.²

Besides working in various fields, Chodorov read widely in the literature of liberty, and was particularly impressed by the work of Henry David Thoreau, Albert Jay Nock, and Henry George. By the time he was offered, and accepted, the directorship of the Henry George School of Social Science in 1937, he counted himself firmly within the classical liberal tradition.

For the first time—at the age of 50—his position afforded him an opportunity to write and speak widely on the issues of the day and to spread the anti-statist gospel. He and his students started a school publication, *The Freeman*, borrowing the name from the then-defunct journal Nock had edited in the 1920s. In its pages Chodorov found his ultimate calling: journalism with an intensely personal, individualist flair.

Chodorov pulled no punches in his many articles for *The Freeman*. He viewed the state as the greatest threat to individual liberty and human happiness. In the tradition of Cobden, Bright, and Nock, he did not limit his disdain for the use of state power to domestic actions; he feared the state's ability to conscript its citizens and use them to wage war as much as, if not more than, he did its ability to control the economy. This intellectual consistency eventually gained Chodorov many devoted followers but, for the time being, it attracted some important opponents. "In *The Freeman*

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I took delight in attacking the New Deal and Mr. Roosevelt, mainly on economic grounds. That went well until Mr. Roosevelt started preparing the country for war, in 1939. Prudence should have prompted me to avoid the war issue, but prudence was never one of my virtues, and I continued to hammer away at the war measures right up to Pearl Harbor."³ The school's board regarded his principled and steadfast opposition to American involvement in the war as too controversial and too frightening to potential donors and, therefore, relieved Chodorov of his duties in 1942.

Fulfillment of a Dream

Following his dismissal, Chodorov looked for a new medium for spreading his ideas. The result was his creation of *analysis*, which he later called "the most gratifying venture of my life." An unpretentious four-page broadsheet published from 1944 to 1951, *analysis* was hard-hitting and uncompromising, just like *The Freeman*. Unlike *The Freeman*, however, *analysis* did not actively solicit articles from outside writers; nearly every issue was written entirely by Chodorov.

In an early promotional letter to would-be subscribers, Chodorov summed up his paper's editorial position concisely and accurately:

... *analysis* ... stands for free trade, free land and the unrestricted employment of capital and labor. Its economics stem from Adam Smith and Henry George.

... *analysis* goes along with Albert Jay Nock in asserting that the State is our enemy, that its administrators and beneficiaries are a "professional criminal class," and interprets events accordingly. It is radical, not reformist.

In short, *analysis* looks at the current scene through the eyeglass of historic liberalism, unashamedly accepting the doctrine of natural rights, proclaims the dignity of the individual and denounces all forms of Statism as human slavery.⁴

In issue after issue of *analysis*, Chodorov kept the flame of the anti-statist, antiwar cause burning during some of classical liberalism's darkest nights. He approached myriad

topics from the same perspective: voluntary, peaceful actions are moral and productive and should be encouraged; coercive actions are immoral and should be condemned. As both an anti-statist committed to individual liberty as a great moral ideal and a social scientist examining past events objectively and empirically, Chodorov was a formidable and prescient critic.

The "Ratchet Effect" Theory

For example, in the 1940s Chodorov hit upon the "ratchet effect" theory to explain the growth of government, thereby setting the stage for some of the most incisive and probing work by classical liberals in the decades to come. In the August 1950 issue of *analysis*, he wrote: "All wars come to an end, at least temporarily. But the authority acquired by the state hangs on; political power never abdicates. Note how the 'emergency' taxes of World War II have hardened into permanent fiscal policy. While a few of the more irritating war agencies were dropped, others were enlarged, under various pretexts, and the sum total is more intervention and more interveners than we suffered before 1939."⁵

In a pamphlet distributed by *Human Events*, he struck a similar chord, using the ratchet effect theory to explain the rise of direct taxation in the United States:

When war or the need of ameliorating mass poverty strains the purse of the state to the limit, and further indirect impositions are impossible or threaten social unrest, the opposition must give way. The state never relinquishes entirely the prerogatives it acquires during an "emergency," and so, after a series of wars and depressions direct taxation became a fixture of our fiscal policy, and those upon whom it falls must content themselves to whittling down the levies or trying to transfer them from shoulder to shoulder.⁶

On education, Chodorov was ahead of his time, developing a radical critique of government schooling long before the so-called "school choice" or "voucher" movement got

on its feet many years later. To Chodorov, it was no surprise that students were receiving subpar educations at government schools. As he saw it, the purpose of the public school was not to educate children, but to turn them into “good citizens”—schooled in the ways of the democratic system and taught that “they were the government” despite the obvious absurdity of such a claim. By controlling the schools, the state could control, to a large degree, the minds of future generations, thereby limiting the possibility of dissent.

In Chodorov’s mind, the only solution to the education problem was to separate schooling completely from politics: “If we would reform our education system basically, we must desocialize it. We must put it back where it belongs, in the hands of parents. Theirs is the responsibility for the breeding of children, and theirs is the responsibility for the upbringing. The first error of public schooling is the shifting of this responsibility, the transformation of the children of men into wards of the state.”⁷

Editing *analysis* brought great joy to Chodorov, but the journal was financially shaky. At its peak in 1951, it had no more than 4,000 subscribers. Edmund Opitz recalls that Chodorov was pouring so much of his own money into his enterprise that he was sustaining himself on one meal a day.⁸ In 1951 *analysis* was merged with *Human Events*, a Washington-based publication founded in 1944 by Felix Morley, Frank Hanighen, and Henry Regnery. Chodorov became an associate editor at *Human Events* and stayed there until 1954, when Leonard Read chose him to edit a revamped version of *The Freeman*, which Irvington Press (a subsidiary of FEE) had recently purchased.

The Later Years

By the early 1950s, Chodorov was already well established as an individualist writer of the highest quality. In his view, the movement he had helped to preserve and shape in the 1940s was not “conservative”; it was “individualist.”⁹ He was disturbed by the growing influence of a system of thought he viewed as fundamentally majoritarian in na-

ture. The “new” conservatism of Russell Kirk, Walter Berns, and Harry Jaffa did not in any way resemble the historic liberalism that Chodorov and other prominent Old Right figures held dear. This new strain of thought held that unbridled individualism, not an omnipotent federal state, posed the greatest threat to the social order. Moreover, Jaffa and company believed that the Soviet Union placed the United States in imminent danger and that decisive federal action was needed to thwart Soviet expansion.

Over the next ten years, Chodorov spent as much time trying to check this new brand of conservatism as he did refuting the myths and dogmas of the Left. In Chodorov’s mind, only individuals themselves could, and should, make all relevant personal decisions. To rely on the vague notion of the “community” to make such decisions, as Kirk and others urged, was to subjugate the individual to the collective, and this subjugation was to be avoided at all costs.

The Cold War

Chodorov’s unwavering defense of individualism and the minimal state also led to clashes with other American rightists regarding foreign policy. By the late 1950s, most conservatives agreed that noninterventionism no longer constituted a viable option; Soviet power was so immense and threatening that the United States needed to prosecute another expensive war, the Cold War. Chodorov balked. The Soviets, he argued, were a threat to the United States only if Americans allowed them to be. The real danger was not that the Soviet Union would conquer the United States militarily but that in the name of a “strong national defense,” the United States would take actions that would thoroughly collectivize the nation—this time, for good. Increasing the power of the state in response to the Soviet menace would not defeat socialism in Russia but bring it to the United States.¹⁰ For these reasons, he called the Cold War a “war to communize America.”

In a brilliant essay on “Isolationism,” Chodorov once again stated his position for

As FRANK CHODOROV Sees It



Headline art from Frank Chodorov's regular Freeman column in the mid-1950's.

those who had ignored it the first time. He believed that isolationism was not only the type of foreign policy that kept the state to a manageable size, but also the one compatible with the makeup of human beings. "It is in the nature of the human being to be interested first, in himself, and secondly, in his neighbors." To ask someone in Michigan, for example, to be interested in the affairs and political stability of Tennessee is slightly unreasonable; to ask that same person to be interested in the affairs of a far-off Latin American country is simply absurd.

For Chodorov, a noninterventionist foreign policy was incompatible with protectionism or a restrictionist stand on immigration. Noninterventionism restricted the power of the state; tariffs and immigration quotas expanded it. Noninterventionism, free trade, and open borders belonged in the same package. To accept one part of the package while rejecting the others was not only to give in to the state, but to flirt with nativism. In chastising the America First Committee's defense of trade and immigration restrictions, he wrote:

One flaw in their program was a tendency toward protectionism; the anti-involvement became identified with "Buy American" slogans and with high tariffs; that is, with economic, rather than political, isolationism. Economic isolationism—tariffs, quotas, embargoes and general governmental interference with international trade—is an irritant that can well lead to war, or political interventionism. To build

a trade wall around a country is to invite reprisals, which in turn make for misunderstanding and mistrust. Besides, free trade carries with it an appreciation of the cultures of the trading countries, and a feeling of good will among the peoples engaged. Free trade is natural, protectionism is political.¹¹

Chodorov also parted company with most of the conservative movement regarding big business. Unlike many of his colleagues, Chodorov did not hold a romantic view of corporate America; and he certainly did not agree with Ayn Rand's belief that big business is "America's most persecuted minority." Instead he saw big business as all too willing to compromise with big government, producing a disastrous result for most Americans. In this way, he foreshadowed the arguments made by William Appleman Williams and Gabriel Kolko in the 1960s. Chodorov argued that "in America it is the so-called capitalist who is to blame for the fulfillment of Marx's prophecies. Beguiled by the state's siren song of special privilege, the capitalists have abandoned capitalism."¹² And to abandon capitalism was to abandon the very system necessary for the preservation of individual liberty and the attainment of human happiness.

Despite Chodorov's differences with many on the Right—and there were a number of significance—he maintained a position of prominence even after he left *The Freeman* in 1955. This was largely because of the Intercollegiate Society of Individualists (ISI), which he founded with Buckley in 1953 and

continued to oversee until his death in 1966.¹³ ISI was the first large free-market organization to focus its efforts on influencing college students. Its goal was to be an effective antidote to the well-organized Intercollegiate Society of Socialists. It attempted to accomplish its mission by distributing free-market books and pamphlets to interested students, sponsoring classical liberal speakers on the campuses, and organizing discussion clubs. By the early 1960s, more than 40,000 students had taken part in its programs.

ISI was an important part of Chodorov's strategic program for turning back the tide of statism. Having tired of attempts to directly influence the political process (he did not vote after 1912), Chodorov became convinced that the only way the individualist tradition could be saved was by spreading classical liberal ideas among young people, who would one day be the opinion-shapers. Students, he believed, could be influenced and, thus, attention should be directed toward them. "What the socialists have done can be undone, if there is a will for it. But, the undoing will not be accomplished by trying to destroy established institutions. It can be accomplished only by attacking minds, and not the minds of those already hardened by socialistic fixations. Individualism can be revived by implanting the ideas in the minds of the coming generations. . . . It is, in short, a fifty-year project."¹⁴

Unfortunately, Chodorov did not have 50 years left to see what would come of his prediction. He suffered a stroke in 1961 while teaching at Robert LeFevre's Freedom School in Colorado. The stroke limited his activity sharply, and his output dwindled continuously until his death five years later. Yet, in many ways, his work had already been

accomplished. He had done more than his part to ensure that the great American tradition of individualism would not die—at the hands of either the socialists or the growing legion of conservatives who saw little value in the ideals of classical liberalism. And he had built upon the intellectual foundations of this tradition himself, adding many keen and original insights.

As libertarians continue to wage an intellectual war against the omnipotent state, they would be wise to consult Frank Chodorov's writings. For as William F. Buckley Jr. has said, everybody "is bound to benefit from exposure to his purist and dogged battle against institutionalized power, and the case he weaves for the presumptive denial to the central government of every additional BTU it asks for."¹⁵ □

1. Cited in George H. Nash, *The Conservative Intellectual Movement in America Since 1945* (New York: Basic Books, 1976), p. 380.

2. Frank Chodorov, *Out of Step: The Autobiography of An Individualist* (New York: Devin-Adair, 1962), p. 75.

3. *Ibid.*, p. 79.

4. Cited in Nash, pp. 17–18.

5. Charles H. Hamilton, ed., *Fugitive Essays: Selected Writings of Frank Chodorov* (Indianapolis: Liberty Press, 1980), p. 363.

6. Frank Chodorov, *Human Events* Pamphlet Number 15, "Taxation is Robbery" (Chicago: Human Events Associates, 1947), p. 9.

7. Hamilton, p. 239.

8. Cited in Nash, p. 353.

9. In a 1956 letter to *National Review*, Chodorov stated: "As for me, I will punch anyone who calls me a conservative in the nose. I am a radical." Cited in Hamilton, p. 29.

10. In Chodorov's mind, the Soviet Union was not a viable experiment; it would eventually implode. Thus, the United States didn't need to wage an activist battle against it. As he liked to state: "Private capitalism makes a steam engine; State capitalism makes pyramids." To him, the Soviet Union was in the process of making a number of pyramids, while neglecting the production of things that sustain a society.

11. *Out of Step*, p. 119.

12. Hamilton, p. 149.

13. ISI was renamed the Intercollegiate Studies Institute after Chodorov's death and remains in operation to this day.

14. *Out of Step*, p. 248.

15. William F. Buckley Jr., "Nay-Sayer to the Power-Hungry," *National Review*, December 4, 1962, p. 447.

Global Warming: Not an Immediate Problem

by J. David Bethel

All too often we find ourselves mounting a rear-guard action to fend off public policies or programs limiting our choices, costing us money and, generally, making life tougher to live. In many instances during these struggles, we have to be content with small victories: holding social welfare program budgets to minimal growth or reining in policies that would expand government responsibilities. Occasionally an opportunity comes along to stop an ill-conceived government program dead in its tracks or to get rid of bad public policy before it becomes entrenched. Today, we have such an opportunity.

Some would have us believe that our planet is headed for a flameout. They contend that humankind is living unwisely. They predict that apocalyptic climate change could do us in. But we are told there is hope if we will place ourselves in the hands of national and international governing bodies whose collective wisdom will save us from ourselves.

What we are not told by our would-be saviors is that climate change is nothing new on this planet. We are not told that the science of climate change is imperfect at best. We are not told that most of the purported signatures of climate change could easily be attributed to the natural variability of weather. We are not told of the serious economic consequences that proposed climate-change policies would have for our society.

Now is the time to face this issue. If we permit this relatively new offshoot of statism to sneak up behind us, it will be difficult to contain the damage.

Defining the Problem

Our planet has experienced significant weather changes over time, from numerous ice ages to periods of warm, even hot, temperatures. The reason for this variability is not well understood, although influences are attributed to the earth's orbit, volcanism, and changes in the sun's energy output.

During the past 100 years, global temperatures have warmed an average of 0.5 degrees Celsius (about one degree Fahrenheit). This increase is within the range of variability expected with climate change, but those who subscribe to the "global warming" theory explain this event as a man-made enhancement of the naturally occurring "greenhouse effect."

A layer of atmospheric gases (primarily water vapor, carbon dioxide, and methane) encircles the earth and serves as a protective blanket or insulator retaining warmth from the sun; hence the term "greenhouse effect." Without this natural process, large areas of our planet would be so cold as to be uninhabitable.

The United Nations Intergovernmental Panel on Climate Change (IPCC) contends that if government policies are not put into

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place to limit man-made carbon dioxide emissions, CO₂ will double in the atmosphere by the end of the next century, causing potentially catastrophic warming.

Anxiety about this prospect has prompted the U.S. government to spend \$2.1 billion annually on research in this area. Concern and study make sense, given our continuing dependence on fossil fuels. But, before we move much beyond the research stage, it would be prudent to establish whether global warming actually *does* threaten our well-being.

Identifying the Problem

Meteorologists and climatologists use computer models to simulate the interplay of many complex variables that constitute the earth's climate system, thereby determining the impact of these variables on climate change. Arriving at conclusive determinations has proved challenging for a number of reasons.

First, the complications of climate factors, such as the reflection of sunlight, the role of cloud cover, and the feedbacks associated with snow and ice, are still not understood well enough to permit the creation of totally reliable climate models.

Furthermore, even the most advanced computers cannot run the complex models that include every possible weather variable. Consequently, the models must be simplified, which calls for the use of approximations and assumptions.

Scientists at MIT conducted a study of computer simulation "adjustments." Specifically, they examined procedures for adjusting climate models to account for the amount of heat and moisture flowing between the atmosphere and the oceans. The MIT research revealed that although these adjustments often allow models to simulate existing climate, they mask flaws that inevitably skew future predictions produced by the computer simulations.

Gerald Meehl of the National Center for Atmospheric Research described the difficulty of creating accurate climate models this way: "You can put all the components [of

climate] together . . . but we know from our own experience with ocean, atmosphere, and ice components that it's a major step from components to having it look like the planet Earth."

Forecasting Global Warming

Computer models have indicated that with the increase in greenhouse gases, our planet should have been experiencing a relatively rapid warming trend, on the order of 0.3–0.5 degrees Celsius during the past 15 years. Satellite temperature readings analyzed by the National Aeronautics and Space Administration (NASA) indicate that no such warming occurred during this period. In fact, these data show a cooling trend of –0.06 degrees Celsius from 1979 to 1994.

Also, according to computer simulations of the greenhouse effect, the average temperature in the United States should have increased by approximately 1.5 degrees Celsius during the past 100 years. Information collected by the National Climatic Data Center shows no significant warming in the United States.

Computer models of global climate change have indicated that the earth's average temperature should have increased by 1 degree Celsius during the past century. As noted, if the planet has warmed, it has been only by about 0.5 degrees Celsius.

Significantly, the greater part of this purported increase, about 0.4 degrees Celsius, occurred before 1940. Yet roughly two-thirds of the carbon dioxide increase in the atmosphere occurred after 1940, which brings into question man's role in the process.

As for the future, according to the 1992 IPCC report, temperatures will rise 2.5 degrees Celsius by the second half of the next century. This forecast, however, is based on the same computer models that erroneously predicted a warming trend of 0.3–0.5 degrees Celsius for the 1980s and early 1990s.

Fearing Fear Itself

Unusual occurrences in nature are reported regularly and often attributed to global

warming. This attribution occurred recently when a large piece of the Larsen Ice Shelf broke away from the Antarctic Peninsula. However, Dr. Jo Jacka, a glaciologist from the Australian Antarctic division, determined that the detachment of the iceberg from the Larsen Ice Shelf was a natural occurrence, not an indicator of global warming. Many of Dr. Jacka's colleagues have also disputed the claim of warming in the Antarctic and the Arctic regions. According to the *Global Warming Experiment*, a study of climate change published by the George C. Marshall Institute, "The 40-year record confirms the satellite finding of a cooling trend in the Arctic."

Extreme weather events such as hurricanes, tornadoes and, most recently, the Blizzard of '96 have also been cited as evidence of climate change. However, a report issued by AccuWeather, the world's leading commercial weather firm, finds no increase in weather-related natural disasters. In fact, the AccuWeather study, "Changing Weather? Facts and Fallacies About Climate Change and Weather Extremes," indicates the number of hurricanes in the Northern Hemisphere may actually have decreased in recent years. Storms detected today by advanced tracking systems would have gone unnoticed earlier in the century.

The study also reports similar findings about other extreme weather events. No evidence was discovered of an increase in strong or violent tornadoes in the 48 contiguous states between 1953 and 1993. The information points to a reduction in such activity. The authors of "Facts and Fallacies" attribute the perception of an increase in extreme weather events to three factors: "more people live in areas that were once sparsely populated or even uninhabited; local media are now able to quickly report severe weather events . . . in distant parts of the globe; and more sophisticated weather monitoring systems and more widely distributed population mean that extreme events in remote areas are more likely to be detected."

As the World Meteorological Organization also notes, "any increase in the number of fatalities, injuries and amount of damage and

destruction caused by extreme events can often be related to population increases, especially in those regions most susceptible to climate variability."

Global warming has been blamed for a resurgence in infectious diseases, especially "vector-borne diseases" such as malaria and dengue, which are carried by mosquitos, rodents, and other vectors. However, the chief of the vector-borne disease branch of the U.S. Centers for Disease Control doubts any connection exists between climate change and the spread of disease. Dr. Duane Gubler told the *Baltimore Sun* recently, "Dengue is an example that all the people who talk about this use. . . . But none of this has been associated with global warming." Dr. Gubler blames poverty, poor sanitation, increased world population, and a declining health infrastructure for the spread of disease. Dr. John La Montagnac, a director at the National Institute of Allergy and Infectious Diseases, has also expressed doubts about the relationship between infectious diseases and global warming.

Global Warming Policy Development

Despite weaknesses in the science of climate change and despite ready evidence to counter fears of global warming, environmental activists are insisting on strict, comprehensive government programs that would bring:

- carbon taxes;
- a system of international policing to monitor the usage of CO₂;
- greater financial support for the 18 U.N. agencies involved in climate change activities;
- massive government subsidies for alternative energy sources.

The bureaucratization of climate-change policymaking is already on the horizon. In what appears to have been a decision to err on the side of caution, the United States became a signatory to the Framework Convention on Climate Change in 1992. More popularly known as the Rio Climate Treaty, this document established national goals for cutting emissions of greenhouse gases to 1990 levels by the year 2000. The United States formal-

ized its commitment to reduce greenhouse gas emissions with the institution of the U.S. Climate Change Action Plan.

In the spring of 1995, the Rio Climate Treaty signatories met again and produced the Berlin Mandate, which seeks even more severe limitations on emissions of greenhouse gases by the industrialized countries. Procedures were developed in Berlin that would “set qualified limitation and reduction objectives within specified time frames, such as 2005, 2010 and 2020, for greenhouse gas emissions.”

At a meeting of the IPCC in December 1995, the participants agreed to a carefully worded statement indicating that, “the balance of evidence . . . suggests a discernible human influence on global climate.” This sets the stage for the continuing development of policies to decrease emissions of greenhouse gas.

The agreements do not specify how nations are expected to achieve a reduction in emissions. The Framework Convention states only that “policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost.”

Economics of Climate Change Policies

Recently, a number of economic studies have assessed the costs associated with achieving the emissions-reduction targets accepted by the United States.

Dr. Alan S. Manne of Stanford University conducted a study of typical abatement proposals intended to stabilize carbon emissions between 1990 and 2000, reduce them to 80 percent of this level by 2010, and stabilize them thereafter. According to Dr. Manne’s findings in “Global Carbon Dioxide Reductions—Domestic and International Consequences,” price-induced energy conservation and shifts to low-carbon fuels would result in annual losses ranging from 1 percent of the U.S. gross domestic product to nearly 2.5 percent of our GDP.

Dr. Manne’s basic conclusions have received support in studies conducted by Dr.

Lawrence Horwitz of DRI/McGraw Hill. Dr. Horwitz reported in “The Impact of Carbon Dioxide Emission Reductions on Living Standards and Lifestyles” that efforts to reduce greenhouse gas emissions to 1990 levels by 2010 through the use of carbon taxation would reduce U.S. GDP by 2.3 percent, or \$203 billion.

Dr. Horwitz discovered additional problems with near-term emissions-abatement programs. He predicts that 89 percent of U.S. consumption categories would be affected negatively by the carbon tax, with 40 percent of the total energy-cost increases falling directly on households. The balance of the increases would be borne by industry, then passed along to consumers. According to Horwitz, higher costs and lessened demand would spread damage throughout our economy. Real business fixed investment would decline \$56 billion annually by 2010. Real disposable income levels would drop \$75 billion in 1992 dollars by 2010. These developments would lead to severe job losses. Dr. Horwitz estimates the loss of more than 500,000 jobs per year between 1995 and 2010, with 1,000,000 jobs lost two years after the tax was fully implemented.

The Manne study of global CO₂ reductions also reveals that restrictive approaches to limit carbon emissions would hinder our international competitiveness in such basic industries as chemicals, steel, aluminum, petroleum refining, and mining. He contends further that the U.S. coal-exporting industry would be put out of business, and severe strains would be placed on important trade pacts like NAFTA and GATT.

Aside from the economic costs associated with the present emissions-abatement proposals, *The Global Warming Experiment* reveals that the current policy direction contains a fatal flaw. The study notes that the burden of carbon emission reductions falls on the United States and on other industrialized countries at a time when the former Soviet Union and the developing nations of the world are emerging as the primary contributors to the growth of greenhouse gases. IPCC estimates show that the developing nations and the former Soviet bloc countries currently

account for more than 50 percent of the carbon dioxide emissions, and by 2025 and 2100 the percentages will be 67 percent and 78 percent, respectively. By failing to include these nations in the program, any savings in the industrialized world will be more than offset by carbon "leakage" generated by the excluded parties.

Rational Response to Potential Climate Change

Given the uncertain prospects for drastic climate change in the immediate future and considering the potential for crippling costs of aggressive emissions-abatement policies, reasoned concern and continued study appear to be the responsible courses of action. These thoughtful approaches, unlike more aggressive proposals promoted by some environmental groups, will avoid the need to retire existing capital stock. They will allow time for advances in technology to bring improvements in energy use and supply. And a less restrictive policy will permit the development of ample supplies of low-cost substitutes for high-carbon-emitting fossil fuels, which currently account for 90 percent of the world's supply of commercial energy.

W. David Montgomery, a former visiting lecturer at Stanford University and currently lead author with the IPCC, makes a case in a recent paper that the imposition of near-term emissions-reduction programs would be costly and potentially unnecessary. He sug-

gests in "Developing a Framework for Short- and Long-Run Decisions on Climate Change Policies" that several steps should be followed to develop economically rational approaches, including:

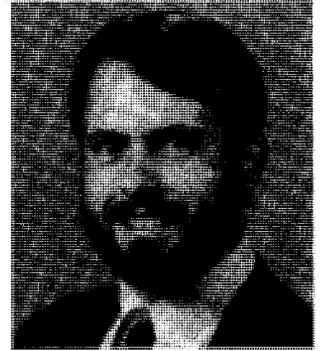
- analyze ultimate net costs and benefits to the United States of specific agreements;
- analyze implications for net costs and benefits to the United States of international sharing of the burden of response;
- inventory possible policy responses and analyze the economic merits of alternative response options.

The Global Warming Experiment asked the question: "What would be the consequence . . . of a delay of a decade in implementing the Rio Treaty limits on carbon dioxide emissions?" The answer: "A decade's delay could buy (time for) satellite observations of the global climate system, particularly observations that could lead to improvements in the treatment of the major cloud and vapor feedbacks in the climate simulation programs."

Perhaps Dr. Manne put the matter in perspective best, noting that: "Since global temperatures are not likely to rise significantly during the next several decades, an aggressive carbon dioxide abatement policy is unwarranted for the near term. Such policies, if implemented, could cost hundreds of billions of dollars. Even after 2020, there would still be enough time to adapt the global economy to a sharp decline in carbon emissions if we learn that such action is warranted." □



Foreign Aid and International Crises



Few programs have consumed as many resources with as few positive results as foreign aid. Since World War II the United States alone has contributed more than \$1 trillion (in current dollars) in bilateral and multilateral assistance to other countries. Other nations and international aid agencies have provided hundreds of billions of dollars more.

American assistance comes in various forms—grants and loans for bilateral projects, primarily through the U.S. Agency for International Development (USAID), as well as credit from U.S.-funded multilateral agencies, including the International Monetary Fund (IMF) and World Bank, to underwrite borrower development projects and provide aid for “structural” economic reforms. Other programs underwrite military purchases and provide disaster relief. Although some individual development projects have no doubt worked, and humanitarian aid can help alleviate the effects of crises, there is little evidence, despite the presumption of the term “foreign assistance,” that American cash transfers, whether bilateral or multilateral, actually do much to advance growth or stability throughout the developing world.

Even many advocates of foreign assistance acknowledge the disappointing results. For

instance, USAID admitted in 1993 that “much of the investment financed by U.S. AID and other donors between 1960 and 1980 has disappeared without a trace.”

Nor is there any reason to believe that better management would enable foreign aid to assist poor nations in achieving self-sustaining economic growth. Decades’ worth of financial transfers have not stopped developing countries from stagnating economically; indeed, many nations have been losing ground. Fully 70 developing states are poorer today than they were in 1980; 44 are worse off than they were in 1960. International comparisons are obviously fraught with difficulty, but aid levels don’t correlate with economic growth, and many of the biggest recipients of foreign assistance, such as Bangladesh, Egypt, India, Sudan, and Tanzania, have been among the globe’s worst economic performers.

Of course, even correlation would not be enough. The real issue is causation, but there is no evidence that aid generates growth. Particularly impressive are studies by Peter Boone of the London School of Economics. After assessing the experience of nearly 100 nations, he concluded that “Long-term aid is not a means to create growth.” As Boone explained, “it is not optimal for politicians to adjust distortionary policies when they receive aid flows.”

The failure of foreign assistance to meet its traditional goals has led to a search for new justifications. The current favorite is that financial transfers can be used to prevent social catastrophe, the veritable implosion

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of entire nations. In June 1994 USAID was ordered to “start putting together a socio-economic and political early warning system, to identify the vulnerabilities” of weak developing states, and to “start putting some resources behind them.” Administrator Thomas Atwood calls this mission “crisis prevention” and “preventive investment” in “nation building.”

Similarly, the U.N. High Commissioner for Refugees has suggested using aid for forestall crises. Last year the agency asked: “What might have happened in Rwanda if the estimated \$2 billion spent on refugee relief during the first two weeks of the emergency had been devoted to keeping the peace, protecting human rights and promoting development in the period that preceded the exodus?”

Nothing probably. Rwanda did not go unaided before its implosion. To the contrary, between 1971 and 1994 that nation received \$4.5 billion in foreign assistance. In fact, almost every country in crisis received abundant outside transfers from a variety of sources beforehand. Over the same period, Sierra Leone received \$1.8 billion, Liberia \$1.8 billion, Angola \$2.7 billion, Haiti \$3.1 billion, Chad \$3.3 billion, Burundi \$4.1 billion, Uganda \$5.8 billion, Zaire \$7.8 billion, Somalia \$8 billion, Mozambique \$10.4 billion, Ethiopia \$11.5 billion, and Sudan \$13.4 billion. (See the table.)

In none of these cases did foreign assistance forestall catastrophe. Indeed, few nations in Africa, irrespective of aid levels, have escaped social breakdown. Conflict and economic decline have resulted in tens of thousands of refugees fleeing Gambia, Mali, Mauritania, Niger, Senegal, Togo, and Western Sahara, as well as the states listed above.

Obviously, there are numerous reasons that so many nations, including some in Southeast Asia and the Transcaucasus, suffer so. In none of them is inadequate international aid the cause. To the contrary, foreign aid helped create and aggravate problems in Ethiopia, Somalia, Sudan, and Zaire, in particular, by subsidizing especially odious dictators who wrecked their nations. Among the most important causes of social division and catastro-

Aid: 1971–1994 (Millions of Dollars)

Nation	U.S.	Total International	Annual Average
Angola	117	2,743.1	114.3
Burundi	139	4,090.5	170.0
Chad	239	3,281.6	136.7
Ethiopia	999	11,499.6	479.2
Haiti	1,425	3,120.7	130.0
Liberia	639	1,795.0	74.9
Mozambique	616	10,419.3	434.1
Rwanda	416	4,505.0	187.0
Sierra Leone	172	1,769.0	73.7
Somalia	1,770	8,064.2	336.0
Sudan	1,692	13,415.9	559.0
Uganda	295	5,798.8	241.6
Zaire	529	7,800.0	325.0

(Source: Organization for Economic Co-operation and Development, *Geographical Distribution of Financial Flows to Developing Countries*, volumes covering 1971 through 1994.)

phe is what has been called “the overpoliticized state.” Yet government-to-government aid only strengthens the very same overpoliticized state.

All aid advocates can now argue that they would do better this time, since, with the end of the Cold War, there is less pressure to use assistance as de facto bribes to assorted dictators. However, the bulk of foreign transfers to such failed nations was always economic, not security. Between 1971 and 1994 the United States accounted for barely one-fifth of total assistance received by Somalia. The rest was economic aid from a variety of sources—the multilaterals and Europeans, in particular. During the same period Rwanda received more from the World Bank alone than from the United States; Burundi collected 3.6 times as much from the Bank as from Washington. In short, the problem with past aid is not that it was overly oriented toward political purposes. Rather, it is that such transfers turned out not to be aid at all. And the impact of new aid flows would be no different.

For nearly half a century the policy of foreign aid has been tried and found wanting. Today’s attempt to put old wine into new wineskins—to offer new justifications for yesterday’s failed policies—won’t work. There is

simply no evidence that increased aid flows can prevent future failed societies.

The most important thing that developed nations can do to assist poorer states is to first do no harm. Washington should end government-to-government assistance, which has so often buttressed brutal and venal regimes and eased pressure for reform. At the same time, the United States should drop its trade barriers, which now prevent poorer nations from participating in the international marketplace. The World Bank's J. Michael Finger figures that Western protectionism reduces

the Third World's GNP by a full three percentage points, twice current foreign aid transfers.

Mass poverty, famine, and murder blight our globe. However, the understandable desire to do something should not become an excuse to maintain the counterproductive policies of the past. For five decades foreign assistance has failed to deliver self-sustaining economic growth or prevent poor societies from collapsing into chaos. New aid flows will do no better. □

Arab Terrorism: Causes and Cure

by Robert W. McGee

Politicians are quick to condemn Arab terrorism such as the 1983 attack that killed 241 U.S. servicemen in Beirut, Lebanon, the Oklahoma City bombing (that turned out not to be the work of Arab terrorists), the World Trade Center bombing, and the Saudi Arabian bombing that killed or injured hundreds of people. The press always devotes substantial coverage to such events. But the big question—the one that neither politicians nor the press ask—is, “Why do some Arabs engage in such activities?” Why are they willing to engage in suicide attacks and bombings, and why do they single out the United States (as well as Israel) as their target? What grievance makes them so willing to kill, and to die?

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Some of the information in this article was obtained from the April 1996 issue of Washington Report On Middle East Affairs.

Anyone who pays any attention to the news knows that the United States has been the strongest supporter of Israel since its founding in the 1940s, and that various Arab states have, at one time or another, been enemies of Israel. Much less reported by the U.S. media is the violent Israeli aggression against the Arabs—Palestinians in particular—since the founding of Israel.

The Palestinian “problem” exists because the state of Israel was established on Palestinian land. During the 1948 war, the Israeli forces not only drove the Palestinians from their homes, but also made a point of dismantling more than 400 Palestinian villages, towns, and cities stone by stone, so that the Palestinians would have nothing to return to. As a result, three million of the estimated six million Palestinians are refugees, a million of whom are forced to this day to live in

appalling conditions in refugee camps with little hope for the future.

The Palestinians' property right, one of the most basic of all human rights, was systematically disparaged. The disparagement continues to this day, as evidenced by the West Bank settlement policies of the present Israeli government. Russian Jews and others are being given Palestinian land to live on, and the Palestinian owners are being driven from their land without compensation. Whole Palestinian neighborhoods in East Jerusalem have been confiscated and turned over to Jewish "settlers" in an effort to consolidate the Jewish hold on the city, which Israel is making the capital of the Jewish state.

The land grab is only one of many human rights abuses that the Palestinians have endured. Palestinians are subject to searches at numerous checkpoints in their own country. Their homes can be blown up without due process if a family member is merely accused of terrorist activity. There have been systematic attempts to prevent Palestinians from getting an education, as evidenced by the closing of Palestinian schools. While the official reason for the shutdowns was to close places where Palestinians could gather and organize, Israeli government officials also closed correspondence schools, where no gathering could take place.

Beatings, torture, imprisonment, and even killings of Palestinians have become commonplace. Palestinian farmers have been deprived of water for their farms, while Israeli farmers get what they need. Palestinian freedom of travel has been restricted or denied on numerous occasions, making it difficult or impossible to visit family or go to work, thus causing economic hardship. Christian and Moslem Palestinians who live in the West Bank and Gaza have been prevented from worshipping at Jerusalem's religious sites for "security" reasons. Palestinian merchants who sell watermelons in the local market have been beaten because they sliced open the watermelons, revealing the colors of the Palestinian flag, which was forbidden at the time. Palestinians have also been beaten for wearing shirts in the colors of the Palestinian flag. During the recent election, right-wing Israeli

party posters placed in front of polling places falsely warned Palestinians that their health and pension benefits would be taken away if they voted, greatly reducing the number of Palestinians who dared to vote. Some of those who tried to vote were beaten by police.

About 40 Israeli police beat one young Palestinian in front of James Moran, a member of the U.S. Congress. Bystanders said this sort of thing happens all the time. Israeli rubber bullets have caused some Palestinian youths to become brain dead. Between the start of the *intifada* in 1987 and mid-1995, more than 1,400 Palestinians, including 260 children were killed. The American press devotes little or no space to these Palestinian murders, yet never fails to cover a story involving the death of one or two Israeli soldiers.

U.S. press coverage is biased toward Israel. But that is not why some Arabs want to blow up Americans and American property. One of the main reasons these Arabs are outraged is because the U.S. government has been the strongest supporter of Israel from the very beginning. Sirhan Sirhan, the Arab who assassinated Robert Kennedy, said he did so because Senator Kennedy approved the sale of military aircraft to Israel, which would be used to kill Palestinians. While the Holocaust was a tragedy, and while everyone agrees that systematic extermination of an ethnic or religious group cannot be condoned, it does not follow that the survivors of an abused group have some inherent right to found a country on someone else's land.

U.S. taxpayers have been forced to support this land grab, and the many human rights abuses that have accompanied it, since the 1940s. For the 1996 fiscal year alone, American taxpayers had to pay more than \$5.5 billion for various kinds of aid to Israel—\$1,375 for every Jewish man, woman, and child (Palestinians don't get the benefit of the aid). Yet Israel cannot be called a poor country. It has a gross domestic product per capita approaching that of England.

Re-Examining Foreign Aid

The whole issue of foreign aid needs to be reconsidered. The U.S. Constitution provides

for a government of limited powers. The government can do constitutionally only what is specifically enumerated. As the Constitution says nothing about foreign aid, it is constitutionally suspect. Those who favor foreign aid programs might argue that giving foreign aid is in the best interest of the United States. But even if that were sometimes the case, it does not follow that foreign aid programs become constitutional just because they might be in America's best interest. Besides, the "best interest" argument does not seem to apply to Israel, a country that has received nearly \$78 billion in foreign aid from the United States between fiscal 1948 and 1996. At least part of the military aid Israel receives is used to deny the human rights of Palestinians. The nonmilitary aid is used to support an economic system that is basically socialist. How can the United States have an interest in supporting such a regime?

American taxpayers are being forced to support Israeli terrorism and socialism. At the very least, the foreign aid spigot should be turned off, the sooner the better. In addition, politicians who have the courage should speak out against the human rights abuses perpetrated against the Palestinian people. Even if one concedes that the United States has some strategic interest in Israel (I do not concede this point), it does not follow that American taxpayers should be forced to support a corrupt regime that systematically abuses the human rights of a targeted ethnic group. Human rights are human rights, and no government should ever condone or financially support a regime that systematically disparages them. Once U.S. support stops, Arab terrorists (some of whom may legiti-

mately be called freedom fighters) will be far less likely to attack U.S. property and citizens.

Although some Arabs hate the United States because of its support of Israel, that is not the only reason why some Arabs are angry with the United States. Historically, various U.S. governments have supported corrupt regimes. The United States government supported the Shah of Iran; a fascist South Vietnamese dictator who was fighting a communist North Vietnamese dictator; Stalin's enslavement of millions of East Europeans; and Ferdinand Marcos in the Philippines when it was fashionable to do so. During the Gulf War the United States government came to the aid of a family of dictators in Kuwait who were being attacked by an Iraqi dictator. American soldiers were summoned to a Kuwaiti prince's house to reinstall the gold plumbing that had been stolen by Iraqi soldiers—hardly a legitimate use of American troops. The U.S. government has supported a number of corrupt regimes in Arab countries over the years because American leaders thought it was in the best interest of the United States to do so. Although it is seldom in anyone's true best interest to support corrupt regimes, it is a morally bankrupt policy, and the Arabs recognize that fact.

While cutting off American aid to Israel and ending support for corrupt Arab regimes might stop Arab terrorism against the United States, it will not stop the violence in Israel. That is unlikely to cease until human rights abuses are stopped and the land that has been taken is restored to its rightful owners. Muslims, Jews, and Christians can live in peace, but only when human rights, including property rights, are respected. □

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Putting the Framers' Intent Back Into the Commerce Clause

by Eric W. Hagen

On April 26, 1995, for the first time in almost 60 years, the U.S. Supreme Court invalidated a federal statute on grounds that Congress had no authority under the Commerce Clause of the U.S. Constitution to pass the law. The case, *United States v. Lopez*,¹ involved a challenge to the Gun-Free School Zones Act,² a federal criminal statute that made it a federal offense for anyone to possess a firearm within 1,000 feet of a school. The Court held that the statute exceeded Congress's authority to regulate interstate commerce because possession of a gun in a local school zone was not economic activity and did not "substantially affect" interstate commerce.

Under the Constitution as originally written and understood, the invalidation of the statute in *Lopez* would have received little attention. As James Madison, the principal draftsman of the Constitution, wrote: "The powers delegated by the proposed Constitution to the federal government are few and defined. Those which are to remain in the State governments are numerous and indefinite."³ For the first 150 years of the Republic, this admonition had a profound effect. Congress, for the most part, refrained from cre-

ating the kinds of laws that compose today's gargantuan regulatory state. When Congress attempted to flex its regulatory muscle, the Supreme Court would step in and invalidate the regulations, either for regulating activities with too indirect an effect on interstate commerce or for regulating noncommercial activities, such as mining or manufacturing.⁴

The Supreme Court abruptly departed from this original understanding of the commerce power in the years following President Franklin D. Roosevelt's infamous "court-packing" scheme of 1937.⁵ Along with the Court's ideological shift began the systematic process of erasing the previous limitations that had restrained Congress's regulatory power.⁶ As a result, congressional authority under the Commerce Clause emerged as virtually unlimited. In *Lopez*, the Court, at long last, acknowledged that some limits still exist, but how these limits are defined remains somewhat uncertain.

The *Lopez* Definition of Commerce

Chief Justice Rehnquist, writing for the majority in *Lopez*, identified three broad categories of activity subject to congressional regulation under the Commerce Clause: (1) "the use of the channels of interstate commerce"; (2) "the instrumentalities of interstate commerce, or persons or things in interstate commerce, even though the threat

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may come only from intrastate activities"; and (3) activities that "substantially affect interstate commerce."⁷

The first two categories are fairly straightforward: Congress may regulate commercial channels, such as highways, waterways, and air traffic; it may also regulate and protect instrumentalities within such channels, such as people, machines, and vehicles.⁸ The third category, as the Court readily admitted, is more nebulous.⁹ Nevertheless, the Court gave some hints as to what is required for a federal statute in this third category to be upheld as a valid exercise of Congress's commerce power.

The Court first noted that a regulated activity's impact on interstate commerce must be substantial and not merely incidental.¹⁰ The Court also affirmed that when Congress exercises its commerce authority, the regulations it promulgates must have some real connection to commercial or economic activity.¹¹ Justice Breyer, the principal dissenter, sharply criticized this commercial-noncommercial distinction as a return to an untenable, pre-Depression version of the Commerce Clause.¹² Of course, the flaw in Justice Breyer's argument is that he seems to suggest that the Court should ignore jurisprudential errors simply because they have become entrenched. In light of this quandary, it is uncertain whether activities that are not clearly commercial are still subject to regulation; however, it may be inferred from *Lopez* that any connection to economic activity must at least be more obvious than the link between interstate commerce and guns in schools.

The Court next examined two fatal flaws in the Gun-Free School Zones Act. First, the statute contained no jurisdictional element to ensure, on a case-by-case basis, that the gun possession in question affected interstate commerce; and second, Congress made no formal findings regarding the effects of gun possession in school zones on interstate commerce.¹³ The majority ruling did not state that the presence of a jurisdictional nexus is conclusive of a statute's validity, but the absence of any such nexus raises serious questions as to whether the law goes beyond the enumerated power under which it was

enacted. With regard to congressional findings, the Court recognized that while such findings are not dispositive, they may have some relevance in establishing a link to interstate commerce.¹⁴

Finally, the Court noted that states have historically possessed primary authority for regulating areas such as criminal law, family law, and education.¹⁵ The Court asserted that if no limits were placed on Congress's commerce power, then the federal government would usurp these traditional state functions and thereby undermine the structural guarantee of freedom provided by federalism.¹⁶ The Court thereby accepted the Framers' understanding that preventing the accumulation of excessive power in the federal government reduces the risk of tyranny.

It is unlikely that *Lopez* goes so far as to prohibit direct federal regulation of traditional state functions, especially when the Court rejected such an approach in *Garcia v. San Antonio Metropolitan Transit Authority*.¹⁷ Nevertheless, if a federal statute were to regulate an activity that has traditionally been the subject of state control, the Court is perhaps now more likely to invalidate the law. This increased likelihood applies especially if the federal regulation disrupts the federal-state balance by foreclosing the states from "perform[ing] their role as laboratories for experimentation to devise various solutions where the best solution is far from clear."¹⁸ As Justices Kennedy and O'Connor observed in their concurrence, federalism has a utilitarian function by discouraging centrally designed and controlled social policies that otherwise would lead to bureaucratic nightmares and Kafkaesque regulation.

Assessing *Lopez*

The precedential value of *Lopez* remains uncertain. Some commentators insist that the decision will have only a trivial impact,¹⁹ others suggest that *Lopez* may have far-reaching consequences.²⁰ Several statutes have been analyzed under *Lopez* in the eighteen months since the decision was announced. While most courts have upheld a wide variety of federal regulations by constru-

ing *Lopez* narrowly, the courts are not without dissension.

For example, federal district courts are split with regard to the constitutionality of the Child Support Recovery Act,²¹ which made it a federal offense to willfully withhold an overdue support obligation from a child residing in another state. Some courts have invalidated the statute as beyond the scope of the commerce power and in violation of the principles of federalism.²² In particular, these courts have observed that *Lopez* explicitly singled out federal regulation of family-law matters, such as child custody, as an unreasonable encroachment on state sovereignty. Other courts have upheld the statute, asserting that the regulation of child support payments has a substantial effect on the national economy.²³ Their conclusion is based on the fact that Congress produced an abundance of legislative history regarding such economic effects and that the statute ensures, on a case-by-case basis, a jurisdictional nexus to interstate commercial activity.

The cases upholding the Child Support Recovery Act appear to run contrary to the underlying spirit of *Lopez*, which endeavored to hold Congress to its constitutional limits and to restore some balance to the power relationship between the federal and state governments. However, as Justice Thomas foreshadowed in his concurrence in *Lopez*, the analytically boundless nature of the "substantial effects" test encourages decisions that are inconsistent with the principles espoused in *Lopez*,²⁴ so it is perhaps not surprising that courts are confused.

It should be further noted that courts do not necessarily have to invalidate a federal statute to prevent a significant intrusion on the traditional federal-state balance. A Ninth Circuit case²⁵ involving a federal arson statute²⁶ is illustrative in this regard. Like the statute at issue in *Lopez*, the activity regulated by the arson statute was noncommercial and Congress revealed no connection to interstate commerce through formal findings. Unlike *Lopez*, however, the arson statute contained a jurisdictional element that required, in each case, a connection to interstate commerce. Rather than invalidate the law, the court

merely overturned a conviction on grounds that the jurisdictional requirement was not satisfied. Thus, courts have the option of using narrow statutory construction to remain true to the values of *Lopez*.

Original Intent Revisited

The Rehnquist Court could have decided *Lopez* differently, consistent with the modern trend of deferring to congressional actions. However, instead of turning the Commerce Clause into a general police power, the Court declared that the commerce power has limits. Contrary to the Court's case law of the past 60 years, this interpretation is much more consistent with the original purpose of the commerce power, which was primarily a means of eliminating trade barriers among the states.²⁷ Thus, in the wake of *Lopez*, Congress must rethink its belief that it has the authority to intervene in every national problem—a welcome notion in these days of big government.

Lopez undoubtedly gives rise to legal uncertainty, for one may no longer assume that the Court will routinely accept that Congress acted within its power. Such ambiguity may present an obstacle to lawmakers but, as Chief Justice Rehnquist noted, any advantage derived from eliminating this uncertainty would be at the expense of the Constitution's delicate system of enumerated powers. □

1. 115 S. Ct. 1624 (1995).

2. 18 U.S.C. § 922(q) (1988 ed., Supp. V).

3. James Madison, *The Federalist No. 45* (Clinton Rossiter, ed., 1961), pp. 292–93.

4. See, e.g., *Carter v. Carter Coal Co.*, 298 U.S. 238, 303–04 (1936) (invalidating the Bituminous Coal Conservation Act of 1935 in part because the act regulated production rather than trade); *United States v. Butler*, 297 U.S. 1, 68 (1936) (invalidating the Agricultural Adjustment Act because it invaded the reserved powers of the states); *A.L.A. Schechter Poultry Corp. v. United States*, 295 U.S. 495, 550 (1935) (striking down a "Live Poultry Code" authorized by the National Industrial Recovery Act of 1933 because the activity being regulated affected interstate commerce only "indirectly").

5. William E. Leuchtenburg, "The Origins of Franklin D. Roosevelt's 'Court Packing' Plan," *Supreme Court Review* (1966), p. 347.

6. The watershed decision was *NLRB v. Jones & Laughlin Steel Corp.*, 301 U.S. 1 (1937), wherein the Court upheld the National Labor Relations Act.

7. *United States v. Lopez*, 115 S. Ct. 1624, 1629 (1995) (citations omitted).

8. *Id.* at 1629–30.

9. *Id.* at 1630. Conceding that the majority ruling gives rise to legal uncertainty, Chief Justice Rehnquist noted that ever since *Marbury v. Madison* determined that it was the judiciary's duty to

"say what the law is," such uncertainty has been inevitable. *Id.* at 1633 (citing *Marbury v. Madison*, 5 U.S. (1 Cranch) 137 (1803)).

10. *Id.* at 1630. The Court stated that Congress may not use "a relatively trivial impact on commerce as an excuse for broad general regulation of state or private activities." *Id.* (citing *Maryland v. Wirtz*, 392 U.S. 183, 196 n. 27 [1968]).

11. *Id.* at 1630-31.

12. *Id.* at 1663 (Breyer, J., dissenting).

13. *Id.* at 1631-32.

14. *Id.*

15. *Id.* at 1632-33.

16. *Id.*

17. 460 U.S. 528, 546-47 (1985), *overruling National League of Cities v. Usery*, 426 U.S. 833 (1976).

18. *Lopez*, 115 S. Ct. at 1641 (Kennedy, J., concurring).

19. Lino A. Graglia, "Case Studies," *National Review*, June 26, 1995, p. 32.

20. David G. Savage, "High Court to Rule on Law Barring Guns Near Schools," *Los Angeles Times*, April 19, 1994, p. A17; Arthur Schlesinger, Jr., "In Defense of Government," *Wall Street Journal*, June 7, 1995, p. 14.

21. 18 U.S.C. § 228 (1995).

22. See *United States v. Mussari*, 894 F. Supp. 1360, 1368 (D. Ariz. 1995); *United States v. Schroeder*, 894 F. Supp. 360, 368-69 (D. Ariz. 1995); *United States v. Bailey*, 902 F. Supp. 727, 730 (W.D. Tex. 1995).

23. See *United States v. Hampshire*, 892 F. Supp. 1327, 1330 (D. Kan. 1995); *United States v. Sage*, 906 F. Supp. 84, 88-89 (D. Conn. 1995).

24. *United States v. Lopez*, 115 S. Ct. 1624, 1650 (1995) (Thomas, J., concurring).

25. *United States v. Pappadopoulos*, 64 F.3d 522 (9th Cir. 1995). In *Pappadopoulos*, the government argued that federal jurisdiction was conferred upon an arson prosecution because the private residence that was destroyed received natural gas from out-of-state sources. *Id.* at 525. The court held that this was an insufficient connection to interstate commerce. *Id.* at 527.

26. 18 U.S.C. § 844(j) (1995).

27. Roger Pilon, "Freedom, Responsibility, and the Constitution: On Recovering Our Founding Principles," *Notre Dame Law Review*, 68 (1993), p. 534.

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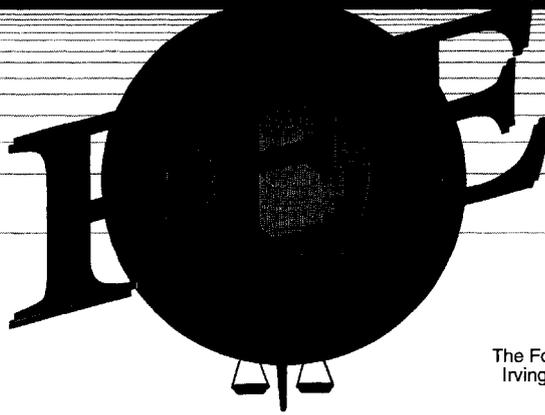
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Two Yardsticks of Morality

The mystery of life is not a problem to be solved. We were born some time ago, but know not why. We shall die some time, but know not when, where, and why. All we may ask: "What is it every man is seeking in his life? What does any man want?"

He is seeking to be secure in his life, to be left alone so that he may become what he would like to become. To be free and independent, to be happy, to do what he pleases without restraint and coercion, that's probably the most important single force in the world today.

Yet this force faces the reality of complete dependence of every individual on the cooperation of other individuals. Our food, clothing, shelter, transportation, and education are provided by other individuals working together in meticulous division of labor. We depend on our fellowmen for our very survival. How free and independent can we be with neighbors all around us and coworkers with us for most of the day?

This question of the limits of freedom has occupied theologians and philosophers throughout the ages. Some tell us that modern society cannot tolerate much individual freedom because of a limitation of space and resources; others demand a wide margin of freedom because of the

complexities and intricacies of man's cooperation and division of labor. One answer which is rather persuasive is based on the very definition of freedom itself. *If every man seeks to be secure, to be happy, to do what he pleases without restraint and coercion, and every man is to have the same measure of freedom, my own must be limited by everyone else's freedom as everyone else's is limited by mine.* I must always be mindful of others. I must not diminish anyone's freedom, I must not inflict harm on other people.

Most of us are considerate of the rights of our fellowmen. In our **personal** relations we try to be careful, thoughtful, courteous, and judicious. We may assist each other in many ways, and be Good Samaritans, offering aid to people in need; yet in our **political** lives we may act like thieves and highwaymen. We readily seize other people's income and property without remorse. Indeed, there seem to be two modes of behavior, two yardsticks of morality: one for our personal relations and one for the body politic.

Politics is strife of interests masquerading as contest of principles. To be a lawyer you must study law; to be a physician you must study medicine; to be a carpenter you must learn your trade; but to be a politician you need only to know your own interests and those of your electorate.

As voters we ourselves live by a similar yardstick of morality in our political choices and decisions. *We seize as many benefits and privileges as we possibly can — always at someone else's expense.* And we impose as many restraints and restrictions on our fellow citizens as we possibly can.

When death comes to our neighbor, we may weep with the widow and her children. We honor the dead and comfort the living. We deem it our special duty that, if they need our help, we give it to the utmost of our ability and our power. But as members of the body politic we dispatch our estate sleuths and collectors to seize most of their belongings. For many years we expropriated as much as 77 percent of their possessions through the Federal Internal Revenue Service; at the present we seize only 55 percent. We grab various percentages through our state revenue departments.

As members of a political party, professional association, or a labor union, we seek our own good at the whole world's expense. We act like hungry tigers in our own cause, preying on widows and orphans, women and children, and various minorities by majority vote. We plunge into politics to make our fortune. We join an association to fight for license and privilege, and sign up with a labor union in order to earn more and work less. In a labor dispute we may man a picket line and use brute force against fellow workers, employers, and their customers.

The difference between personal and political lives is clearly visible in the behavior of a teamster who, as a faithful member of his congregation, attends mass on Sunday and, as a member of local 1678, blocks traffic on Monday, throws bricks at passing trucks, and slashes the tires of scab automobiles. Similarly, the organized

steelworker, longshoreman, bus driver, or coal miner may attend church on Sunday but waylay independent workers on Monday. The hospital worker may care for the sick throughout most of the year but harm them at bargaining time.

In our personal lives we love our children. They are a mother's pride and a father's joy. We instruct them in virtue and labor and bind them to us through care and protection. Yet, as members of the body politic, we burden them with our debt, trillions of dollars, which we force them to pay or be dishonored in bankruptcy. We enjoy the productivity of the magnificent apparatus of production which our forebears left to us, yet it is insufficient for our enjoyment. Our deficits eat into the substance of the apparatus so that our children must work with less and subsist on less. We inflate and depreciate our currency, which erodes the purchasing power of all claims to money, including the savings of our children. As parents we may create a legacy for our children; as members of Medicare we drain it and fritter it away.

Indeed, there are two modes of behavior, two yardsticks of morality. In our personal lives we try to be charitable, which is to will and do what is just and right in every action. We may lend a hand to a stranger, stand by an orphan or widow, and give bread to the hungry. As members of the body politic we may act like a gang of highwaymen lurking in the highway for the purpose of robbing passers-by.



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Liberty and Privacy: Connections

by Joseph S. Fulda

If property is liberty's other half, privacy is its guardian. The right to privacy is essential to the preservation of freedom for the simplest of reasons. If no one knows what I do, when I do it, and with whom I do it, no one can possibly interfere with it. Intuitively, we understand this, as witness our drawing the curtains and pulling the window shades down when prowlers are about. The threat to freedom comes from both the criminal and the state, from any and all ways and means in which others forcibly overcome our will. Just as we do not want burglars casing our homes, we should fear the government's intimate knowledge of the many details of our daily lives.

Although equally critical to liberty, privacy rights, unlike property rights, are not enumerated in the Constitution (except for the fourth amendment's protection of "persons, houses, papers, and effects" from unreasonable searches), although throughout most of our history Americans have retained their right to privacy. Today, however, this right is insecure as the courts, except in a few cases, have been unwilling to find in privacy a right

Joseph S. Fulda, a contributing editor of The Freeman, has been published frequently in scientific journals, philosophical journals, mathematics journals, law reviews, and journals of opinion.

retained by the people as suggested by the ninth amendment's declaration and, despite *Lopez*,¹ have been unwilling to bar legislated invasions of privacy on the grounds that they are simply outside the scope of the few and well-defined powers granted by the Constitution to the Congress.

Nor is privacy from the snoop afforded that much more protection today. Few, indeed, are the invasions of privacy regarded as criminal, rather than tortious, and many are not actionable at all. Paradoxically, the argument has been that one has a liberty to invade the privacy of others, if there is no reasonable expectation for that privacy. That may sound reasonable, but it forms what engineers term a positive feedback loop: The more privacy is invaded, the less reason one has to expect privacy, and therefore the more it may be invaded. This faulty jurisprudential theory has single-handedly eviscerated tort law and rendered the only specific privacy protection in the Bill of Rights—that barring unreasonable searches—weaker and weaker. The proper response to this flawed reasoning is simple: People often expect, in the sense of justly demand, what they cannot expect, in the sense of predict. We may thus have a *right* to expect our privacy to be respected in the former sense, whether or not we may expect it to be respected in the latter sense. Expectations, in other words, must be defined against a *fixed* standard of reasonableness, not one programmed to continuously decay.

The most egregious governmental violation of our privacy lies with our tax system, which is frankly frightening, as the potential for the destruction of liberty arising from the reams of information returned annually to the government is vast. The government is told our family size, our occupation, our business associates—employers, employees, contractors, partners, and the like (and, if we report barter income, some of our friends, as well), our holdings (unless we realize neither profit

nor loss from their transfer and, also, gain no income while we continue our ownership), our schooling (unless it is not relevant to our work), and our provisions for retirement. Although no one may expect such dire consequences, the potential exists for such diverse state initiatives as population control programs, mandatory occupational tracks, massive interference with freedom of association, and enforcement of any or all of these by threat of loss of our holdings. Without this tax-related information, such interferences would be impossible. It is no accident that totalitarian systems in which there is no freedom whatsoever also tolerate no privacy. For Big Brother to act, he must know, and state surveillance with spies everywhere was a staple of the now-fallen totalitarian regimes.

Nor are these concerns the idle musings of a libertarian alarmist. Buried deep in the pages of the Federal Register is news that the IRS is implementing a massive new initiative, styled Compliance 2000.² At the heart of the initiative is "a huge database" with "personal information on every American" gathered from records kept by "other federal agencies, state and local authorities, private organizations and the media." The regulation giving notice of this massive new database, composed of records from cyberspace as well as more traditional sources, stated that Compliance 2000 is "exempt from the notification, access, and content provisions of the Privacy Act [1974]." In other words, "[t]his means that the IRS doesn't need permission to get information, doesn't need to show it to you, and doesn't need to correct the information even if it's wrong." Privacy groups such as EPIC (Electronic Privacy Information Center) and business groups such as the DMA (Direct Marketing Association) strenuously opposed the initiative, but it went forward anyway. The IRS hopes to look at what is consumed as a check on the self-reporting of what is produced, but the potential for abuse and, according to the DMA, for chilling legitimate businesses is obviously vast.

And, just as the state, in this initiative and more generally, threatens privacy, the market

protects it. Consider the market institution of money. Money must be portable, durable, and limited in quantity but the value of money lies not only in what it can buy, but also in its protection of privacy. Under a barter regime, everyone I buy from knows what I produce, and everyone I sell to knows what I consume. In the cash economy, only my customers know what I produce and only those from whom I purchase know what I consume. That is why the black-market cash economies of the once-totalitarian regimes of Eastern Europe were synonymous with the bits and pieces of freedom that survived there. Of course, cash transactions protect privacy from the snoop as well as from the state. With my bank-issued MasterCard number, for example, any mail-order merchant can find out the sum of my purchases and cash advances, my last payment, my next due date and minimum amount due, and my credit line, for all it takes is the credit card number and my zip code, the former of which he must have to claim payment and the latter of which he must have to deliver the goods.

To a lesser extent, even the serial numbers on paper money abridge privacy, as those who engage in businesses the feds do not approve of, such as the drug trade, have found out. Bank holdings are even more vulnerable, because upon transfer of large amounts of cash from accounts (marked with an ever-present Taxpayer Identification Number), the government is immediately notified. The new industry now known as money-laundering provides nothing but privacy-protection services to the rather large market spawned by various federal prohibitions—and this simple fact holds, whatever one's opinion of the nature of the enterprises whose privacy is being protected.

Privacy is the great shield of freedom from interference. Everyone who savors freedom will champion the right to privacy. □

1. *United States v. Lopez*, 115 S. Ct. 1624 (1995). (Editor's note: see Eric Hagen, "Putting the Framers' Intent Back into the Commerce Clause," pp. 813-816 of this issue.)

2. The facts and quotes are from Farhan Memon, "Revealed: IRS Is Tracking You in Cyberspace," *The New York Post*, February 16, 1995, pp. 32, 38.

The Southern Tradition: Implications for Modern Decentralism

by Thomas Woods Jr.

The American tradition of decentralism has attracted adherents on both sides of the ideological spectrum and from all sections of the country. William Appleman Williams, a man of the New Left, actually preferred the Articles of Confederation over the Constitution, and insisted that the “core radical ideas and values of community, equality, democracy, and humaneness simply cannot in the future be realized and sustained—nor should they be sought—through more centralization and consolidation. These radical values can most nearly be realized through decentralization and through the creation of many truly human communities.” Students for a Democratic Society leader Carl Oglesby, in his book *Containment and Change*, pointed with approval to such right-wing partisans of the old republic as Howard Buffett and Gareth Garrett, and went so far as to declare that “in a strong sense, the Old Right and the New Left are morally and politically coordinate.”

While decentralist and even secessionist sentiment was widespread throughout the North at least through the early nineteenth century—recall, for example, that former Sec-

retary of State Timothy Pickering twice garnered support for a plan by which New England and New York would secede—these principles remain most closely associated with the American South. And yet these principles, while securely grounded in the Constitution, found their salience for the average Southerner less in their cogency in the realm of abstract theory than in the natural loyalties he felt toward the persons and institutions closest to him. Nathaniel Hawthorne, himself a Southern sympathizer, once remarked that a state was about as large an area as the human heart could be expected to love, and that the local and particular would always possess a stronger claim on the individual’s allegiance than such a distant abstraction as “the Union.” John Greenleaf Whittier once wrote of that exemplar of the old South, John Randolph of Roanoke:

Too honest or too proud to feign
A love he never cherished,
Beyond Virginia’s border line
His patriotism perished.

Thomas Jefferson, among the most forceful advocates of localism in early America, pointed in 1791 to the decentralist Tenth Amendment as the cornerstone of the American republic: “I consider the foundation of the Constitution as laid on this ground: That

Mr. Woods, a founding member of the Southern League, is a doctoral candidate in history at Columbia University. This paper was delivered in June 1996 at the E.F. Schumacher Society Decentralist Conference held at Williams College in Massachusetts.

‘all powers not delegated to the United States, by the Constitution, nor prohibited by it to the States, are reserved to the States or to the people.’” Yet Jefferson’s ideal political order went far beyond a recognition of mere *states’* rights: as Dumas Malone points out, Jefferson’s ideal political order called for a far greater decentralization, in which self-governing *towns* would make virtually all their own political decisions without outside interference. He envisioned a hierarchical structure of town, county, state, and finally national government, and his goal was a system in which no entity of a “higher order” would infringe on the just prerogatives of one of a “lower order.”

Despite the honorable lineage of states’ rights advocates, led by the sage of Monticello, some people dismiss the states’ rights argument, as framed by Southerners, as merely a grandiose justification for slavery. While the historical and constitutional arguments adduced in its favor cannot be explored here in any depth, it should be recalled that they were compelling enough to force even the Progressive historians Charles and Mary Beard to concede that the South “had rather the better of the argument.” Moreover, as Professor Eugene Genovese reminds us, of the five Virginians who made the greatest intellectual contributions to the strict constructionist interpretation of the Constitution—George Mason, Thomas Jefferson, John Randolph of Roanoke, St. George Tucker, and John Taylor of Caroline—only Taylor could be described as proslavery, “and even he regarded it as an inherited misfortune to be tolerated, rather than celebrated.”

Wartime propaganda aside, America’s War Between the States was merely the American counterpart of a worldwide trend toward national centralization, as illustrated by the contemporaneous experiences of Italy, Germany, and Japan. In the United States, however, the saccharine language of justice and rights obscured the real significance of the war and Reconstruction. Yet even historian Vernon Parrington, no man of the Right, had reservations about the outcome of the war, which he considered “disastrous for American democracy, for it removed the last brake

on the movement of consolidation, submerging the democratic individualism of the South in an unwieldy mass will.” States’ rights, he believed, had been not merely an abstract principle but “an expression of the psychology of localism created by everyday habit.”

A Step in the Wrong Direction

For some Northerners, the subjugation of the South and the central state’s subsequent efforts toward cultural and political homogenization were the first step toward realizing their own imperial ambitions for the United States. Secretary of War William Seward articulated this view most clearly. Seward held a distinctly millennial view of his country’s role in the world, convinced that America had a mission to spread republicanism throughout the globe. In order for his plan to be realized, however, order would first have to be established at home and the unchecked power of the central state vindicated. It is no coincidence that within a generation after the last occupying forces left the South at the end of Reconstruction, the United States had embarked on its career of empire.

The revolution that began in the 1860s has progressed with a cold and relentless logic, reducing historic communities to mere administrative units of the central state. Jefferson warned of the dire consequences if all decision-making power became centralized in Washington. It hardly needs saying that this centralization has come to pass; worse still, more and more legislative functions are now being delegated to *global* institutions. Ordinary citizens have been known to beat city hall from time to time, but their prospects for challenging a decree of the World Trade Organization are slight.

Thinking Locally, Acting Locally

What steps can be taken to reverse this trend? Here are a few suggestions:

1. We must revive local control as an issue in our national political discourse. From school curricula to crime control, we should insist that, regardless of our own positions on these issues, they are properly decided at the

local level. Of course, under such a Jeffersonian regime not all communities will adopt policies that suit our personal tastes. But if we are serious about restoring local control, we must resist the temptation to interfere in the affairs of communities to which we do not belong.

2. If local control is to have any meaning, the jurisdiction of the imperial Supreme Court must be drastically curtailed. The surprisingly short amount of time the Framers spent discussing the judiciary at the Constitutional Convention suggests their own view of its relative importance. Alexander Hamilton described it as the “least dangerous” of the three branches, and Jefferson’s opposition to the Court’s imperial designs was notorious. Never did the men of the early republic imagine that it would play the quasi-legislative role it has assumed in the twentieth century.

The jurisdiction of the Supreme Court can be restricted with relative ease. Article III, Section 2, of the federal Constitution provides several relatively minor categories of law in which the Court shall enjoy original jurisdiction. In most cases, however, “the Supreme Court shall have appellate Jurisdiction . . . with such Exceptions, and under such Regulations as the Congress shall make” (emphasis added). At any time, therefore, a simple majority of Congress can strip the Court of jurisdiction in a given matter and return usurped legislative prerogatives to the people and their representatives.

Ample precedent exists for such measures. After the *Dred Scott* decision, abolitionists spoke of stripping the Court of its appellate jurisdiction in all cases involving slavery. Two decades later, when it became clear that in the case of *ex parte McCardle* the Supreme Court would find the Reconstruction Acts unconstitutional, Congress passed an act in 1868 removing the Court’s jurisdiction over such issues, in accordance with Article III, Section 2. (When the case was reheard in 1869, the Court acknowledged the right of Congress to take this action.) In 1935, after handing down its ruling in *Nortz v. United States*, the Court seemed on the verge of declaring unconstitutional the government’s repudiation of the gold standard; Congress

promptly passed a law removing the Court’s jurisdiction in this area. In the wake of the apportionment cases of the early 1960s, the House passed a measure, defeated in the Senate, that would have deprived the Court of its jurisdiction there as well. In 1979, Senator Jesse Helms authored a resolution that would have done the same thing in matters of state laws regarding voluntary school prayer. The list could go on.¹

That these are precedents of which we would uniformly approve is doubtful: that they *are* precedents, however, is certain. It is worth noting in this connection that while the Confederate Constitution of 1861 provided for a Supreme Court, public opinion was so antagonistic toward such an institution that the implementing legislation was never passed. The Confederate legal order remained one of state judicial supremacy.

3. All U.S. military intervention must be opposed on *a priori* grounds. The example of Secretary Seward reminds us that our most ardent global crusaders tend to be those least concerned with, and often actively hostile toward, the American decentralist tradition. To the extent that such men give any thought to American regionalism and federalism at all, they see in foreign intervention an effective way of cementing the bonds of union at home. The political scientist Bruce Porter, in his recent *War and the Rise of the State* (1994), comes close to suggesting that the central direction and planning occasioned by war—to say nothing of the massive ideological propaganda that has become a hallmark of modern warfare—might be necessary to lift Americans out of their ethnic and regional parochialisms in the post-Cold War era. This tactic would exemplify what the libertarian journalist Felix Morley called “nationalization through foreign policy.”

Blanket opposition to foreign intervention will win us no popularity contests. Television and newspapers reserve their most intemperate name-calling and opprobrium for those whose only crime is to uphold the dictum of John Quincy Adams—that America is a well-wisher of liberty everywhere, but defender only of her own. That the distinctly honorable position of maintaining friendly relations with

foreign nations and opposing our own government's murderous military adventures should have incurred the "isolationist" smear is one of the great propaganda triumphs of our century. Recall that the nineteenth-century British classical liberal Richard Cobden, who opposed every instance of British adventurism in his own lifetime, was referred to not as an isolationist but, appropriately, as the "International Man."

Describing the Republican Party of his day, John Randolph listed the following as its first principles: "Love of peace, hatred of offensive war, jealousy of the state governments toward the general government." This, in a nutshell, is the political program of the American decentralist. Writing in *Chronicles*, Bill Kauffman summed up the common interest in

localism shared by grassroots activists of widely varying perspectives: "The new American populism has 1,000 offshoots, but a Southern League partisan in Alabama and an anti-nuclear dump activist in Allegheny County, New York, are comrades in the nascent movement that is opposed, as Jerry Brown said in *Chronicles*, to 'a global focus over which we have virtually no control.'" In that spirit, decentralists across the political spectrum should set aside mutual recriminations and remember that our real foe is the central state, whose imperial designs bode ill for the future of what Edmund Burke called the "little platoons" of civilization. □

1. See the discussion in Forrest McDonald, *A Constitutional History of the United States* (New York: F. Watts, 1982).

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The Sexual Harassment Lemon Law

by Sarah J. McCarthy

Mitsubishi Motors, facing what is threatening to become the biggest sexual harassment case in history, gave 3,000 of its employees a day off with pay to demonstrate against a lawsuit filed by 29 fellow employees with the Equal Employment Opportunity Commission.

One of the protesters, Kathleen McLouth, 42, a parts-deliverer at the Mitsubishi Motors plant near Chicago, exhibited more common sense than the collective wisdom of the National Organization for Women, Congress, and the U.S. Supreme Court when she said, “Sexual harassment has got to exist—you can’t have 4,000 people and not have it exist.”

This does not mean, of course, that McLouth wants sexual harassment to exist, or that she approves of it, but that she knows it will recur as inevitably as crabgrass or stinkweed. When weeds or pests appear on the scene, most of us have learned the big lesson of Vietnam—that it’s better not to destroy a village we’re trying to save. When you call the Weed-B-Gone man, you don’t expect him to blow up your house.

Unfortunately, when it comes to sexual harassment law, Congress and the Supreme Court have concocted a cure that’s worse than the disease. A sort of sexual harassment

hysteria has erupted because of a definition so broad and so vague as to cause people like Bernice Harris, 58, a cashier in the U.S. Senate cafeteria, to be accused of harassment for calling her customers “honey” and “sugar.” Being called “baby,” complained Christopher Held, an employee of Senator Mitch McConnell, was “real bothersome.”

In the days before \$300,000 fines could be levied for a “sweetie” in the cafeteria line, such petty slights would have been overlooked. To ignore a slight nowadays is like tossing out a winning lottery ticket.

With global sales of \$38 billion, Mitsubishi employs workers who are among the best paid in the auto industry, but has only one assembly plant in the United States—the one being sued for sexual harassment. “I get fair wages. I get fair benefits. There’s an opportunity for me to move up,” says Jane Hieser, a 43-year-old body shop worker. “I get better backing here as a woman than I’ve ever gotten before.”

Hieser sounds like the women I heard testify at the trial of a bartender at the former Pittsburgh Sports Garden, a nightclub frequented by Steelers, Penguins, Pirates, and their fans. Many women said it was the best place they’d ever worked before it collapsed under the weight of a sexual harassment suit. Though the owners knew nothing about the dispute between a bartender and a waitress, the small business closed down the day the guilty verdict was announced.

Ms. McCarthy, co-owner of Amel’s Restaurant in Pittsburgh, has written on sexual harassment issues for Forbes, Regulation, Restaurant Business, and the University of Wisconsin’s Small Business Forum.

Sexual harassment lawsuits can be job crushers, and if the damages are big enough they can destroy a company. The way the current sexual harassment law is constructed, the company and totally innocent employees pay a bigger price than the actual harasser.

The economic threat to a company through a class-action lawsuit is often so large as to border on extortion, but the threat of economic extinction is only part of the picture. The employees of Mitsubishi are in for a rough, ugly ride where their sexual histories, family relationships, and workplace interactions are dragged into the courtroom like a huge pile of dirty laundry. Every workplace comment, joke, flirtation, and relationship will be grist for the mill. The ugly soap opera could end relationships and marriages. The media, lawyers, and sexual harassment crusaders will pick over the details of workers' lives like vultures feeding on a carcass. Some of those involved will profit mightily.

He Said, She Said . . .

Just as in a family quarrel or a divorce, no one will ever agree on what really happened—whether the women involved were damaged, whether they did or didn't bring the harassment on themselves, or whether they were just trying to win some easy money. Their character and the reputations of witnesses on both sides will be impugned. Careers will be derailed.

In the end the Mitsubishi plant may be prosperous enough to survive this lawsuit. But given the near impossibility of monitoring the sexual speech of over 4,000 workers who may be dating, flirting, breaking up, or fighting, it's likely they may decide against opening additional assembly plants in the United States. The necessity of extensive monitoring by employers who are trying to protect them-

selves from sexual harassment lawsuits should raise concerns about the chilling effects on free speech and freedom of association. The silencing of workplace clowns, elimination of social gatherings, and implementation of no-dating policies are the usual outcomes of sexual harassment lawsuits.

If the case goes to trial, it's a near certainty that the plant's culture will be destroyed. Employee will be pitted against employee, man against woman, friend against friend, and everyone will blame someone else while the real culprits—the National Organization for Women, the trial lawyers' lobby, and the Congress of the United States, who were the architects of this incendiary law—will remain self-righteously above the fray.

There are, of course, many more sensible ways to curb sexual harassment, or any other kind of harassment, in the workplace. Counseling and mediation, backed up by escalating fines and firings if the problem remains unresolved, could actually induce more women to report earlier. At present many hold back complaints because the fallout is so draconian. Alternative, common-sense solutions, however, lack the glories and moral victories sought by sexual harassment crusaders and their big-government allies. There would be no lottery-size wins and banner headlines for the crusaders and their lawyers. Resolving a problem through the sensible-shoes approach is not as thrilling as hobbling a multinational corporation.

After the crusaders have marched off to the next glorious battle, Kathleen McLouth and Jane Hieser may be left like soot-covered soldiers on a deserted battlefield without a workplace and without jobs. Defective cars that roll off the Mitsubishi Motors assembly plant are subject to recall under the lemon law. It's time to repair the sexual harassment lemon law. □

A Property Rights Parable for City Dwellers

by Richard Pombo and Joseph Farah

Imagine you have just purchased a two-bedroom condo in New York City. You had saved money for ten years to buy it. It is conveniently located and has a beautiful view. You plan to turn one of the bedrooms into a home office for your consulting business. You paid \$300,000 for the condo, but you are thrilled to have it.

After signing the check for the down payment, you are about to move in your furniture, computer, and personal effects. You hear a knock at the door. Two armed agents from the U.S. Fish and Wildlife Service (FWS) want to talk to you about your condo and your plans to run a consulting business from that second bedroom. You see, your condo has been designated as critical habitat for the endangered Manhattan cockroach.

The Manhattan cockroach once roamed freely all over the island of Manhattan, but human activities like the construction of high-rise condominiums, subways, roads, and X-rated movie theaters have reduced the habitat of the cockroach by over 98.5 percent. Their numbers have fallen drastically, according to a study done by a New York University graduate student in his apartment on 43rd

Street and Ninth Avenue. Last August, he discovered 20 roaches in a three-hour period. This year he could locate only ten. On the basis of these data, he requested that the roach be listed as an endangered species because of the 50 percent reduction in its population. Since no one submitted contrary claims to the FWS, it used these “best available data” and made the listing.

As a result, the FWS agents say that your second bedroom must be set aside for the cockroach. You are not allowed to put any furniture, clothes, or computer equipment in that room. You may not vacuum the floor in that room, as that might eliminate the roach’s food supply. If you enter the room, you must be careful not to step on, harass, or intimidate any roaches. Turning on the light suddenly, for instance, frightens the roach and causes it to scurry away. If you do any of these things, it will be considered an unauthorized “taking” of the roach and you will be prosecuted to the full extent of the law—a year in prison and a \$100,000 fine for each harassed roach.

In addition to setting aside your second bedroom for the roach, you must also allow for a “migration corridor” through your kitchen so that the roach may move from one habitat (your bedroom) to its next nearest habitat (the bedroom of the family next door). The agents inform you that the family next door used a vacuum cleaner in the roach’s habitat, accidentally sucking up five roaches into the vacuum cleaner bag. The FWS

Representative Pombo of California is chairman of the task force charged with reforming the Endangered Species Act. Mr. Farah is former editor of the Sacramento Union and executive director of the Western Journalism Center. This article is adapted from This Land is Our Land, published September 1996 by St. Martin’s Press.

brought charges, and when the family fought prosecution in court, the government subpoenaed their tax returns, immigration records, and old car rental receipts to see if they were good citizens. The family soon complied with all the provisions of the Endangered Species Act.

Being a good citizen yourself, you agree to the conditions, believing that you can live in harmony with one of God's creatures. Weeks pass, and you notice that the roaches are not content to remain in their habitat or in their migration corridor, but tend to get up into your grocery shelves. Your children are afraid to move around in the condo and the smell from the second bedroom is getting pretty bad. Since you cannot operate your consulting business from home, you rent office space. But the rent is so high, you soon have to give it up.

You decide that your condo is not worth the trouble, and undertake to unload it. You go to a real estate agent to put it up for sale, but discover that because your condo was declared critical habitat for the Manhattan cockroach, no one wants to live there. The best available offer is \$25,000 from the Save

the Cockroach Association of Manhattan (SCAM), a nonprofit organization that buys up cockroach habitat. It bought your next door neighbor's condo for \$25,000 and sold it to the federal government the next day for the original pre-habitat price of \$300,000.

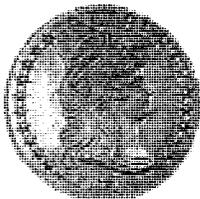
You find this proceeding a bit on the unethical side, but just before you take the \$275,000 loss, your upstairs neighbor's waterbed bursts and floods your condo, completely annihilating the population of roaches. Believing it to be a sign from heaven, you begin to mop up in order to begin your life anew when you hear a knock at the door. There you find two armed agents of the U.S. Army Corps of Engineers. It appears your condo has just been designated a wetland.

Sound far-fetched? While admittedly a composite of government abuses and environmental horror stories, misfortunes very similar to those sketched above have actually happened to residents of western states. And while no cockroaches were involved, property owners and their families have had their lives and livelihoods ruined by endangered flies, beetles, rats, and shellfish. □

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William Ewart Gladstone's Great Campaigns for Peace and Freedom

by Jim Powell

William Ewart Gladstone dominated British politics in the heyday of classical liberalism. He entered Parliament at age 23, first held a cabinet post at 34, and delivered his last speech as a Member when he was 84. He served as Prime Minister four times.

Nobel Laureate F.A. Hayek ranked Gladstone among the greatest classical liberals. Lord Acton believed Gladstone's "supremacy was undisputed." Paul Johnson declared "there is no parallel to his record of achievement in English history." One might add there are few parallels anywhere.

As Chancellor of the Exchequer in four ministries, Gladstone fought the most powerful interest groups. He helped abolish more than 1,000—about 95 percent—of Britain's tariffs. He cut and abolished other taxes year after year. Imagine, if you possibly can, our income tax with a single rate of 1.25 percent. That's what was left of the British income tax when Gladstone got through hammering it down. He wasn't satisfied, because he wanted to wipe it out.

Gladstone believed the cost of war should

Mr. Powell is editor of Laissez Faire Books and a senior fellow at the Cato Institute. He has written for the New York Times, the Wall Street Journal, Barron's, American Heritage, and more than three dozen other publications. Copyright © 1996 by Jim Powell.

be a deterrent to militarism. He insisted on a policy of financing war exclusively by taxation. He opposed borrowing money for war, since this would make it easier, and future generations would be unfairly burdened.

Gladstone's most glorious political campaigns came late in life: to stop British imperialism and to give the oppressed Irish self-government. Gladstone showed that even in such lost causes, friends of freedom had the strength and courage to put up a tremendous fight that would never be forgotten.

To be sure, Gladstone wasn't a perfect hero. Having matured in an era when his government had limited power and committed few horrors, Gladstone figured it could do some good. For instance, he approved taxes for government schools. But part of the problem was that government revenues soared as Gladstone cut tariffs and other taxes, and political pressure became overwhelming for government to spend some of the loot.

Despite his errors, Gladstone towered above his rivals. His most famous opponent was Benjamin Disraeli, the Tory who promoted higher taxes, more powerful government, and imperial conquest. Gladstone's liberal rivals were mostly fans of Viscount Palmerston, best known for his bullying of weaker countries. During the late nineteenth

century, Gladstone's chief Liberal rival was Joseph Chamberlain, a socialist who became a vigorous imperialist. Without Gladstone's influence, there probably would have been fewer gains for liberty, and the losses probably would have come faster.

Gladstone's enduring contribution was to stress the moral imperative for liberty. Influential British philosophers Jeremy Bentham and John Stuart Mill had almost banished morality from political discussion, as they touted the greatest-good-for-the-greatest-number principle, but Gladstone brought out the moral dimension of taxes, trade, everything. "Whatever he did," remarked historian A.J.P. Taylor, "was a holy cause." Gladstone's moral fervor was a key to his popular appeal. As historian J.L. Hammond observed: "It is safe to say that for one portrait of anybody else in working-class houses, there were ten of Gladstone."

He accomplished much, in part, because he had prodigious energy. He worked 14-hour days to become England's leading expert on government finance. In his spare time, Gladstone wrote books, mostly about Greek and Roman literature (he loved Homer). He enjoyed riding horses. Chopping down trees was a favorite pastime. He went on long walks—up to 25 miles—well into his 70s. Earl Spencer, a Liberal friend, remarked that Gladstone was "governed by the most intense impulsiveness and enthusiasms."

Gladstone gained strength from his Anglican faith and happy home life. He married Catherine Glynne on July 25, 1839, and they remained together more than a half-century, until his death. They had four sons and four daughters. They lived at Carlton House Terrace (London) and at Hawarden, the turreted castle where she was born, on a hilltop overlooking Liverpool. There Gladstone had a library which grew to 27,000 books. Hawarden was heavily mortgaged to help finance his brother-in-law's business venture that failed, and Gladstone spent years paying down debt and saving the property for the family.

Gladstone took charity to heart, even when this exposed him to ridicule. For some 40 years, he spent about three nights every week

working to help London women quit prostitution. He helped establish the Church Penitentiary Association for the Reclamation of Fallen Women, which raised money for homes where these women could turn their lives around. He started the Newport Home of Refuge (Soho Square) and the St. Mary Magdalen Home of Refuge (Paddington). He served on the Management Committee of the Millbank Penitentiary, where arrested prostitutes were sent. He often worked with his wife, and together they established the Clewer Home of Mercy. He spent £83,500 on these missions.

Gladstone's commanding manner made him seem like a giant, yet he was only average height—5 feet, 10¾ inches tall—with broad shoulders, a pale complexion, and large eyes which were nearly black. During his 50s, his thick black hair thinned and began to turn gray. He let it grow around his face in the popular bewhiskered style. He had a strong, musical voice that was a major asset for him as a public speaker.

Although he was sometimes long-winded—one of his speeches went on for five hours—he could rise to great eloquence. He combined a mastery of facts with an ability to inspire moral indignation. During one election campaign, he faced a hostile crowd of 20,000, then delivered a stirring two-hour speech that climaxed with a unanimous vote of confidence.

Groomed for Greatness

William Ewart Gladstone was born December 29, 1809, at 62 Rodney Street, Liverpool. His father, John Gladstone, was a Scottish politician and investor owning plantations in the West Indies. His mother, Anne Robertson, was from Stornoway.

Gladstone had a very proper education, initially learning from a local clergyman, then at age 11 attending prestigious Eton, where he acquired a lifelong taste for Greek and Latin literature. In October 1829, he enrolled at Christ Church, Oxford. Following his studies there, he broadened his horizon by traveling around Italy for six months.

His father was determined that William become a statesman, so a family friend, the

Duke of Newcastle, nominated him as a candidate to represent Newark in Parliament. He won the election in December 1832. The following year, he began studying law at Lincoln's Inn—as his future rival Benjamin Disraeli had already done.

Gladstone started his career a thoroughgoing Tory (conservative). In his first speech, delivered June 3, 1833, Gladstone claimed his father's slaves were healthy and happy. He favored gradual emancipation with compensation paid to owners. On July 8, 1833, he talked about Ireland, opposing a bill that would divert some Church of Ireland funds for secular purposes.

Tory Robert Peel, founder of the Conservative Party, became First Lord of the Treasury and Chancellor of the Exchequer and, impressed by Gladstone's energy and competence, named the young man a Junior Lord of the Treasury. Gladstone expressed his opposition to the income tax, but it was introduced in 1842 to offset anticipated lower revenues resulting from tariff reductions. The ministry was soon dissolved, but Gladstone was clearly prime talent. Two years later, he accepted a post as Undersecretary for War and the Colonies.

Gladstone was always a devout supporter of the Church of England, and in 1838 he wrote *The State in Its Relation with the Church*. He expressed the high Tory view that there could be only one religion in society, and government must enforce it. The book is remembered mainly because Thomas Babington Macaulay wrote an 1839 *Edinburgh Review* essay tearing it apart. He referred to Gladstone as "the rising hope of those stern and unbending Tories." Considering the corrupt and brutal history of governments, Macaulay thought it was preposterous to imagine that politicians could uphold moral standards, and he believed attempts to enforce any kind of orthodoxy must provoke social conflict. Gladstone wrote Macaulay, thanking him for "the candour and single-mindedness of the review."

Pledged to uphold the corn laws (grain tariffs), Peel became Prime Minister on August 31, 1841, and he chose Gladstone as Vice President of the Board of Trade and Master

of the Mint. Gladstone would rather have had responsibility relating to religion, but he resolved to acquire the needed expertise, and soon he knew more about government finance than anybody else. By 1843, he was appointed President of the Board of Trade.

Free trade became a hot issue as textile entrepreneurs Richard Cobden and John Bright campaigned against the corn laws for raising the price of bread and contributing to human misery. Gladstone resisted demands that the corn laws be repealed, while working to cut tariffs. But he resigned from the ministry and Parliament on January 28, 1845, because he disagreed with Peel's proposal to give Ireland's Maynooth College more money for educating Catholic priests. In December, he rejoined the ministry—although he remained out of Parliament—as Secretary of State for the Colonies.

Benjamin Disraeli

Meanwhile, Benjamin Disraeli came to the fore as a member of Parliament. For years, he was known as a dandy who wore jeweled shirts and rings over his gloves. He was born in December 1804, the son of a Jewish man of letters who had converted to Christianity. Disraeli had enormous political ambitions. He was seldom concerned about moral principles. He denounced the free-market views of Adam Smith, and he despised the emerging middle classes as materialistic. An author of popular political novels, he urged young aristocrats to defend the old agricultural order from the influence of merchants and manufacturers. He felt most comfortable among protectionist aristocrats, despite the anti-Semitism of many—his protectionist friends opposed one bill after another to admit Jews into Parliament. While Disraeli favored equal rights for Jews, he rejected the principle of religious toleration. He engaged in blatant flattery, and this helped him become Queen Victoria's favorite minister. Disraeli's taste for high living exceeded his modest means, and he spent much of his life struggling to avoid embarrassment because of overdue debts he owed moneylenders, tailors, hosiers, upholsterers, and others.

Disraeli emerged as a name to reckon with during debates about the corn laws. His speeches were noted for their controlled low-key delivery, clever phrasing, and savage personal attacks. He defended the corn laws as "a great system." After Peel had come out for free trade, Disraeli called him "a burglar of others' intellect . . . from the days of the Conqueror to the termination of the last reign, there is no statesman who has committed larceny on so great a scale."

On June 25, 1846, Peel pushed through the repeal of the corn laws, and Tories were furious at his betrayal. Disraeli spearheaded efforts to bring down Peel's government, and on the very day that the corn laws were repealed, the House of Lords rejected Peel's "coercion bill" to suppress violence in Ireland. Four days later, Peel resigned. Disraeli began the long process of rebuilding the Tory party.

Although Gladstone was a devoted Peelite Tory, he instinctively rose to the defense of oppressed people. In 1840, he had spoken out against the British government's Opium War, intended to help politically connected merchants sell opium in China. After Gladstone had visited Naples in 1850 and discovered that Ferdinand II, King of the Two Sicilies, had some 20,000 political prisoners, he wrote an angry letter which circulated throughout Europe.

Disraeli, who had become Tory Chancellor of the Exchequer in February 1852, proposed a budget which supposedly would be balanced by doubling taxes on houses. Gladstone delivered a powerful speech against the budget, intensifying their rivalry, the most memorable in British politics since that between William Pitt the Younger and Charles James Fox. The Tory ministry resigned on December 17, 1852.

Gladstone as Chancellor of the Exchequer

Gladstone was appointed Chancellor of the Exchequer in the coalition government of Lord Aberdeen, and in April of 1853 he delivered his first budget speech, a five-hour review of the numbers. He called for income tax cuts, repeal of the soap tax and reductions

in taxes on tea and advertisements. Gladstone's tax and spending cuts were delayed by the Crimean War between Russia and Turkey, which Britain entered to counter Russia's power. Gladstone had gone along with it, while Cobden and Bright lost their Parliamentary seats because of their opposition to it.

By 1859, Gladstone was serving as Chancellor of the Exchequer in Lord Palmerston's ministry. He raised some taxes to cover the budget deficit, a legacy of the Crimean War. The following year, he approved Cobden's plan to negotiate a trade liberalization treaty with France, and it inspired a trend toward freer trade throughout Europe. Gladstone proposed cutting tariffs on many kinds of food and eliminating tariffs on paper. Disraeli led Tory opposition to these cuts, and a number of proposals were defeated by the Tory-dominated House of Lords, but overall Liberals prevailed, and the number of tariffs was cut from 1,163 in 1845 to 460 in 1853 and 48 in 1859—only 15 of any consequence.

In 1861, Gladstone hit on an ingenious Parliamentary tactic. Rather than have the House of Lords consider proposals individually, he bundled them into a single money bill, because the House of Lords couldn't amend money bills. They could only vote whether to approve them as presented. The tactic succeeded, and the paper tariff became history.

In 1862, Prime Minister Palmerston, who relished overseas military adventures, demanded that more money be spent on fortifications, so it became tougher for Gladstone to cut taxes and government spending, but he did manage to abolish the tariff on hops—a boon for brewers. The next year, he cut the income tax. By 1864, he secured further income tax cuts and lowered tariffs on sugar. In 1865, he again cut the income tax and the tariff on tea, and he halved the tax on fire insurance. In 1866 he cut tariffs on bottled wine and livery cabs, and abolished tariffs on timber and pepper. He announced that trade liberalization treaties had been negotiated with Austria, Belgium, and the German states.

Gladstone's policies were a stupendous triumph. Every effort to cut tariffs and other

taxes involved a terrible fight with affected interest groups, yet he persisted. He rejected demands to have graduated income tax rates. He brought the income tax down from 10 percent during the Napoleonic Wars and 6.6 percent during the Crimean War to 1.66 percent. And the more he cut the cost of government, the more people prospered. In 1859, imports were £179 million, and exports were £155 million. A decade later, imports soared to £279 million, while exports hit £237 million. "The improved living standards of manual workers," reported economic historian Charles More, "were paralleled by improved living standards both for the middle class and for the very rich."

The government was awash with money from taxes that remained, and Gladstone used surpluses to further cut or abolish taxes. Still, revenues poured in, and he couldn't resist all the pressures to spend it on new government programs. Gladstone yearned to abolish the income tax because of his concern that it could make possible much bigger government.

Expanding the Franchise

Working with John Bright, he became a powerful advocate for expanding the franchise. In 1864, he startled many people by declaring: "I contend that it is on those who say it is necessary to exclude forty-nine fiftieths of the working classes that the burden of proof rests. Every man who is not presumably incapacitated by some consideration of personal unfitness or political danger, is morally entitled to come within the pale of the constitution." Disraeli scoffed that Gladstone "revived the doctrine of Tom Paine."

In March 1866, Gladstone backed a bill to expand the franchise, but it was defeated, and Lord John Russell's Liberal government resigned. Gladstone became official leader of the Liberals. Tory Lord Derby formed a government, and Disraeli got a more generous version of the bill through the House of Commons—it added about a million people to the voter rolls. Disraeli did it by gracefully accepting a succession of Liberal amendments, which eroded much opposition. In

February 1868, Prime Minister Derby resigned, and he was succeeded by Disraeli.

The Irish Question

Gladstone focused on injustices in Ireland. The situation there had festered for centuries and became inflamed after 1800 when Prime Minister William Pitt, fearing that the French Revolution would spread to the British Isles, persuaded Parliament to approve the Union with England. Ireland would be ruled by Parliament, from which Catholics were excluded. The Act of Union provided that there would be an established Church of Ireland—Anglican—for which Irish Catholic peasants were to pay taxes. Charles James Fox, Pitt's great rival, had warned "that we ought not to presume to legislate for a nation with whose feelings and affections, wants and interests, opinions and prejudices we have no sympathy"—and Gladstone resolved to move his compatriots toward Irish independence.

"Ireland, Ireland!" Gladstone had written as early as 1845, "that cloud in the west, that coming storm, the minister of God's retribution upon cruel and inveterate and but half-atoned injustice! Ireland forces upon us those great social and great religious questions—God grant that we may have courage to look them in the face, and to work through them."

In 1868, Gladstone introduced a resolution that poor Catholic peasants shouldn't be taxed for the Church of Ireland. Disraeli objected that an attack on the Church of Ireland invited attacks on the Church of England. The House of Commons adopted the resolution, and Disraeli offered his resignation. Liberals won the subsequent elections and Gladstone became Prime Minister in December 1868.

Prime Minister Gladstone

Then came major Irish reforms. In 1869 Parliament enacted his Disestablishment Bill for the Church of Ireland; in 1870, his Irish Land Act. It gave force of statute law to "Ulster custom." Namely, a paying tenant farmer, evicted from land he worked, was entitled to compensation for the eviction and

for buildings and other improvements he made. This Land Act overturned previous laws that denied tenants any claim to compensation for their improvements, but it didn't help many tenants, because most evictions were for nonpayment of rent. What the Land Act did do was make it easier for subsequent governments to interfere with private property rights.

Gladstone pursued one reform after another. He opened Oxford and Cambridge to Nonconformist Protestants, Catholics, Jews, and even atheists. He streamlined England's court system—it had been necessary for many litigants to file suit in two courts simultaneously. He established competitive examinations, rather than wealth or family connections, as the primary basis for advancing in the government bureaucracy and the armed forces. Gladstone's Ballot Act enabled people to vote in secrecy, without intimidation. And of course, Gladstone did as much as he could to further cut taxes and government spending.

Gladstone's ministers promoted some measures calling for more government intervention in the economy. Incredibly, for a man devoted to separating church and state, he approved William Forster's Education Act of 1870, which authorized taxes to finance state power over education.

Disraeli hit Gladstone at every turn. "Her Majesty's new Ministers proceeded in their career like a body of men under the influence of some deleterious drug," he snarled. "Not satiated with the spoliation and anarchy of Ireland, they began to attack every institution and every interest, every class and calling in the country."

After six years as Prime Minister, Gladstone had offended a lot of powerful interest groups, and his popularity faded. In the February 1874 election campaign, he proposed abolishing the income tax, but the rate was only 1.25 percent—apparently not enough for people to get exercised about—and Liberals were routed. Gladstone's "Great Ministry" ended, and he retired as leader of the Liberals.

Disraeli became Prime Minister. He was 70 years old, in frail health and desolated by

his wife's death, but he made the most of his opportunity at the top—after a quarter-century rebuilding the Tory party. Disraeli pushed through Factory Acts in 1874 and 1878, increasing government regulation of business. Disraeli's Trade Union Act essentially put labor union bosses above the law. With the Sale of Food and Drugs Act, Disraeli's government assumed responsibility for the health of people. The Artisan's Dwelling Act authorized local governments to take private property for housing projects.

More distressing for Gladstone, Disraeli promoted imperialism. He spent more money on armaments. He got involved in the war between Russia and Turkey. He occupied Cyprus. He had British forces invade Transvaal, South Africa, and Kabul, Afghanistan. He guaranteed to protect three states on the Malay Peninsula. He claimed about 200 Pacific islands. He acquired controlling interest in the Suez Canal—a move which afforded more secure access to British India but became an 80-year occupation of Egypt, including wars, big military expenditures and political embarrassments. Disraeli flattered Queen Victoria by naming her Empress of India, and she cherished the thought that the sun never set on the British Empire. Gladstone was outraged.

Events in the Mideast brought Gladstone back into the public arena. Between April and August 1876, Turkish forces slaughtered some 12,000 rebellious Bulgarian Christians. Disraeli played this down, because he supported the Turkish empire to offset Russian influence. Gladstone insisted that moral standards apply to everyone, including allies. Gladstone wrote a pamphlet, *The Bulgarian Horrors and the Question of the East*, which came out in early September and soon sold 200,000 copies. Disraeli dismissed the pamphlet as "passionate, vindictive, and ill-written." Disraeli added: "There may be more infamous men but I don't believe there is anyone more wicked."

To Gladstone, imperialism inevitably meant more burdens on British taxpayers and more risks of war. On May 7, 1877, he declared: "Consider how we have conquered, planted, annexed, and appropriated at all the

points of the compass, so that at few points on the surface of the earth is there not some region or some spot of British dominion at hand. Nor even from these few points are we absent. . . . And then I ask you what quarrel can arise between any two countries or what war, in which you may not, if you be so minded to set up British interests as a ground of interference." Gladstone went on to warn against the arrogance of good intentions which end up squandering blood and treasure in foreign wars.

Russia and Turkey negotiated a treaty, but Disraeli objected because Russia gained the upper hand. He claimed it was Britain's business to push back the Russians, and this was his aim at an international diplomatic conference held in Berlin, June 1878. He succeeded and enjoyed a hero's welcome back in London. Gladstone denounced Disraeli's imperialist pretensions as "all brag . . . prestige . . . jingo."

Disraeli scorned Gladstone as "a sophisticated rhetorician, inebriated with the exuberance of his own verbosity, and gifted with an egotistical imagination that can at all times command an interminable and inconsistent series of arguments to malign an opponent and glorify himself."

Disraeli's imperialist policies, however, brought unwanted complications. He tangled with the Emir of Afghanistan, who refused to let British diplomats into the country. In South Africa, about 800 British soldiers were killed by Zulus. European pressures led Disraeli to ask for an expanded British naval presence in the Mediterranean.

Because of all this, as Prime Minister, Disraeli hiked taxes by £5 million and incurred £6 million of budget deficits versus Gladstone's previous five years marked by £12 million of tax cuts and £17 million of budget surpluses.

Since imperialism was popular, Gladstone recognized he couldn't stop it by following the traditional practice of debating political issues only within Parliament. He had to win over voters. Which constituency? On November 24, 1879, he launched a campaign for a Parliamentary seat in Midlothian, Scotland, long held by Tories. This was the first British

political campaign that started before an election date was set.

Gladstone, his wife, and youngest daughter traveled by train and greeted thousands of people who, despite bitterly cold temperatures, had turned out for a glimpse of this famous man. He spoke to as many as 6,000 at a time. He urged that foreign policy be based on six principles. First, keep government small so people can prosper. Second, promote peaceful relations among nations. Third, maintain cooperation in Europe. Fourth, avoid "entangling engagements." Fifth, try to treat all nations equally. Sixth, "the foreign policy of England should always be inspired by the love of freedom . . . in freedom you lay the firmest foundations both of loyalty and order."

Queen Victoria thought it unseemly for a former Prime Minister to address ordinary people from a railway carriage. Disraeli called Gladstone an "Impetuous Hypocrite" and knocked the Midlothian campaign as "a pilgrimage of passion," while Gladstone declared it was "a festival of freedom." But Gladstone won his seat, the Liberals swept out Disraeli's Tories, and Gladstone became Prime Minister again.

Gladstone wrestled with the consequences of Disraeli's reckless commitments around the world. Turks disregarded terms of the treaty which Disraeli helped broker with Russia. Boers battled British soldiers in South Africa. Arab nationalists revolted against the Egyptian government, and the popular British adventurer Charles Gordon was killed in Khartoum. Afghanistan became a quagmire. Although Gladstone withdrew from Afghanistan, overall he failed to reverse Disraeli's imperialist policies. At least he resisted embroiling Britain in more overseas conflicts.

Disraeli was obsessed with Gladstone, referring to him as the "Arch Villain." Disraeli remarked that "I really am alarmed for the country, governed by a vindictive lunatic." The bitter rivalry ended with Disraeli's death on April 19, 1881.

Besides dealing with foreign policy issues, Gladstone engineered the 1884 Reform Act, which expanded the number of voters from about 3 million to 5 million. Gladstone's

Game Bill allowed farmers to hunt wild game, ending the centuries-long tradition that reserved the privilege exclusively for landlords.

There was an agricultural depression, and Irish discontent flared up as the biggest issue for Gladstone. An Irish Protestant lawyer named Isaac Butt had organized the Irish Home Government Association, and his cohorts won 50 seats in the 1874 election. Butt's reasonable approach, however, didn't produce results. Three years later, another Irish Protestant, Charles Stewart Parnell, decided it was time for tougher tactics. A young landowner and Member of Parliament, he began to hamstring proceedings thereby exploiting technicalities.

Parnell did what he could to stir up popular discontent against British rule. His battle cry was "Fair Rent, Fixed Tenure, Free Sale." In County Mayo, controversy focused on one Captain Boycott, a landlord's agent. Agricultural laborers refused to work his fields. Blacksmiths wouldn't take care of his horses. Mail carriers wouldn't deliver to his property. People did volunteer to help harvest his crops, but they required 7,000 soldiers to provide protection. Thus was born the tactic of "boycotting."

Violence became endemic in Ireland, especially after the bad harvest of 1879, and Conservatives called for more "coercion" bills, which included curfews and imprisoning people without having to file charges. Gladstone insisted that violence must be stopped, so he approved the 1881 Coercion Act, and he ordered Parnell jailed for stirring Irish peasants against his proposed new Irish Land Act—the feisty Irishman remained in jail for a year.

Gladstone believed peace would come to Ireland only when feudalism ended and peasants had a meaningful stake in their work. Accordingly, he threw his energies into the Irish Land Act, passed in 1881. It guaranteed tenants could retain their holding as long as they paid rent, avoided "persistent waste" and obeyed the laws. The bill guaranteed tenants could sell their holding, providing rent was paid in full. In the most ominous departure from laissez-faire principles, the law specified that judges would fix rents when

tenants and landlords didn't reach their own agreements.

Influenced by philosopher and economist John Stuart Mill, who had written two pamphlets on the Irish land issue, Gladstone asserted freedom of contract just wasn't appropriate for feudal Ireland. This claim was later challenged by historians who made clear how freedom of contract undermined feudalism in Western Europe. Although motivated by a sincere desire for justice, Gladstone's seeming shortcut set a grievous precedent for government intervention, which became massive during the twentieth century.

Parnell called Gladstone's new Irish Land Act a fraud, and he urged continued Irish resistance. His bloc voted against Gladstone, forcing the Prime Minister's resignation on June 9, 1885. But because the Tories didn't get enough support in the subsequent elections, they refused to form a new government, and Gladstone formed his third ministry in January 1886. Parnell's followers had won 85 seats during the Parliamentary elections, and this seems to have convinced Gladstone that the time was ripe for really bold action. On April 8, 1886, he announced he was for Home Rule, although he hadn't campaigned on this explosive issue. Home Rule would have meant setting up an Irish Parliament to determine domestic policy. Ireland would have remained part of the British Empire, and the British Parliament would have handled international relations. Ireland would have contributed some tax revenue to help cover imperial expenses. There would have been no more Irish representatives in the British Parliament—hence the prospect of an end to Irish obstructionist tactics.

Home Rule split apart the Liberal party. Like John Bright, many believed their mission was to extend individual rights and the rule of law as widely as possible. They opposed what they considered concessions to violent peasants. They feared Home Rule would encourage demands for Irish independence and the unwinding of Great Britain. In June 1886, 94 Liberal members of Parliament voted against Gladstone's Home Rule bill, defeating it and leading to a general election which swept the Liberals out of power.

The remaining Liberals were devoted mainly to domestic issues. They wanted more government intervention in the economy. Having approved much government intervention during the past decade, Gladstone began to see where it was headed—socialism—and he didn't like it. Moreover, as far as he was concerned the top priority was Irish Home Rule, which he viewed as a prelude for Home Rule in England, Scotland, and Wales—hopefully resulting in a federation with more freedom. The Liberals accepted Gladstone's views because they weren't ready to drop him as their leader. He was the "Grand Old Man," the most famous political personality in the land.

Liberals won the July 1892 general elections, and Gladstone formed his fourth ministry. A majority of English Members of Parliament were against Irish Home Rule, and those Members who remained with Gladstone were weary of the issue. But Gladstone had the support of 81 Irish nationalists, giving him an overall majority of 40 votes. He began his last political battle on February 13, 1893. He knew he would lose, but he persevered.

"Never did Gladstone speak more ably than on the introduction of the second Home Rule bill," reported biographer Walter Phelps Hall. "The old familiar thumping on the treasury box was renewed; the magic voice, so grave, so eloquent, now rose and fell in musical cadence, exhorting Englishmen. . ."

On September 1, 1893, the House of Commons passed Gladstone's Home Rule bill, but a week later the Tory-dominated House of Lords rejected it. Tories hated Gladstone and the Irish nationalists. Queen Victoria shared the view of the Lords: "The mischief Mr. Gladstone does," she wrote, "is incalculable;

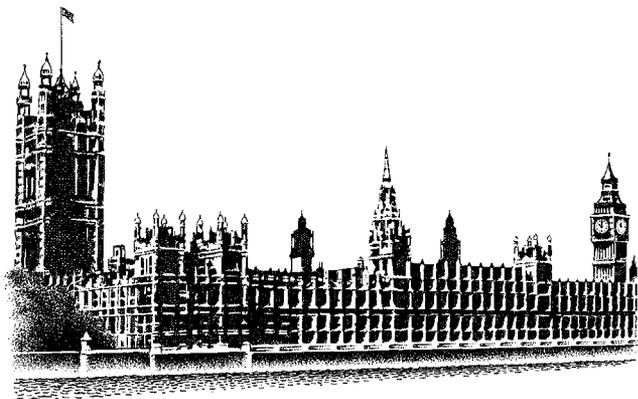
instead of stemming the current and downward course of radicalism which he could do perfectly, he heads and encourages it, and alienates all true Whigs and moderate Liberals from him." The following March 1, he delivered his last speech, a denunciation of the House of Lords. Two days later, he resigned as Prime Minister.

He told his loyal associate and biographer John Morley: "I was brought up to hate and fear liberty. I came to love it. That is the secret of my whole career."

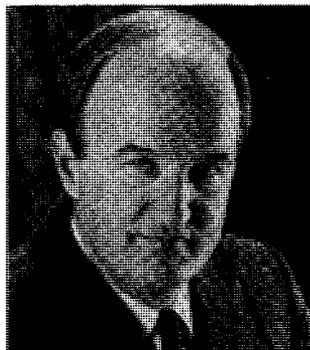
Gladstone died of cancer at Hawarden, around 4:00 A.M., May 19, 1898, surrounded by his wife and children. He was 88. The coffin was placed in Westminster Hall, and an estimated 250,000 people came to pay their respects. He was buried in Westminster Abbey, near his mentor Robert Peel, who had converted to free trade.

As Gladstone had anticipated, the Irish seized their destiny. On December 6, 1921, an Anglo-Irish treaty established the Irish Free State. With adoption of a constitution in 1937, this became the Republic of Ireland. It ended ties with the British Commonwealth in 1948. Northern Ireland, still subject to British rule, remains a place of chronic violence.

Gladstone achieved much for liberty. He was a world-class tax cutter. He slashed government spending. He secured the triumph of free trade. He helped give millions of taxpayers a greater say in their government. He did more than just about anyone else to advance the cause of Irish liberty. He courageously spoke out against imperialism, urging people to embrace liberty and peace rather than power and prestige. He displayed the kind of moral fervor that could help liberty rise again. □



Austrians vs. The Chicago School, Part III



“Those [ideas] that are better tend to prosper and survive. Those that are worse tend to recede and vanish [like Austrian capital theory].”

—Sherwin Rosen, University of Chicago¹

At every Mont Pelerin Society meeting, a debate develops between the two schools of free-market economics: the Austrians (followers of Ludwig von Mises) and the Chicago school (followers of Milton Friedman). I’ve discussed their similarities and differences in various columns (see, for example, the February, March, and April 1995 issues of *The Freeman*).

At this year’s program, held in Vienna, Austria, the discussion centered around how much (or little) Austrian economics has been absorbed into the mainstream “neoclassical” model. At the end of the discussion, Professor Rosen made an interesting observation: the competitive free market of ideas tends to weed out bad economics from good economics. Good economics “passes the market test,” he claimed, bad economics doesn’t, and is discarded. Therefore, concluded Professor Rosen, if some Austrian concepts have not been absorbed by the “neoclassical” model, they are probably “useless” and need

not be pursued. He cited Austrian capital theory as an example.

It was almost as if Professor Rosen was suggesting that a student need not bother with actually studying Austrian capital theory; one could simply dismiss it on the grounds that it was not being taught by mainstream economists.

Does the Market Guarantee Good Economics?

I first encountered this odd view of economic progress while reading a paper by Professor William Baumol (New York University) about college economics. Baumol, a textbook writer, boldly declared, “there is absolutely nothing wrong with the current state of economics,” because, he claimed, the mainstream economic approach “is a superb machine for grinding out theorems.”² In other words, the competitive process works in economic research. Through trial and error, economists sift and test theories, acquire good ones, and discard bad ones in a never-ending upward spiral of academic progress. In short, the science of economics marches onward and upward to its current advanced stage of knowledge and wisdom.

Based on this rather complacent view, Professor Baumol dismissed my criticisms of mainstream economics in *Economics on Trial* by reiterating, “I am totally unrepentant. There is absolutely nothing wrong. . . .”³

I offer two criticisms of this distorted view of the market of ideas. First, I question the

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competitive market process in academia. As Professor Peter Boettke (New York University) notes, the economics discipline, like most social sciences, is a market of *fashion*, not the free and equal exchange of ideas through a rigorous scientific method. Philosopher Thomas Kuhn made this point forcefully in his classic work, *The Structure of Scientific Revolutions* (University of Chicago Press, 1962). Kuhn pointed out that the history of science typically works very differently. Once a central paradigm is established, very little testing or sifting is done until a series of failures or anomalies emerges. Only when a “crisis” arises does the profession seek out a new paradigm, and there is no assurance that the next paradigm will be more correct than the previous one.

The Keynesian revolution is a case in point. During and immediately following the 1930s, most economists incorrectly concluded that free-market capitalism caused the Great Depression. Throughout the fifties and early sixties, Keynesianism triumphed in the academic world, and the free-market schools of Vienna and Chicago were dismissed out of hand. Granted, free-market economics has made a huge comeback, thanks to the efforts of Friedman, Buchanan, and Hayek, and the turn of world events—most notably, the collapse of Soviet communism in 1990. But let us not fall into the trap of thinking that economic errors automatically are eliminated in the classroom, or that deeply flawed ideas cannot be resurrected.

Murray Rothbard calls this progressive view of history the “Whig Theory” because nineteenth-century Whigs maintained that things were always getting better and better. He states, “the consequence [of the Whig theory of history] is the firm if implicit position that . . . there can be no such thing as gross systemic error that deeply flawed, or even invalidated, an entire school of economic thought, much less sent the world of economics permanently astray.”⁴ Rothbard rejects the Whig theory. In writing his history of economic thought, he concludes that

“there can . . . be no presumption whatever in economics that later thought is better than earlier.”

The Market Produces Goods and Bads

I offer another objection to Professor Rosen’s view of the free market. He notes that in a free market bad musicians don’t sell very many records. True enough, but one must distinguish between what is technically competent and what is morally deleterious. Certainly, Hollywood produces technically advanced films, with special effects, skilled acting, and superior photography, but it also makes films whose contents are often morally bankrupt. In short, the market does a great job in producing both “goods” and “bads.”

Austrian Capital Theory, Again

Finally, a comment about Austrian capital theory, as developed by Eugen Böhm-Bawerk, Ludwig von Mises, and Friedrich Hayek. Admittedly, it is not currently part of the mainstream. But is it “useless”? Hardly. In fact, I frequently depend on the Austrian stages-of-production model in analyzing the economy and financial markets. Because it is usually ignored by the establishment, I can more easily use the Austrian model in predicting economic trends and developing financial strategies.⁵ The unpopularity of Austrian capital theory does not make it wrong or useless. □

1. Sherwin Rosen, “Austrian and Neoclassical Economics: Any Gains from Trade?”, Proceedings of the Mont Pelerin Society Meetings, Vienna, Austria, September 9, 1996.

2. William Baumol, “Economic Education and the Critics of Mainstream Economics,” *Journal of Economic Education* (Fall 1988), pp. 323–4.

3. See the paperback edition of *Economics on Trial* (Burr Ridge, Ill.: Irwin, 1993).

4. Murray N. Rothbard, “Introduction,” *Economic Thought Before Adam Smith* (London: Edward Elgar, 1995), p. ix.

5. See my work, *The Structure of Production* (New York: New York University Press, 1990), and *Austrian Economics for Investors* (London: Pickering & Chatto, 1996).

Letters to the Editor: The Flat Tax

To the Editor:

In his article "The Flat Tax: Simplicity Desimplified" (*The Freeman*, October 1996), Roger Garrison implies that those who favor the flat tax do not care about the size of the tax burden. Since the vast majority of flat-tax supporters are big advocates of lower taxes, and since all the major flat-tax proposals include a significant tax reduction, this claim is somewhat confusing. Moreover, evidence from the states shows that single-rate tax systems make it harder for states to raise taxes. As such, adoption of a flat tax presumably would impose limits on the growth of taxes on the federal level (primarily because politicians would have a harder time using divide-and-conquer tactics).

Garrison argues that the tax system cannot be simplified. Given that the flat tax eliminates all the most difficult and confusing aspects of the current system, this assertion is quite puzzling. No longer would individuals or businesses have to worry about capital gains, depreciation, estates and gifts, alternative minimum tax, foreign tax provisions, inventory accounting, phase-outs, itemized deductions, and so forth. It is certainly true that there is no free lunch, but there certainly are ways to reduce the cost of the lunch, and tax reform provides those efficiencies.

Garrison also claims that huge problems would be created as taxpayers reclassify W-2 income as business income in order to take advantage of business deductions. The incentive to play that game, however, depends on the tax rate. Since the tax rate will come down under a flat tax, there actually will be less income shifting.

Perhaps the most glaring error is Garrison's claim that income from savings is not taxed

under a flat tax. Even liberal economists admit that the core principle of the flat tax is to tax income only once. This means either taxing once when the income is first earned, but then leaving the returns alone (the Hall-Rabushka approach), or not taxing income that is saved, but taxing the interest and principal when spent (the IRA approach). Liberals admit that doing neither is double taxation, but justify it on pure income-redistribution grounds. It is difficult to imagine why anyone who believes in markets would adopt that position.

Garrison envisions a tax scam where employers give employees money to buy bonds, the interest to which would be nontaxable. He forgets, however, that the money provided to the employees under the flat tax would either be considered income to the worker (and thus taxable) or a fringe benefit (and thus taxable at the firm level). Either way the compensation is taxed (but not double taxed, since the interest properly is left alone).

Garrison believes that one rate has little to do with simplicity. In reality, one rate is critical if we want to tax all income at the source. One rate, for instance, allows us to tax AT&T one time on their income at the single rate of 17 percent. This is vastly preferable to tracking down all 2.2 million shareholders and imposing separate tax rates depending on their total income. The same thing with interest income. Not only will the single rate eliminate the one billion 1099 forms in the economy, it will also eliminate income shifting designed to have income declared to the low-tax person and deductions attached to the high-tax person.

All believers in limited government agree that the tax burden should be reduced to the maxi-

imum extent possible. This goal is not in conflict, however, with the idea of making sure whatever level of taxes is collected is taken in the least destructive, least intrusive manner possible.

—DANIEL J. MITCHELL
McKenna Senior Fellow
The Heritage Foundation
Washington, D.C.

Roger Garrison replies:

Dan Mitchell's challenging remarks, particularly his reference to a "glaring error" concerning the tax status of saved income, provide an opportunity for dealing with a common point of confusion. I take Robert Hall and Alvin Rabushka's *Flat Tax* (2nd ed., Hoover Institution Press, 1995) to be ground zero for the modern resurgence of interest in simplifying our tax system. Hall and Rabushka leave little doubt about the status of saving in their proposed system:

Here is the logic of our system, stripped to the basics: We want to tax consumption. . . . We can measure consumption as income minus investment. A really simple tax would just have each firm pay tax on the total amount of income generated by the firm less that firm's investment in plant and equipment. (p. 55)

Saving, then, which stands in contrast to consumption and underlies investment, is not taxed. Hall and Rabushka's only significant departure from this "really simple tax" is one that exempts some consumption: the part of the firm's (gross) income that is paid out in wages is untaxed until it is in the hands of wage earners, each of whom is allowed a generous personal exemption. This provision causes a substantial amount of consumption to go untaxed and gives a progressive character to *average* tax rates, but it does not bring saving into the tax base.

Given the *ex post* macroeconomic identity between saving and investment, Hall and Rabushka could hardly fail to recognize the nature of their proposal: "Our proposal is based squarely on the principle of consumption tax-

tion. Saving is untaxed. . . ." (p. 54). Yet the authors themselves are at least partly responsible for the current confusion. At critical points, they misleadingly write "income" instead of "consumption," and sometimes they write as if there were no difference between these two magnitudes. Although there are many such instances, I will cite just two: "The business tax . . . is carefully designed to tax every bit of income outside wages but to tax it only once" (p. 61). In fact, it is actually designed, as Hall and Rabushka had already stipulated, to tax only income net of investment, effectively converting the income tax to a tax on consumption. And virtually guaranteeing confusion, the authors explicitly affirm their "goal of taxing all income once at a common, low rate and achieving a broad consumption tax" (p. 63). This compound goal is simply at war with itself. Consumption and income are not the same thing; they differ precisely by the amount of income saved.

The confusion that has its roots in the original Hall and Rabushka proposal has caused Mr. Mitchell and undoubtedly others to see my exposition as involving a "glaring error." Some supply-siders leverage the confusion by insisting that "consumed income" is, in fact, what "income" actually means. Others offer the all-too-facile claim (not supported by Hall and Rabushka's basic logic) that saved income (or, alternatively, the yield on saved income) has already been taxed. These and other confusing claims stem from their using the rhetoric about taxing *income* once and only once in defense of a *consumption* tax. It is consumption, not income, that (beyond the generous personal exemptions) is taxed once and only once.

Several other points of disagreement raised by Mr. Mitchell are resolved once the tax status of investment (and hence saving) is established. For instance, there undoubtedly would be efforts in the private sector to disguise part of the (taxable) net income as (nontaxable) investment as well as efforts by the government to counter such attempts at tax avoidance.

Mr. Mitchell points to the vulnerability of our

current system to the “divide-and-conquer tactics” of politicians trying to raise tax rates but fails to acknowledge that Hall and Rabushka’s generous personal exemption, which converts flatness into progressivity, would seriously weaken taxpayer solidarity and expose their proposed system to those same divide-and-conquer tactics.

Remaining differences between Mr. Mitchell’s views and my own are matters of perspective and judgment. Yes, some—maybe most—supply-siders would prefer tax reductions, but their willingness—even eagerness—to propose revenue-neutral or revenue-enhancing reform suggests their priorities lie elsewhere. And yes, given the complexities of the current system, there is plenty of room for reform in the direction of tax simplification. TANSTA AFL does not deny that some lunches are cheaper than others; TANSTA ABST (There ain’t no such thing as a big simple tax) should be inter-

preted analogously. My arguments do suggest that a tax system involving (1) postcard-size tax forms and (2) the transferring of hundreds of billions of dollars from the private sector to the public sector is (not-so-unhappily) outside the realm of possibility.

—ROGER W. GARRISON
 Professor of Economics
 Auburn University

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Economics of a Pure Gold Standard

by Mark Skousen

“The excellence of the gold standard is to be seen in the fact that it renders the determination of the monetary unit’s purchasing power independent of the policies of governments and political parties.”

—Ludwig von Mises, *The Theory of Money and Credit*

In the new third edition of **Economics of a Pure Gold Standard**, world-renowned economist and author Mark Skousen explains why gold is honest money and how a return to gold may reestablish economic stability. Skousen not only makes the case for gold, but also examines the pros and cons of other monetary standards.



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BOOKS

The Central Banks

by Marjorie Deane and Robert Pringle

Viking Penguin • 1995 • 369 pages • \$29.95

Reviewed by Douglas E. French

Believing that America's central bank, the Federal Reserve, has almighty power over interest rates and, in turn, the well-being of the country's economy, the financial press constantly focuses its attention on the actions of the Fed. "Fed watching" has become a thriving industry, with insiders like former Fed Governor Wayne Angell commanding \$100 per minute for his take on what the Fed will do with interest rates.

In *The Central Banks*, authors Marjorie Deane and Robert Pringle examine whether these central bankers deserve such reverence and whether the institutions are able to accomplish their much-touted goal of "price stability."

For those readers who don't know how miserable central banks have been at stabilizing prices, none other than ex-Fed Chairman Paul Volcker breaks the news on the first page of the book's foreword: "It is a sobering fact that the prominence of central banks in this century has coincided with a general tendency towards more inflation, not less. [I]f the overriding objective is price stability, we did better with the nineteenth-century gold standard and passive central banks, with currency boards, or even with 'free banking.' The truly unique power of a central bank, after all, is the power to create money, and ultimately the power to create is the power to destroy."

Deane and Pringle take the reader on a central-bank history tour, beginning with Sweden's Riksbank, born in 1668. The next stop is the Bank of England, which although not the oldest, is considered the "Old Lady" of central banks. They continue on to Germany's central banking misadventures before returning home to the U.S. Congress's century-long quest for a supply of money that could be increased at will. The search culminated in the Federal Reserve Act, signed by Woodrow Wilson on December 23, 1913.

After recounting the Bretton Woods era, which Deane and Pringle describe as the "golden age" of central banking, the authors race through the actual mechanics of central banking—monetary policy, supervision, lifeboat operations, and ex-

change rates. The authors also look at the world's newest central banks, in various small countries and parts of the former Soviet Union.

Where do all these new central bankers learn their trade? "[L]arge scale training programs for central bankers are offered by a number of central banks, the IMF Institute in Washington, and a special training school, the Joint Vienna Institute." And what personality types should apply? The authors quote American journalist William Neikirk: "Central bankers are a breed apart from the rest of humanity. . . . They are aloof, secretive, frugal, independent, public-spirited, responsible and judgmental." But no matter what the training, central bankers no longer control monetary markets; "the markets set the pace and it will be a scramble to keep two strides behind. And that may seem undignified. But scramble central banks should do."

In their final chapters, the authors examine whether the world needs central banks at all. Unfortunately, Deane and Pringle devote only a page and a half to free banking, mentioning the work of Kevin Dowd and Kurt Schuler as well as Vera Smith's classic *The Rationale of Central Banking*. They then make the sweeping judgment that "even most theorists of free banking acknowledge that given present markets and political reality, central banks are necessary, at least for any country that wants to follow an independent monetary policy." Agreed, for any country that wants to print money for political ends, having a central bank makes the task easier. However, the authors do admit that "societies have managed without central banks in the past," and "several of the greatest economists have been either skeptics or outright opponents of central banking. These include Adam Smith, Walter Bagehot, Friedrich von Hayek and Milton Friedman." But Deane and Pringle think they know more than these scholars.

They conclude that the primary task of central banks is "price stability" and that because of the complexity of world markets, central banking "is no world for the amateur." But, with a quick glance at the book's appendix, the reader comes to a different conclusion: that the money business is not a place for government bureaucrats—amateur or professional. All that central banks offer are currencies that lose value—the best depreciate quickly (50 percent in 20 years for the German Bundesbank from 1971 to 1991), the worst lose their value virtually overnight. I'll take free banking and a gold standard outside government any time. □

Mr. French is a vice president in commercial real estate lending for a bank in Las Vegas, Nevada.

Hands Off: Why Government Is a Menace to Economic Health

by Susan Lee

Simon & Schuster • 1996 • 252 pages • \$23.00

Reviewed by Raymond J. Keating

Economist and author Susan Lee possesses a wonderful talent for making economics enjoyable to read. She also lays claim to a rather healthy skepticism of government economic activism. These two gifts combine to make *Hands Off: Why Government Is a Menace to Economic Health* worth reading.

Two points that Lee makes in the introduction set the tone for the entire book. First, she characterizes economics as “a way of interpreting the effect of incentives on behavior.” Then she explains why government cannot fix economic problems: “Government activism often results in regulatory gridlock, produces unintended consequences, and/or creates an environment of uncertainty . . . at best, it can create a congenial climate for us to fix things. Once we get that through our heads and our hearts, economic life will be a lot more tolerable.”

The remainder of *Hands Off* fleshes out these points through various means. Lee offers anecdotal accounts of businesses and individuals beaten up by misguided economic policies. For example, real faces and stories underscore the effects of the 1990 luxury tax and later efforts for a government takeover of the health-care industry.

The author wades into economic theory as well, though she leaves the reader wanting more in this particular area. Lee accurately identifies Keynesian economics as the source of our economic woes in the late twentieth century and explains some of the many flaws of Keynesian thought. Indeed, the book excels when Lee explains the results of, as she calls it, “big, busy government”—such as inflation, high taxes, budget deficits, and regulation, and their commensurate woes.

As for alternatives to Keynesian activism, Lee is generally friendly toward supply-side economics. Indeed, she criticizes supply-siders for lacking “a coherent theory.” Lee continues: “Nor was [supply-side] a new way of looking at the world. The importance of incentives in economic behavior was well-trod territory.” There is some legitimacy to the idea that supply-side lacks a certain coherency, but as for the incentives aspect, Lee’s book illustrates that incentive economics suffered neglect under the Keynesian yoke and needed some impetus for

rebirth, which supply-side economics undeniably helped to provide.

Lee favors rational expectations, or New Classical Economics. Cutting through the mathematical haze that normally engulfs rational expectations economics, Lee summarizes the central tenets of the rational expectations school: (1) the key principle in microeconomics—that markets work—is no less true for macroeconomics; and (2) that “[p]eople very quickly form expectations about the future that are accurate and are, as well, rapidly updated as new information becomes available.” According to Lee, the bottom line for rational expectations is that “government could not ‘manage’ people’s behavior in a predictable, constant fashion.”

In a few rare instances, Lee does falter. She needs some clarity on the issue of the welfare state and its ills. For example, while arguing against the evils of big government and high taxes throughout the book, she drops in the following sentence without explanation: “The redistribution of income was a great success, at least in terms of the data: there was a sharp reduction in poverty, from 22 percent of the population in the early 1960s to 12 percent in 1979.”

However, granting a few instances where the author’s reasoning slips, *Hands Off* is generally sound and highly readable. Lee concludes by arguing that government limit itself to creating “a friendly economic environment for the private sector to be innovative, produce and employ people.” How? The model is familiar to all free-market students of the economy, including low marginal tax rates, less regulation, gold-based money, less government spending, and free trade. □

Mr. Keating serves as chief economist for the Small Business Survival Foundation.

Free Enterprise Moves East: Doing Business from Prague to Vladivostok

by Carter Henderson

International Center for Economic Growth and ICS Press • 1996 • 288 pages • \$24.95

Reviewed by Murray Sabrin

The genie is out of the bottle. From the heart of Central Europe to the easternmost regions of the former Soviet Union, the capitalist revolution has taken root—deeply in some areas, less so in others. According to Carter Henderson, former London bureau chief and front-page editor of the

Wall Street Journal, “the triumph of capitalism” is transforming the lives of more than 400 million people. Consumption is in, while central planning, shortages, queues, and bureaucracy are on the way out.

The remarkable progress in some of the former Soviet satellites is nothing short of breathtaking. “Capitalism is running wild . . . several million private businesses have been launched . . . and households . . . are getting their first taste of life in a consumer-driven culture.” Foreign investment is pouring into Hungary, Poland, and the Czech Republic. The rule of law—one of the essential elements of a market economy—is being created to secure both property rights and contractual obligations. Price controls are being lifted, trade barriers are being dismantled, subsidies are being eliminated, privatization is proceeding at a rapid pace, and monetary inflation is being curtailed. In short, free enterprise is on a roll.

Nevertheless, the progress of the former Soviet “tigers” stands in sharp contrast to the slow pace of reform in Romania, Albania, and Bulgaria. Whether the three laggards can throw off the legacy of Stalinism remains to be seen. But given the enormous progress in their neighbors’ well-being in such a short period of time, it would be tragic for the peoples of these nations to suffer more than they already have because of the dilatory actions of their elected officials.

After seven decades of a command economy, the people of the former Soviet Union are rediscovering the essence of entrepreneurship. Although some predict that “it will take a minimum of two generations—fifty years—to bring Russia’s economy to where America was in the 1950s,” the recent re-election of Boris Yeltsin is a confirmation that the Russian people do not want a return to a command system.

However, there are several major challenges ahead for republics newly formed from the remains of the Soviet empire. The Communist Party’s influence in the Parliament must be countered and organized crime drastically reduced in Russia and other countries in order for a peaceful market economy to flourish.

Carter Henderson has presented a clear and comprehensive overview of the spread of free enterprise throughout the former Soviet empire. For academics, business executives, and others who want to learn about the progress and opportunities in one of the world’s greatest economic transformations, *Free Enterprise Moves East* would be a good place to start.

Unfortunately, Henderson does not acknowledge the insights of the Austrian school economists

who predicted the demise of central planning as early as 1922, with the publication of Ludwig von Mises’ *Socialism*. Had *Socialism* been the bible of the Russian Revolution instead of *The Communist Manifesto*, the peoples from Prague to Vladivostok would have avoided the pain of the past and the uncertainty of the future.

Ideas matter, and Carter Henderson shows unequivocally that the greatest social experiment in the twentieth century was conducted using one of the most fallacious ideas known to the human race—statism. Hopefully, the gallant struggle to eliminate most—if not all—the remnants of statism will accelerate in the years ahead. □

Dr. Sabrin is professor of finance at Ramapo College of New Jersey and author of Tax Free 2000: The Rebirth of American Liberty.

Austrian Economics for Investors

Pickering and Chatto • 1996 • 48 pages, paperback. Contact FEE for price information.

Economics of a Pure Gold Standard, revised 3rd edition

by Mark Skousen

Foundation for Economic Education • 1996 • 192 pages • \$14.95

Reviewed by Robert Batemarco

Early in his marriage, Ludwig von Mises told his wife that despite writing prolifically about money he was never likely to earn a great deal of it. Mark Skousen makes the case in *Austrian Economics for Investors* (subtitled *Ludwig von Mises Goes to Wall Street*) that the ideas of Mises and his confreres do indeed have money-making potential. Showing the importance of subjective elements in forecasting, the impact of government policies on economic growth, the behavior of different types of industries over the course of the business cycle, and the role of gold as an inflation hedge are but a few ways Skousen sees Austrian insights as helping the reader put his capital to work.

While *Austrian Economics for Investors* touches upon the topic of gold, the role as money of the metal Keynes once dismissed as “a barbarous relic” is discussed thoroughly in Skousen’s *Economics of a Pure Gold Standard*, just re-issued by the Foundation for Economic Education. It goes one better than showing the reader how 100 percent gold

reserve banking *might* work, by showing how it actually *did* work in seventeenth-century Amsterdam, Hamburg, and Venice. From there, it provides some unfamiliar details to the familiar story of how practices once considered criminal came to be venerable standards. Specifically, the author explains how money's fungibility (i.e., particular pieces of money not being specifically identifiable) led British courts to construe bank deposits as loans, culminating in the 1833 decision of *Pitts v. Glegg*, which conferred legal status and has not since been challenged to fractional reserve banking.

A thorough rendering of the views of hard money advocates, from the Founding Fathers through the Jacksonians, the British currency school, and Murray Rothbard, serves as prologue to a survey of the issues involved in a pure specie standard, including what the unit of account should be, whether to allow for private provision of coinage, and the role of banks under such a system. Free banking as an alternative to a pure gold standard is discussed here as well. Skousen also covers several perennial critiques of a 100 percent specie system including its purported costliness and violation of the sanctity of private contracts. In so doing, he shows the ease with which hard money proponents turn each of these arguments to the gold standard's advantage.

In the first case, they show how the cost of labor and capital expended to mine additional gold is dwarfed by the inflation, business cycles, bank failures, and hidden tax burden incurred under any regime with less than 100 percent reserves. In the second, their arguments hinge on the prohibition of fraud being a defense of private contracts rather than their violation. To the extent that depositors are informed about the banks' use of their money, this case is less than airtight. A stronger argument, conspicuous by its absence, is that any money creation which reduces the reserve ratio is really an act of counterfeiting.

While the economics of the gold standard is clearly this book's long suit, it stands out from mainstream treatments of these issues by dealing forthrightly with some of the ethical and philosophical issues of alternative monetary systems. Yet, the book ends with the sobering realization that the insights of the 100 percent gold standard advocates are necessary but not sufficient for breathing life into such a system. Or, as the author puts it, "the 100 percent specie standard, advantageous as it may be portrayed, can be instituted only through drastic reforms and economic disruptions. It may have theoretical beauty, but it lacks pedestrian attributes." Lovers of liberty can

only hope that Skousen is as wrong about the prospects of returning to sound money as he believed Mises to be about the money-making implications of Austrian economics.

Dr. Batemarco, book review editor of The Freeman, is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.

The Privatization Process

Edited by Terry L. Anderson and Peter J. Hill

Rowman & Littlefield • 1996 • 274 pages • \$62.65 cloth; \$23.95 paperback

Reviewed by E. S. Savas

This is an interesting and excellent collection of essays related to privatization. Although a third of the chapters appeared elsewhere in different versions, the editors deserve credit for including those and commissioning the others. This eclectic group of contributions is dominated by the topic of property rights: half the twelve chapters focus on this issue—in Latin America, Mexico, Brazil, China, and post-communist countries.

The book might just as well have been titled *Prerequisites for Privatization*, rather than *The Process of Privatization*, for that is the emphasis of the readings on property rights. Only the chapters on New Zealand, the Czech Republic, and Mexico, and one on the specialized topic of spontaneous privatization in post-communist countries, can truly be said to discuss the process of privatization. The New Zealand case is an upbeat explanation, step by step, of why and how it was possible to carry out such wide-ranging economic reform in a democracy, contrary to expectations based on interest group politics. The chapter authors identify ten principles which guided successful economic restructuring there: (1) choose good people to carry out the process; (2) make quantum leaps; (3) do it fast; (4) build and maintain momentum; (5) be consistent and credible, because it builds confidence; (6) keep the public informed as to what to expect and when; (7) don't sell the public short; (8) maintain political composure to maintain public confidence; (9) get the fundamentals right; (10) stick to your guns.

The chapter on the process in Mexico provides a thoughtful and timely analysis of the privatization program carried out under President Salinas,

the subsequent peso devaluation, and the resulting economic crisis and public disaffection with economic reform and privatization throughout Latin America. The author argues persuasively that the fatal flaw in the process was that privatization was carried out for financial reasons and not to reform and restructure a closed economy. This confirms my oft-stated observation about Mexico, Argentina, and other countries that the first thing that has to be privatized is the private sector. That is, existing private firms have no interest in a competitive economy where they would lose their cozy relationships with state-owned enterprises, and therefore they are as big an obstacle to effective reform as are unions. It would have been interesting had a comparable chapter on Argentina been included, as that nation seems to be suffering similar problems despite its wholesale privatization program.

Robert Poole, Jr., one of the early pioneers in privatization, presents a good worldwide overview of privatization and its role in economic development. The chapter on China is an absorbing description of the recent economic history of that nation. The chapter by Megginson, et al., is a condensation of their well known, important, and exhaustive study of the firm-level effects of privatization; in summary, there are significant increases in profits, productivity, capital investment, dividends, and—surprise—employment.

There is little structure to the volume; the chapters don't follow any obvious sequence and the writing styles range from academic to journalistic to political. In other words, the sum of the parts is greater than the whole, but each of the parts is well worth reading, in any order. □

Professor Savas is the director of the Privatization Research Organization, School of Public Affairs, Baruch College, City University of New York.

Emancipating Slaves, Enslaving Free Men: A History of the American Civil War

by Jeffrey Rogers Hummel

Open Court • 1996 • 421 pages • \$39.95 cloth; \$19.95 paperback

Reviewed by Doug Bandow

Is there anything new that could conceivably be written about the Civil War? No other conflict so enthralls U.S. amateur historians. There are no

World War I re-enactors. The Spanish-American War inspires no nostalgia for the "lost cause." No other episode of American history can match the bibliographic output of that one four-year period more than a century ago.

But Jeffrey Rogers Hummel has produced a volume that offers both an accessible history of the war, along with its causes and aftermath, and a thoughtful interpretation that breaks with the usual idolatry of Lincoln and the unified nation state. The book should be read not only by Civil War buffs, but by everyone who has been force-fed the victor's tainted history of a conflict that killed 620,000 people, devastated a large section of the nation, and began the long process of centralization of power in Washington.

Hummel begins his book where the story of the Civil War properly begins—slavery. The hundreds of thousands of blacks kidnapped in Africa and enslaved in the new world were, of course, the glaring exceptions to the founding of a nation of free men. Many Americans understood the contradiction. Explains Hummel, "the Revolution's liberating spirit induced many white Americans to challenge slavery." But while emancipation spread across the North, it halted in the South.

Because large slaveowners, who dominated the South politically, would bear the greatest cost of emancipation, observes Hummel, "the slavocracy was willing to invest considerable political resources and eventually fight tooth and nail to preserve a system that in the long run benefited very few Americans." Other issues, particularly the tariff, were acrimonious, but only slavery was a union-breaker.

Hummel tells the standard story of the war though with less attention to the battles and a greater focus on economics than is customary. What really sets *Emancipating Slaves, Enslaving Free Men* apart is not new facts, but invaluable insights usually absent from more mainstream accounts. One is the significance of the South's two waves of secession. The deep seven went out over their fear—exaggerated, but real—about the future of slavery. The outer four, Arkansas, North Carolina, Tennessee, and Virginia, left only after Lincoln called out the troops to coerce the others into submission. Writes Hummel, "Previously unwilling to secede over the issue of slavery, these four states were now ready to fight for the ideal of a voluntary Union." Their willingness to do so adds moral complexity to what is normally presented as a simple crusade against slavery.

Even more important, Hummel asks whether the war was necessary. Hummel rises above the usual Lincoln hagiography to contest the sixteenth

president's claim that the break-up of the union would have been disastrous. Thus, argues Hummel, "As an excuse for civil war, maintaining the State's territorial integrity is bankrupt and reprehensible." Only the abolition of slavery could conceivably provide such a justification—had that been the purpose, as opposed to the outgrowth, of the war, and had war been the only way to end slavery. Here Hummel is at his informative best. Of more than a score of slave societies, only America and Haiti used violence to uproot the peculiar institution. Although he does not believe that economics necessarily ensured slavery's extinction, he persuasively argues that "slavery was doomed *politically* even if Lincoln had permitted the small Gulf Coast Confederacy to depart in peace."

Finally, Hummel emphasizes the centralization of power that occurred during the Civil War. One aspect was the odious abuse of civil liberties and democratic processes in the North, usually dismissed by Lincoln idolators with what Hummel refers to as the "not as bad as Hitler-Stalin-Mao" excuse. Beyond that, however, he contends that

"America's decisive transition" toward "government intervention over the free market and personal liberty at every level and in every sphere" started during the Civil War. As Hummel puts it: "In contrast to the whittling away of government that had preceded Fort Sumter, the United States had commenced its halting but inexorable march toward the welfare-warfare State of today."

Believers in freedom have long felt disenfranchised by the typical Civil War history. On the one side are the Lincoln idolators and triumphant nationalists, who view 620,000 dead as a small price to pay for an indissoluble union. On the other side are the southern traditionalists, who consider slavery to be but a minor blot on Idyllic Antebellum society. With *Emancipating Slaves, Enslaving Free Men*, Jeffrey Rogers Hummel fills the yawning philosophical gap in between. □

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

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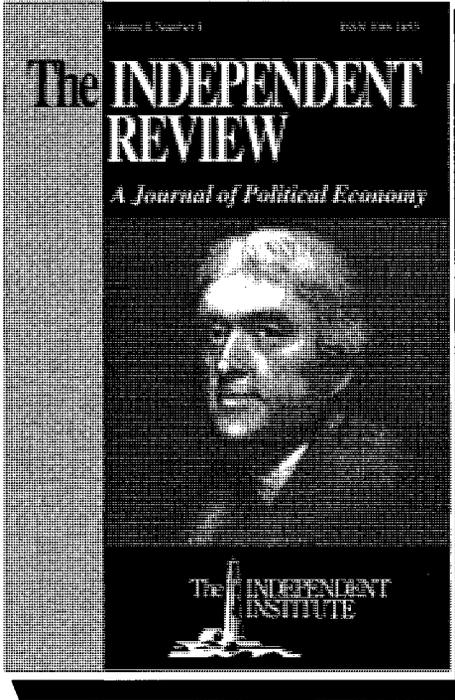
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