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PERSPECTIVE

What Money Can't Buy

Education is very much in the policy air, and virtually everyone says that we must spend more to improve our schools. In fact, the way politicians seek to prove that they are in favor of education is by promising to increase outlays for government schools and education programs.

A little perspective is in order. From the end of World War II until 1965 per student expenditures (adjusted for inflation) doubled. In the next two decades, 1965–1985, real per student outlays doubled again, and from 1985 to 1995 per pupil expenditures increased by 20 percent. In short, over the last half century the price of education nearly quintupled. By any standard, that's a big jump. It is an especially remarkable increase considering the dramatic decline in the price of technologies deployed as educational aids.

If outlays determined educational quality, we would expect students today to be five times smarter than students in 1945, or at least a little bit better informed than students of a generation ago.

However, the results of SAT and other tests demonstrate an almost inverse correlation with spending. For example, when median SAT scores reached their apogee in 1963, per pupil expenditures were about $2,400. Today expenditures are well over $6,000 per student, but median SAT scores have fallen about 150 points. Factors like the expansion in the number of students taking the test account for part of the decline, but the results are still dismal. In short, it is time to debunk the claim, once and for all, that achievement and expenditures are correlated. If they were, Iowa, which spends less on education than almost any state in the union, should not routinely score first or second in the nation on the SAT.

Expensive specialized government programs have no greater effect. A 1995 Department of Education report concluded that the gap between "disadvantaged students and others" had not closed despite the expenditure of $100 billion on Title I programs since 1965. In fact, there is scarcely an initiative one can cite, including Head Start, that demonstrates spending more money leads inexorably to greater achievement.

This reality is starting to sink in. Gary Burtless, in his study "The Effect of School Resources on Student Achievement," published by the liberal Brookings Institution, concludes that "on balance, the case for additional school resources is far from overwhelming.... Increased spending on school inputs without any change in the current arrangements for managing schools offers little promise of improving either student performance or adult earnings."

Thus, reformers genuinely concerned about student performance should look first to the more basic issue as to who runs the schools. Unfortunately, many supposed reformers are not serious. Rather, *soi-disant* reformers, such as the National Education Association, have a stake in maintaining the status quo and ensuring an infusion of additional money.

The primary hope for the future lies with parents coming to the conclusion that a bigger tax bite does not result in smarter children. When parents refuse to spend more money for poorer performance, genuine reform may finally be possible.

—HERBERT LONDON

Dr. London is John M. Olin Professor of Humanities at New York University, New York.

Forty Years Ago in *The Freeman* . . .

Edmund A. Opitz: "There is little in our culture—even in our religion—which serves to bring our minds to bear upon the great human themes.... Our minds are preoccupied more with the means of getting a living than with the ends for which life should be lived. Our lives are so fragmentary and full of distractions that we seldom get around to those things for which, in our more thoughtful moments, we feel a need. Yet even the least of us occasionally entertains angels unawares by acts of kindness, by doing more than our duty, by striving for justice, by spreading beauty, and by speaking the truth. Our lives are shot through with eternity, and we live in the midst of things of permanent value which serve to remind us what we really are and to what we are called."

F. A. Harper: "[Government] is constantly insolvent, obligating itself to spend something it does not yet have. It has no earned revenues from prior services rendered and sold in the market at a net gain, as you do when you go shopping with money you earned at yesterday's work. The government, instead, must obtain by force of taxation the revenue with which to pay its bills....

"Tax assessments to pay almost all the costs of government are imposed by force. Payment is obligatory on everyone, whether he wants the 'service' or not—whether he uses it or not. He must accept it from the government source at a dictated price, even though he may know a better and cheaper way of obtaining a service he wants."

—APRIL 1957

THE FREEMAN
IDEAS ON LIBERTY

The Entrepreneur on the Heroic Journey

by Candace A. Allen and Dwight R. Lee

"What do you want to be when you grow up?" was a question that adults regularly posed to all of us when we were young. Generally, even as children, we imagined ourselves becoming like those whose accomplishments we respected or whose qualities we admired. At a time when sports figures, Hollywood personalities, musicians, and even politicians vie for the hearts of the young, why not honor those among us who provide the energy and strength behind the invisible hand of economic progress?

Entrepreneurs are, in fact, heroic figures, and their accomplishments are worth celebrating. All of us are better off because entrepreneurs have been willing to attempt what others "knew" couldn't be done, and then persist in the face of adversity. Their visions extend beyond existing horizons, and eventually expand the realm of the realistic, transforming one generation's dreams into the next generation's necessities.

Who Are Heroes?

Who is a hero? For some, a hero represents a person who embodies such age-old values as honesty, integrity, courage, and bravery. For others, a hero is someone who is steadfast or who sets a good example. To many, being a hero means sacrifice, even of life itself, for the sake of others. Increasingly, many people find heroic those who simply gain notoriety or attention.

However, Joseph Campbell, an expert on world mythology, would probably find all of these definitions to be incomplete. Campbell contends that every society celebrates heroes, and in doing so, honors the past, energizes the present, and shapes the future. In studying most known cultures, Campbell has discovered that though details of the heroic path change with time, the typical journey of the hero can be traced through three stages. In our view, the entrepreneur travels through all three.

The first stage involves departure from the familiar and comfortable into the unknown, risking failure and loss for some greater purpose or idea. The second stage is encountering hardship and challenge, and mustering the courage and strength necessary to overcome them. The third is the return to the community with something new or better than what was there before. Ultimately, the hero is the representative of the new—the founder of a new age, a new religion, a new city, or a new way of life that makes people and the world better off.

The Modern Entrepreneurial Hero

In our modern world, the wealth creators—the entrepreneurs—actually travel the heroic path and are every bit as bold and daring as

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the mythical heroes who fought dragons and overcame evil. With conventional virtues, the entrepreneur travels through the three stages of the classic journey of the hero to achieve unconventional outcomes and should serve as a model of inspiration and guidance for others who follow.

In the first stage of the heroic journey, the entrepreneur ventures forth from the world of accepted ways and norms. He asserts, "There is a better way, and I will find it!" Unlike those who are overwhelmed by the challenges of their immediate world, the entrepreneur is an optimist, able to see what *might* be by rearranging the world in creative and useful ways. The entrepreneur refuses to accept the conclusions of others about what is or is not possible.

In this first stage, risk-taking entrepreneurs are motivated by many factors. Some want to become rich or famous. Others desire to better themselves, their families, or their communities. Some seek adventure and challenge. Regardless, they are characterized by energy, vision, and bold determination to push into the unknown.

In the second stage the entrepreneur finds himself in uncharted territory. Everything is at stake. The entrepreneur sacrifices for an idea, purpose, vision, or dream that he sees as greater than himself. Comfort and security become secondary.

Entrepreneurial action is often controversial. An entrepreneurial educator, for example, might leave the state school system to find a better way to provide education to youngsters as an alternative to government schooling. Yet, former colleagues might see him or her as a traitor. Regardless of what the entrepreneur sacrifices during this stage of the heroic quest, he is impelled into risky, unfamiliar territory. He must be resilient in the face of mistakes or failure.

In this discovery stage, the entrepreneur often encounters those who have a stake in maintaining the status quo. Business opponents may even turn to the state, as Netscape has pushed the Justice Department to hound Microsoft for alleged predatory behavior. Professor Don Boudreaux, writing in the *Wall Street Journal*, sees this anticompetitive tactic as a serious abuse of the legal and judicial system in an attempt to prevent entrepreneurs from bringing new products and services to consumers.

The third stage of the classic heroic journey begins when the entrepreneur returns to the community with his product, service, or new process. By buying the new offerings, the customer acknowledges the entrepreneur's success. The more profit that is generated, the greater the value of wealth produced. Thus, profits are the entrepreneur's reward for increasing benefits to individuals in society. Serving in the capacity as wealth creator, the entrepreneur becomes a social benefactor.

The true heroic entrepreneur will continue to anticipate future challenges. He is no ordinary business person whose main priority is keeping one step ahead of his competitors and maintaining market share. Nor does he seek government subsidy or protection. For him, the quest is to venture forth again and again into the unknown to create and bring back that which other individuals value.

The Bold Quests of Individuals

Not all people who venture forth on such heroic quests succeed. Approximately 80 percent of new businesses quickly fail. But over three-quarters of all new jobs each year come from firms no more than four years old. Though large, well-established corporations are more visible, one finds the most entrepreneurial action and risk-taking activity in small business ventures. Hermann Simon, author of *Hidden Champions: Lessons from 500 of the World's Best Unknown Companies*, argues that many little-known, superperformer companies made up of two, three, or more highly entrepreneurial folks have control over 50, 70, and even 90 percent of the world-wide market for their products. For example, St. Jude Medical has 60 percent of the world's market for artificial heart valves. Today, those *individuals* (or small groups of them) who are embarked on the bold quests are the ones who are changing the face of society so rapidly. And we can look to the future with optimism, since opportunities abound for further entrepreneurial adventure.

In fact, the changes we have witnessed in our lives since we were children are likely to pale in comparison to the changes we will see in coming decades. Yet, while entrepreneurs are essential for this progress, seldom are entrepreneurs hailed as heroes. To the contrary, typically they are ignored in textbooks, or castigated as "robber barons." It's no surprise, then, that most adults know far more about successful politicians than about successful entrepreneurs, and most admire the former more than the latter. How can a society continue to prosper when it views those who transfer wealth as more heroic than those who create it?

Why are entrepreneurs seen as looters and exploiters rather than as heroes? One reason is the political bias against them. As government control over the economy has grown, so has the incentive for politically influential interests to disparage entrepreneurs. Few, if any, economic forces are more disruptive than entrepreneurship. But while this "creative destruction," in Joseph Schumpeter's words, is essential to general progress, it harms some individuals and groups whose wealth is tied to the status quo. Each group wants to gain protection against progress that imposes costs on itself. The larger government becomes, the more it acts as a force against progress. While the entrepreneur with a superior idea can draw large numbers of customers from existing corporate giants in market competition, he can't mobilize large numbers of citizens against government obstacles to that competition.

Of course, entrepreneurs can often overcome political obstacles, but such effort diverts attention and energy from the creative activities that propel economic progress. Moreover, political opponents of economic change frequently vilify individual entrepreneurs. Thus, instead of celebrating entrepreneurs who do the most to push back the frontiers of the possible, the public often seems to single them out for condemnation.

Another reason entrepreneurs are criticized is that the connection between their innovations and economic progress is often indirect and difficult for most to recognize. For example, few people understand the great contributions made by Michael Milken and Bill Gates. Special-interest groups with a stake in the status quo can exploit this lack of understanding to depict entrepreneurs as rapacious scoundrels.

Indeed, few people understand how capitalism works. Most tend to focus on the concentrated costs inflicted by market competition, while taking for granted the diffused benefits made possible by that competition. Trying to explain the workings of the invisible hand is not an easy task. Educating the public is made more difficult by intellectuals who use their positions in academia to criticize capitalism and the entrepreneurial energy that propels it.

Why Individual Entrepreneurs Matter

Even many staunch supporters of the free-market system diminish the importance of entrepreneurs. The economists who have developed the subdiscipline referred to as the "new economic history" have been among the most effective at explaining the causal links between the market and economic progress. Yet many of these new economic historians dismiss the role of entrepreneurs. For example, Robert Thomas of the University of Washington argues that individual entrepreneurs, whether alone or as archetypes, "just don't matter." According to Thomas, a successful entrepreneur is no more important to the economy than the winning runner in a 100-yard dash is to the race. The winner gets all the glory, but if he had not been in the race, the next runner would have won by crossing the finish line a fraction of a second later, and the spectators would have enjoyed the race just as much. Thus, if Henry Ford, Ted Turner, or any other successful entrepreneur had not made his pioneering contribution, someone else would have quickly done so. So, as Thomas tells the story, it is hard to justify special celebration of their accomplishments.

Thomas's view is incomplete. Go back to his race analogy. The argument that a given entrepreneur's accomplishments would, in his absence, quickly be achieved by others assumes an environment that encourages entrepreneurship. If the runners themselves, their training, and their efforts during the race are simply taken as givens, it is no doubt true that removing the winner of the race would do little to reduce the benefits of winning. But the identity of the runners and their preparation and efforts can't be taken for granted. Competitors are influenced by treatment afforded the winner. When champion runners receive public esteem, those with the greatest talent are more likely to become runners, train hard, and run faster. Similarly, public attitudes affect the entrepreneurship process.

Of course, the entrepreneur profits financially if he is successful, which is one reason critics discount the role of public acclaim. Money is obviously important in directing his efforts into those ventures in which his talents have the greatest social value. But this actually strengthens the case for celebrating entrepreneurs. Failing to do so emboldens politicians, and their special-interest clients, who are constantly looking for justifications to tax away the financial gains of successful entrepreneurs. It is no coincidence that, over the past century, as public respect for entrepreneurs has eroded, so have the constitutional barriers against what is best described as the punitive taxation of economic success.

Thus, just as the society that doesn't venerate winners of races will produce fewer champion runners than the society that does, the society that does not honor entrepreneurial accomplishment will find fewer able people engaged in wealth-creating activities. And that society will be less well off than the one which perceives the wealth creator to be a hero.

One last factor helps explain why entrepreneurs are seldom viewed as heroes. When defining a hero, people often focus on self-sacrifice, rather than benefits received by other individuals and society. Yet the vast majority of entrepreneurial efforts do fail, often with significant loss to the entrepreneur. And when the entrepreneur succeeds, he receives his reward only after having enriched everyone else even more.

Conclusion

Economists tend to focus on what can be seen—the measurable aspects of the economy and mechanical understanding of the marketplace as an efficient resource allocator. But abstract economic models seldom inspire. To paraphrase Schumpeter, economic efficiency is a poor substitute for the Holy Grail. In human entrepreneurs, in contrast, people, particularly the young, can see and appreciate those heroic qualities that continuously create a better world.

Some may criticize romanticizing the entrepreneur. But societies are shaped by the ideals they embrace. If one of our children or grandchildren wanted to emulate an entrepreneur who heroically struggled in uncharted territory and ultimately changed the world for the better, we would be proud. □

The power of one.

"There is really nothing that can be done except by an individual.
Only individuals can learn.
Only individuals can think creatively.
Only individuals can cooperate.
Only individuals can combat statism."

—Leonard E. Read
founder of FEE

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The Free Market: Lifting All Boats

by Don Mathews

"In the free market, the rich get richer while the poor get poorer." "America's market economy might create wealth for some, but it certainly doesn't benefit the poor." How often we read or hear such statements. What they assert is familiar. But is it true? Does the free market really leave the poor behind?

A good way to determine how the poor fare in the free market is to examine how the standard of living of the poor has changed over time. One factor to consider is real income. Between 1900 and 1990, the growth in real (inflation-adjusted) income—generated by the free market—was enormous: Real income in 1990 was 15 times greater than it was in 1900. Real per capita income was over four and one-half times greater in 1990 than in 1900.

Another important measure of income is real money earnings from employment. Real earnings were almost four times greater in 1990 than in 1900. But statistics on real earnings mask significant changes in work hours and the way workers are compensated. In 1900 nonfarm workers toiled 60 hours a week; by 1990 they worked 39.3 hours a week, a decrease of over one-third. Moreover, in 1900 workers received almost all of their compensation in wages; by 1990 workers received nonwage benefits accounting for almost 40 percent of their total compensation. That means an hour of work in 1990 paid well over eight times what it did in 1900.

Still, one might argue that real per capita income and money earnings tell us little about the status of the poor. Did the poor share in the economy's growth?

Since real income in the United States has increased, we know that the real income of the poor has increased if the share of income received by the poor is stable or increasing. In 1900, the poorest 20 percent of income earners received 4.8 percent of the nation's income; in 1990, they collected 4.6 percent. Thus, the real incomes of the poor have risen significantly this century.

Another way of determining whether the poor have benefited from income growth is to look at changes in the percentage of families classified as living in poverty over time. By our current definition of poverty, 56 percent of families in the United States were poor in 1900. By 1947, even after the economic shocks of the Great Depression and World War II, the percentage of families in poverty had been reduced by more than half, to 27 percent. By 1967, the percentage was halved again, to 13 percent. Notably, the decrease in poverty between 1900 and 1967 occurred before the advent of the greatly expanded welfare state. In other words, it was the free market, not government welfare, that caused the poverty rate to fall from 56 percent in 1900 to 13 percent in 1967.

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What has happened to real incomes and poverty rates demonstrates that the free market does not leave the poor behind. Yet another measure of the standard of living is the level of goods and services consumed. Real per person spending on consumer goods rose dramatically between 1900 and 1990. (See the table below.)

	1900	1990	Percent Change
Food	$1,178	$ 1,814	54
Clothing	272	920	238
Housing	256	1,898	641
Water	20	87	335
Electricity	1	265	26,400
Health	172	1,928	1,021
Transport	143	1,621	1,034
Total	$3,266	$13,051	300

Source: Stanley Lebergott, *Pursuing Happiness* (Princeton University Press, 1993).

These extraordinary gains were shared by the poor. Consider some conveniences that we consider to be essential today:

	1900	1990
Percent of homes with:		
running water	24	99+
flush toilets	15	99+
electricity	3	100
Percent of households owning:		
car	0	88
refrigerator	0	100
television	0	98
telephone	5	95

Sources: Lebergott, *Pursuing Happiness* and *The Americans: An Economic Record; Statistical Abstract of the U.S., 1994.*

Health is another important component of the standard of living. Life expectancy at birth was 47.3 years in 1900, and 75.4 years in 1990. Other health statistics are even more revealing. Deaths from once-common diseases have dropped dramatically since 1900. It was not primarily medical advances, but improved water and sewer systems and housing, that lowered mortality rates—and helped the poor far more than the rich. (See table following.)

Death Rates (per 100,000 population)

	1900	1990
Tuberculosis	194	0.70
Typhoid	31	0.05
Diphtheria	40	0.05
Whooping cough	12	0.05
Measles	13	0.05
Influenza, pneumonia	202	32.00
Gastritis, colitis	143	1.00

Sources: For 1900, U.S. Bureau of the Census, Historical Statistics, Colonial Times to 1970. For 1990, *Statistical Abstract of the U.S., 1994.*

Of course, a critic might concede the dramatic nature of these changes, but counter that these improvements took 90 years to occur. It would be helpful, then, to look at a shorter period, during which time the living standards of the poor, according to "common knowledge," worsened.

Under the official definition of poverty, a household of four, for example, is classified as poor if its annual income is less than $14,400. But, as noted earlier, living standards depend on the goods and services consumed, so a family should be classified as poor on the basis of its level of consumption, not income. University of Texas economist Daniel Slesnick has devised a consumption-based measure of poverty and calculated poverty rates for the years 1949 to 1989. He found that 24

Percent of households with . . .	Poor households		All households
	1984	1994	1971
Washing machine	58.2	71.7	71.3
Clothes dryer	35.6	50.2	44.5
Dishwasher	13.6	19.6	18.8
Refrigerator	95.8	97.9	83.3
Freezer	29.2	28.6	32.2
Stove	95.2	97.7	87.0
Microwave	12.5	60.0	<1.0
Color television	70.3	92.5	43.3
VCR	3.4	59.7	0
Personal computer	2.9	7.4	0
Telephone	71.0	76.7	93.0
Air conditioner	42.5	49.6	31.8
One or more cars	64.5	71.8	79.5

Source: Federal Reserve Bank of Dallas, 1995 Annual Report, p. 22.

percent of U.S. households were poor in 1959. By 1989, only a generation later, the poverty rate was but 2 percent. And Mr. Slesnick's calculations exclude noncash government benefits such as Medicaid, public housing, and a long list of government-provided community services.

The claim has also been regularly made that the poor have been getting poorer for over a decade. Yet households officially counted as poor are as likely to own a host of major consumer goods as was the general population just two decades ago. (See the table on the previous page.)

But these data indicate something even more striking: the remarkable amount of goods owned by poor families. In the United States today a household which owns a washer, dryer, refrigerator, stove, microwave, color TV, VCR, and car might still be considered poor. The point is, the free market has not only dramatically improved the material well-being of the poor; it has generated so much wealth that it has completely transformed what we consider poverty to be.

What has happened to the living standards of the poor in our predominantly free-market economy shouldn't surprise us. The soul of the free market is not wealth creation but liberty and private property, and it is liberty and private property which enable entrepreneurs to create more efficient production methods that yield better goods and services. Entrepreneurs were the primary cause of the income growth that we've observed, as well as all those new and improved products consumed by everyone. The free market does not leave the poor behind, it makes them, as well as everyone else, richer. Much richer. □

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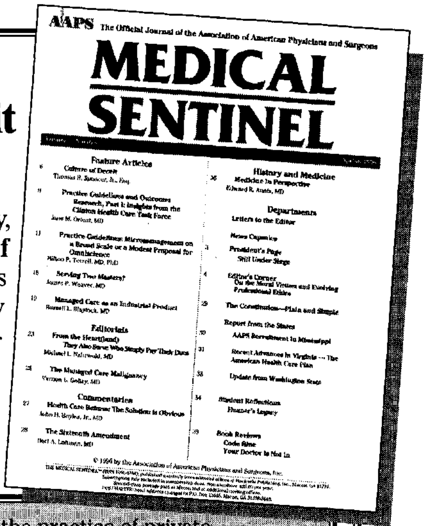

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There's More to Government Than You Think

"Thank God we don't get all the government we pay for."

I can't verify who first said that, but no doubt millions of Americans would agree with it. Millions more would endorse it if they understood that government is actually costing them far more than they ever imagined. This seems like a timely subject for April, the month when taxpayers render unto Caesar what Caesar's tax tables tell them they owe.

Make no mistake about it. Cost has a lot to do with our personal choices. Indeed, as every economics instructor points out to his freshman students, people demand more of a good when its cost declines—all other factors remaining equal. They demand less of it as its cost rises. The more costly a good becomes, the more it prompts individuals to ask these questions: Do I really need this? Might I be better off doing with less and spending my money on something else? What might be the alternative to this particular good?

As taxes rise, more and more people begin asking these questions about government, too. The problem is, many taxes are not readily apparent to those who pay them, and even *all taxes*—both the obvious and the hidden—do not make up the total price we pay to be governed.

We pay for government not only when we fill out our 1040 forms, but also every time we trade for anything in the marketplace. Its various impositions on producers are baked into the prices of the goods they sell, the return they are able to provide to investors, and the wages they can afford to pay their employees. Federal regulations alone are estimated to cost Americans more than $600 billion yearly.

We pay for government in lives shortened or lost because of delays in new drug approvals. Because of a raft of restrictive barriers to enterprise, we pay for government in terms of businesses stymied or never started and jobs never created. A government education monopoly that often fails to educate exacts a terrible price by stunting careers and squandering immense human potential. One cost of government that can't be reckoned in dollars and cents—a diminution of the individual's basic freedom to act and speak on his own—has been deemed important enough to spark a revolution from time to time.

No one would suggest that government is all cost and no benefit. When it protects property and keeps the peace, it performs a positive good. Diehard statists see almost nothing *but* the supposed benefits, from keeping peanut farmers in business to putting a man on the moon. Unfortunately, the public debate about government almost always overstates the benefits (because they are visible and concentrated) and understates the costs (because they are hidden and diffused). In the interest of full disclosure and a better informed citizenry, the cost side of government could use a little illumination.

Lawrence W. Reed, economist and author, is president of the Mackinac Center for Public Policy, a free market research and educational organization headquartered in Midland, Michigan.

What if every filling station posted its price alongside a breakdown of all the taxes that are paid from the oil well to the gas pump? Consumers would see that of the $1.25 they just paid for a gallon of gasoline, at least 70 cents goes to government (essentially, to people who wouldn't know how to drill a well if their very lives depended on it). It might put a new light on the phrase "windfall profits."

Haven't we all heard every increase in Social Security benefits defended with the retort, "But I paid in!"? That sentiment is expressed even by those who received back, with interest, their entire lifetime tax contributions to Social Security in their first three years of retirement. Now a decade later, they are collecting benefits paid for by other workers and still they cry, "But I paid in!" If every Social Security check stub had two simple numbers on it—how much the individual paid in *and* how much he had received to date—a few recipients might stake their claim on other citizens with a little less enthusiasm.

Imagine how public debate might change if employers told their workers about the costs of government that come right out of their paychecks? Not just the obvious costs that show up on their pay stubs now, like federal, state, and local income taxes and the employee's share of Social Security and Medicare, but some of the not-so-obvious ones as well. Enhance the pay stub to inform the worker—that's it in a nutshell.

To encourage employers to do just that, the Mackinac Center for Public Policy has come up with what we call the "Right to Know Payroll Form." The form extends most current payroll accounting beyond the standard withholdings or deductions to include the employer's share of certain taxes, the expense of having a paid staff to compute and administer payroll taxes for the government, and the cost of other employment-related mandates.

The Right to Know Payroll Form starts with a calculation of "Estimated Payroll Allocation"—the sum of those taxes and other costs imposed specifically on the employment relationship. Included are the company's expenses for mandated programs from the Americans With Disabilities Act to the Family and Medical Leave Act to affirmative action, which are estimated and spread across the existing workforce, prorated for each pay period. The effect is to show each employee that his company pays out quite a bit before he even gets to the "Gross Pay" figure on the traditional pay stub.

To illustrate, here's information from an actual pay stub of a real, live worker at a company that has adopted our form. (The name has been deleted to protect the victim.)

1. ESTIMATED PAYROLL ALLOCATION:	**$3,012.04**
2. Government Cost: Tax Administration	$6.90
3. Government Cost: Mandated Benefits	$4.14
4. Government Tax: Workers' Compensation	$19.32
5. Government Tax: Unemployment Insurance	$24.84
6. Government Tax: Employer's Share of Social Security	$159.21
7. Government Tax: Employer's Share of Medicare	$37.23
8. GROSS PAY:	**$2,760.39**
9. Government Tax: Federal Income Tax	$288.32
10. Government Tax: State Income Tax	$95.79
11. Government Tax: City Income Tax	$27.60
12. Government Tax: Employee's Share of Social Security	$159.21
13. Government Tax: Employee's Share of Medicare	$37.23
14. NET PAY:	**$2,152.24**

This employee is now much better informed. Before his employer adopted the Right to Know Payroll Form, when asked how much he pays for government, he used to simply add up #9 through #13 and arrive at a response of **"$608.15."** Now when he's asked that same question, knowing that every payroll expense comes out of whatever pool of revenue the business has to pay its workers with, he includes the sum of #2 through #7 and responds this way: **"$859.79,** *and I'm not sure I'm getting my money's worth.*"

Note the recommended usage of the terms *Government Tax* and *Government Cost*. We don't want anybody to think these things are either voluntary or from the tooth fairy.

The Right to Know Payroll Form is adaptable to any workplace. Some businesses may want to include additional line items not mentioned here. The State of Michigan implemented its own variation of the form in 1996 for all 61,000 state employees and included additional information about health and pension benefits negotiated by the public-employee unions.

In any event, providing information like this helps workers understand the constraints employers face when seeking to create jobs, increase pay, and compete effectively in a global economy. It shatters the myth that taxes and mandates can be placed on employers without affecting the workers themselves. It encourages awareness of employment-related public policy and how it affects jobs and wages. And it may even help the cause of liberty to the extent it encourages each worker to ask, "Do I really want or need this much government?"

So as you fill out the forms for your friends at the Internal Revenue Service, remember that as high as the government's bill may be, there's a part of it you already paid. □

Back in Print!

GOVERNMENT—AN IDEAL CONCEPT

by Leonard E. Read **New Introduction by Hans F. Sennholz**

To Leonard Read, government was neither a manager of economic activity nor an almoner of gifts to the people, but a necessary instrument of social order. Its only basis is justice, not pity. Government is represented by agents who are expected to enforce and defend man's natural rights and protect him against wrongs of his fellowmen. But these agents should not do what the individual must not do. The agents of government should be men and women of integrity. Unfortunately, Read observed, political office tends to rob a person of modesty, humility, and integrity, which make it advisable never to accept a political office.

Leonard Read's eloquent discussion of the nature of government and a new beginning in freedom will endure as a principled work of great value. It is a guidepost for readers seriously interested in the limits of public regimen and the cause of liberty.

152 pages, indexed, paperback **$12.95**

A few years before Leonard E. Read authored this book, he created The Foundation for Economic Education. He was convinced that every generation must defend its freedom anew against the intellectual forces that seek through ever new devices to enslave it. Therefore, he dedicated his great strength and ability to the study and dissemination of freedom ideas. He managed the Foundation from its beginnings in 1946 until his death in 1983.

THE FREEMAN
IDEAS ON LIBERTY

Stockholders as Stakeholders

by Edward W. Younkins

The issue of corporate social responsibility first emerged in the early twentieth century, when corporations were criticized for being too large and powerful and for engaging in anti-social and anti-competitive practices. Some business leaders responded by using their private wealth for community and social purposes. A shift from individual philanthropy to corporate philanthropy evolved when community needs seemingly outpaced the resources of even the wealthiest individuals.

Consequently, critics of business cited the stewardship principle in urging managers to view themselves as trustees of the public interest. Managers were encouraged to act in the interest of *all* those affected by a firm's actions—not just stockholders, but employees, creditors, customers, suppliers, communities, competitors, government, and society in general. Some companies now not only accept, but promote this view as well.

Stakeholder Theory as a Management Strategy

As a management strategy, stakeholder (or constituency) theory has merit. Effective corporate managers pay attention to those individuals and groups that are vital to the survival and success of the firm—shareholders, employees, suppliers, customers, the local community, and so on. In this context, stakeholder theory merely describes an approach for improving corporate profits; it suggests no other moral responsibility for companies.

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That is, a manager should undertake "socially responsible" actions when he anticipates effects that, in the long run, will benefit his firm. Such an investment should have a direct business purpose and be expected to generate sufficient future net tangible benefits for the enterprise and its shareholders. The question is not whether an activity is in the interest of a firm, but whether it is enough in its interest to justify the expenditure.

Thus, socially responsible actions should be linked to business goals, particularly the company's need to attract loyal customers, productive employees, and enthusiastic investors. In such a case, socially responsible activities simultaneously serve the interests of the business and the beneficiaries.

For example, corporate advertising and philanthropy can be closely related. Linking charitable contributions to the firm's products or services may increase sales to customers who hold certain social values. In addition, donations for community improvement can be used to attract skilled workers. Contributions to research or educational programs may promote the firm's economic interest. Company-sponsored employee volunteer programs not only benefit others, but can help attract good employees, create a sense of teamwork and corporate mission, and improve worker performance.

John M. Hood's excellent new book, *The Heroic Enterprise*, provides specific illustrations of how companies can and do serve society through the pursuit of profits. Sponsoring safety and health promotion programs for employees can lower health, accident, and life insurance premiums. Providing child care, family leave, flexible work schedules, job sharing, employee assistance programs (e.g., counseling), and telecommuting opportunities benefits the firm and its workers. When a company humanely and effectively uses outplacement services for employees who are laid off due to strategic rightsizing, the result is not only a savings in severance payments, but also good public relations and maintenance of employee morale and productivity. A firm can make profits while assisting distressed communities, especially if the communities are viewed as underserved markets.

By helping to renovate inner cities, making them safer, and training their residents, businesses can serve their own interests as well as those of the urban population. Earning the trust of consumers and community leaders can lead to long-term economic gains.

A Flawed Ethical Theory

As an ethical theory, however, the emphasis on stakeholders is problematic. It erroneously suggests that corporations are possessions and servants of larger society.

The term stakeholder has been defined by Anthony Buono and Laurence Nichols as "any identifiable group or individual who can affect or is affected by organizational performance in terms of its products, policies, and work processes." Proponents of stakeholder theory as an ethical theory attempt to base their argument on Immanuel Kant's principle of respect for persons. For example, according to William Evan and R. Edward Freeman, each stakeholder group has a right to be treated as an end in itself and not as a means to some other end, and therefore must participate in determining the future direction of the firm. In other words, the corporation should be managed for the benefit of its stakeholders. Thus, managers have a duty to represent the stakeholders' interests.

This theory misinterprets Kant's principle. What he actually said was that every human being is entitled to be treated not merely as a means but also as an end in himself. To regard persons as ends is to recognize that they are autonomous moral agents, which is the same as respecting their natural rights to pursue their own goals and associate with those of their own choosing. Respecting the autonomy of stakeholders does not imply that they are entitled to influence corporate decisions or that the firm should be operated in their interests. It merely means freely bargaining with them without the use of force or fraud. No stakeholder should be forced to associate with the company without his consent.

Instead, treating all stakeholders as having equally important interests removes management decisions from their emphasis on increasing profit. In this way, stakeholder theory places managers in the impossible situation of balancing competing claims from a wide variety of groups. Without the explicit goal of returning the highest value to stockholders, managers would find themselves in the position of having to make essentially political rather than business decisions.

Stockholders Are the Only True Stakeholders

Stockholder theory assumes a fiduciary obligation by a corporation and its managers to its stockholders. Stakeholder theory implies a multi-fiduciary approach that is inconsistent with free markets, property rights, and the special moral responsibility of management to the stockholders. Since shareholders hire managers to serve their interests, managers should be responsible to the stockholders. It follows that managers have neither the obligation nor right to spend the stockholders' money in ways that have not been sanctioned by the owners, no matter what social benefits may occur by doing so. Corporations are simply arrangements whereby shareholders advance money to managers to use for specific ends. Managers are limited by their agency relationship to serve the objectives outlined by their stockholder principals. Expenditures for socially beneficial purposes are legitimate only when they have been specifically authorized by the stockholders or when managers reasonably believe they will increase the firm's long-run profitability.

In the end, one must invest in a corporation to actually have a stake in it. Other so-called stakeholders, with the possible exception of employees, have no claim against a specific corporation as long as it is able to fulfill its freely contracted obligations with such groups. Stockholders are the only true stakeholders. □

THE FREEMAN
IDEAS ON LIBERTY

Star Trek and Collectivism: The Case of the Borg

by Steven Yates

Star Trek is easily the most popular science fiction epic of all time. Over the past three decades, the saga has given birth to four television series, eight motion pictures, dozens of novels, and a variety of paraphernalia—including technical manuals of the *Enterprise*, English/Klingon dictionaries, and even books on such themes as leadership lessons in *Star Trek*. The odyssey launched by Gene Roddenberry has generated a rich and complex "history of the future" and garnered a worldwide audience of millions—not to mention enormous profits for Paramount Pictures, owner of the lucrative *Star Trek* trademark.

Star Trek's vision of the future is optimistic, implying that we humans will eventually conquer our major faults, transform our planet into a poverty-free ecological paradise, go to the stars, and become a civilizing force throughout our "quadrant" of the galaxy. The vision is also rather statist, at least by implication. The political philosophy of *Star Trek* appears only in (sometimes inconsistent) bits and pieces. A world-government-as-savior theme appears in several episodes. At the same time, ironically, the United Federation of Planets, despite its civilizing influence, is centralized, bureaucratic, procedure-laden, and sometimes utterly unable to handle the complexities of new challenges (its "prime directive"—not to interfere with indigenous cultures on developing worlds—is violated countless times).

There is environmental correctness. For example, in an episode where the *Enterprise* is on a mercy mission to a world whose inhabitants devastated their natural environment, chief engineer Geordi La Forge asks something like, "Why didn't they just do the sensible thing and regulate emissions?" Suggestions are also rife that "all cultures are equal," a staple of multiculturalism.

The Borg

Despite such (occasionally glaring) flaws, *Star Trek* nevertheless presents perhaps the most disturbing example of full-fledged collectivism currently available. This depiction occurs in four episodes of *Star Trek: The Next Generation (ST:TNG)*, the paperback novel *Vendetta*, and the movie *Star Trek: First Contact*, released last November. These all feature encounters between the *Enterprise* and a race known as the Borg, the deadliest foe yet faced by the Federation.

The Borg are a race of cyborgs, the product of a technology that "hardwires" artificial intelligence directly into the brain and central nervous system. Immediately after birth, Borg infants receive neural implants, which provide physical nourishment as well as information from a network connecting all the Borg brains

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and nervous systems with the rest of their technology. The Borg grow completely dependent on the implants, with every Borg brain in contact with every other Borg brain at all times. They share a "group mind"—a kind of organic Internet accessed with thoughts instead of computers.

Thus, their vast spaceships automatically go where the "group mind" wills, and if damaged, the craft repair themselves. There is no hierarchy or chain of command in any normal sense. Significantly, this "group mind" was eventually labeled the Borg Collective. The Borg have numerical "designations" instead of names and a repulsive physical appearance. Surgically implanted mechanical devices often replace their eyes and limbs. Individual Borg have extreme difficulty initiating action or even reacting to immediate surroundings without a cue from the "group mind" that can see through their eyes and communicate through their implants.

The *Enterprise* crew first encounters the Borg in the second-season episode "Q Who?" when the whimsical and enigmatic character Q, member of a race of omnipotent beings who call themselves the Q Continuum, hurls the *Enterprise* into a previously unexplored region of the galaxy. The Borg's one obsession, the crew quickly learns, is to "assimilate" other intelligent life forms, adding new technologies to their own and thus "improving themselves"—destroying the other races in the process. It is impossible to reason with them, since one can't communicate with them in any ordinary sense. When they have selected a target, they are relentless.

In short, *Star Trek's* writers have succeeded brilliantly in presenting their audience with an unsettling vision.

In "The Best of Both Worlds" (the cliffhanger that ended the third season), the Borg attack the Federation and zero in on Earth. After destroying a number of Federation outposts, several Borg appear on board the *Enterprise* and kidnap Captain Picard. They "assimilate" him by giving him implants and create the evil Locutus—who inherits Picard's encyclopedic knowledge of Federation technology and defensive capabilities. The Borg use this intelligence to launch an apparently unstoppable attack on Earth. Against seemingly hopeless odds, the *Enterprise* crew figures out how to exploit the Borg's weakness—their total interdependence and dependence on a technology consisting of subroutines and programs instead of procedures capable of being checked by individual minds. The equivalent of a computer virus essentially shuts them off!

This story from the 24th century has lessons for us as we approach the end of the millennium. Some might interpret these episodes as a commentary on how much we fear having our humanity overwhelmed by technology in a world growing more computerized every day. It is true that technology is a double-edged sword, capable of being either friend or foe of liberty, depending on how and by whom it is used.

The Threat of Collectivism

I believe the Borg stories yield yet a more important message. Ayn Rand once wrote that "there is no such thing as a collective brain." The writers of *ST:TNG* and *First Contact*, intentionally or not, have given us a chilling depiction of what a collective brain would look like. Their vision can be viewed as an extended metaphor for what collectivism offers individuals: a stark choice between submission to naked force or destruction. Captain Picard was violated in the worst possible way—his body is literally no longer his own, invaded by the alien will. In a terrifying sequence early in the second part of "The Best of Both Worlds," the alien technology renders Picard less and less human and more and more "Borglike." He is aware of what is happening but powerless to stop it—a close-up reveals a teardrop on his otherwise expressionless face. Picard's handling of the situation, however, demonstrates individuality in action: eventually he breaks through the will of the Collective and is able to communicate to the *Enterprise* crew the clue that destroys the Borg vessel.

The Borg conform well to the notion that collectivism is essentially parasitic. The Borg subsist by "assimilating" other cultures, adding new technologies to their own. "The Borg are the ultimate users," Q had explained to

Captain Picard in the earlier episode. "They're not interested in humans. They just want your technology. They've identified it as something they can consume."

Back here on Earth, the histories of Marxism, Nazism, and other harmful ideologies show that every form of collectivism that has risen to power has had to enslave its citizenry and plunder its neighbors to survive. Collectivism thrives in our society among those who advocate taxing and redistributing the fruits of other people's labor instead of producing and trading goods in a free market. Collectivism, too, advocates the use of force when necessary. In its politically correct permutations in academe, collectivism is virulently anti-intellectual and regards individuality as an enemy concept. In operation, collectivists have an ugly track record that rivals that of the Borg in *Star Trek*.

It is interesting that eventually the Borg become somewhat humanized. In the episode "I, Borg," the *Enterprise* recovers a single severely injured Borg from a wrecked spacecraft and nurses him back to health. At first he displays abject terror at his isolation, but slowly he acquires a sense of his own personhood and even a name, Hugh. Captain Picard considers sending him back with another virus to destroy the Borg Collective but, ever the moral actor, rejects the idea as genocide. Nevertheless, Hugh has been "infected" with something even more insidious from the collectivist point of view—the subversive concept of individuality. Several Borg appear in the two-part episode "Descent," the last of the *ST:TNG* Borg episodes—having been forged into a group following Data's evil twin, Lore. It is unclear whether the entire Collective has been infected and destroyed or just this small part of it. In *Star Trek: First Contact*, the Collective goes back in time—a frequent *Star Trek* plot device—to destroy humans and their deadly virus of individuality. Ironically, in *First Contact*, the Collective has a "queen"—who looks and talks very much like an individual, asserting, "I am the Collective."

Of course, this implicitly recognizes that no collective race such as the Borg could exist. Technology, even if once mastered, does not perpetuate itself without individuals to maintain and further develop it. Marx, the great philosopher of collectivism, correctly observed that human beings must produce the means of their own survival; he incorrectly thought that since capitalism had permanently solved the problem of production, the primary problem was to ensure the just distribution of goods.

However, it turned out that societies dominated by collectivism became economic, cultural, and technological backwaters. The problem of production was not solved, because it requires myriad and ongoing human actions. We inhabit a physical universe that does not take care of us. Our minds are, indeed, our means of survival: We must discover regularities in our surroundings and act based on objective causality. This process does not become either automatic or optional merely because a civilization has reached a certain stage of technological development. The illusion to the contrary contributed to the downfall of Marxism.

But now that Marxism has fallen into disrepute, new collectivist endeavors take such forms as multiculturalism, radical feminism, and extreme environmentalism. Ayn Rand identified the reason why collectivism never has and never can work. With no collective brain or intellect, there can be no "collective action"; all actions attributed to groups are really metaphors for ordered sequences of actions taken by individual members of the groups.

Thus, contrary to another philosopher of collectivism, Jean Jacques Rousseau, there is no "general will." In practice, collectivism has always "forced individuals to be free," in Rousseau's words, by assuming that "true freedom" can be had only by giving up individuality and immersing oneself completely in a collective. The basic problem is that there is no collective mind. We are not Borg. Most of us have no wish to be. This is why we find such imagery repulsive.

Anyone who finds collectivism tempting ought to seek out those *Next Generation* episodes featuring the Borg. Thanks to *Star Trek*, it is no longer impossible to imagine what a society controlled by an actual "collective mind" would be like. It isn't pretty. □

THE FREEMAN
IDEAS ON LIBERTY

The Myth of the "Independent" Fed

by Thomas J. DiLorenzo

Ever since its founding in 1913, the Fed has described itself as an "independent" agency operated by selfless public servants striving to "fine-tune" the economy through monetary policy. In reality, however, a non-political governmental institution is as likely as a barking cat. Yet, the myth of an "independent" Fed persists. One reason this myth persists is that statist textbooks have helped perpetuate it for decades.

From 1948 until about 1980 Paul Samuelson's *Economics* was the best-selling introductory economics text. Generations of students were introduced to economics by Samuelson. Although not as popular as it once was, Samuelson's text (now co-authored with William Nordhaus) is still widely used. According to the 1989 edition:

> The Federal Reserve's goals are steady growth in national output and low unemployment. *Its sworn enemy is inflation.* If aggregate demand is excessive, so that prices are being bid up, the Federal Reserve Board may want to slow the growth of the money supply, thereby slowing aggregate demand and output growth. If unemployment is high and business languishing, the Fed may consider increasing the money supply, thereby raising aggregate demand and augmenting output growth. In a nutshell, this is the function of central banking, which is an essential part of macroeconomic management in all mixed economies.

For about the past fifteen years the top-selling economics text has been Campbell McConnell's *Economics*, which echoes Samuelson and Nordhaus's idealistic statism:

> Because it is a public body, the decisions of the Board of Governors are made in what it perceives to be the public interest . . . the Federal Reserve Banks are not guided by the profit motive, but rather, they pursue those measures which the Board of Governors recommends. . . . The fundamental objective of monetary policy is to assist the economy in achieving a full employment, noninflationary level of total output.

These are mere wishes, not statements of facts, for there is voluminous evidence that the Fed—like all other governmental institutions—has always been manipulated by politicians.

The Fed as a Political Tool

When the Fed was founded, it was controlled by two groups, the Governors' Conference, composed of the twelve regional bank presidents, and the seven-member Federal Reserve Board in Washington. In 1935 the Fed was reorganized to concentrate nearly all power in Washington. Franklin Roosevelt "packed" the Fed just as he later filled the U.S. Supreme Court with political

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sycophants. Roosevelt appointed Marriner Eccles, a strong supporter of deficit spending and inflationary finance, as Fed Chairman, although Eccles had no financial background and lacked even an undergraduate degree. In those years the Fed was really run by Eccles's political mentor, Treasury Secretary Henry Morgenthau, Jr., and thus ultimately Roosevelt.

Later presidents were no less willing to influence supposedly independent Fed policy. According to the late Robert Weintraub, the Federal Reserve fundamentally shifted its monetary policy course in 1953, 1961, 1969, 1974, and 1977—all years in which the presidency changed. Fed policy almost always changes to accommodate varying presidential preferences.[1]

For example, President Eisenhower wanted slower money growth. The money supply grew by 1.73 percent during his administration—the slowest rate in a decade. President Kennedy desired somewhat faster money creation. From January 1961 to November 1963, the basic money supply grew by 2.31 percent. Lyndon Johnson required rapid money creation to finance his expansion of the welfare/warfare state. Money-supply growth more than doubled to 5 percent. These varying rates of monetary growth all occurred under the same Fed chairman, William McChesney Martin, who obviously was more interested in pleasing his political master than in implementing an independent monetary policy.

Martin's successor, Arthur Burns, was such a staunch supporter of Richard Nixon that he lost all professional credibility by enthusiastically endorsing Nixon's disastrous wage and price controls. Even though his staff informed him in the fall of 1972 that the money supply was forecast to grow by an extremely robust 10.5 percent in the third quarter, Burns advocated ever faster growth before the election. *The growth rate in the money supply in 1972 was the fastest for any one year since the end of World War II* and helped re-elect Richard Nixon.

However, President Ford called for slower monetary growth as part of his "Whip Inflation Now" program, and the Fed complied with a 4.7 percent growth rate. But when Jimmy Carter was elected, Burns again complied with presidential wishes by stepping up the growth rate to 8.5 percent. Carter did not reappoint Burns, but the latter's successors were equally cooperative. The money supply increased at an annual rate of 16.2 percent in the five months preceding the 1980 election—a post-World War II record.

In 1981 Donald Regan, Ronald Reagan's Treasury Secretary, advocated, and got, more rapid monetary growth. A year later the President himself met with Fed Chairman Paul Volcker to lobby for slower growth, which was dutifully produced by the Fed. More recently, Alan Greenspan has reportedly been most "accommodating" to President Clinton.

Both Sides Benefit

The Fed is obviously influenced by the executive branch. But the relationship between the Fed and administrations runs far deeper. As Robert Weintraub observed, such contact "has been and continues to be fostered by cross planting of high level personnel" in both directions. Officials have also met weekly for decades. But personal contact is not necessary for the Fed to allow itself to be used as a political tool. The administration's policy views are generally well known. Economist Thomas Havrilesky has even developed an index of executive branch "signaling," based on newspaper accounts of the administration's monetary policy preferences as reported in the *Wall Street Journal*.[2] And as Weintraub concluded, "a Chairman of the Federal Reserve Board who ignores the wishes of the President does so at his peril."

The Fed and presidents alike benefit from this arrangement. Economist Edward Kane has argued persuasively that the Fed's ultimate political function is to serve as a political scapegoat when things go wrong. Writes Kane: "Whenever monetary policies are popular, incumbents can claim that their influence was crucial in their adaptation. On the other hand, when monetary policies prove unpopular, they can blame everything on a stubborn Federal Reserve and claim further that things would have been worse if *they* had not pressed Fed officials at every opportunity."[3] In return for this favor, the Fed is allowed to amass a huge slush fund (discussed below) by earning interest income from the government securities it purchases through its open market operations.

A Demand for Inflation?

It is also well established that politicians use the Fed as a tool of money creation to advance their own re-election. As Robert J. Gordon wrote in the *Journal of Law and Economics* more than 20 years ago: "Accelerations in money and prices are not thrust upon society by a capricious or self-serving government, but rather represent the vote-maximizing response of government to the political pressure exerted by potential beneficiaries of inflation."[4]

Gordon is wrong in denying that government is inherently capricious and self-serving, but he's got a good point: Politicians are naturally inclined to finance government handouts to special-interest groups with the hidden tax of inflation, which hides the true costs of government from the taxpaying public. Joining with election-minded officials in favor of expansive monetary policies is a "low-interest-rate lobby," led, argues Edward Kane, "by builders and construction unions and by financial institutions that earn their living by borrowing short to lend long."

The Fed underwrites an enormous volume of research, some of which is very good. But, as *Business Week* magazine once observed: "There is disturbing evidence that the research effort of the bank's 500-odd Ph.D. economists is being forced into a mold whose shape is politically determined by the staff of the Federal Reserve Chairman." Some Fed economists admit that political expedience is the rule. Says former Fed economist Robert Auerbach, "the practice at the Bank where I worked was to clear research through the Board of Governors and to 'persuade' economists to delete material that the Board or the Bank officials did not like."[5]

Thus, all Fed research should be taken with a grain of salt. However, one recent study in particular deserves special attention. In 1992 Boston Fed research director Alicia Munnel published a report claiming to find persistent mortgage loan discrimination against minorities in Boston. The study, used to justify racial quotas for bank loans, was fatally flawed. The data were hopelessly jumbled. Equally important, the report failed to control for creditworthiness—credit ratings, job history, income, and so on. When confronted with these facts by Peter Brimelow and Leslie Spencer of *Forbes* magazine, Munnel admitted: "I do not have evidence . . . no one has evidence of lending bias."

Taxpayer-Funded Lobbying

The Fed also uses its privileged position—and especially its multi-billion dollar slush fund generated by interest income on open market purchases—to lobby. Its preferred method is to pressure member banks, which it regulates, to lobby for it. It also recruits a small army of academic researchers, who benefit from Fed research grants, visiting appointments, and invitations to conferences at exotic locations, to testify on its behalf at Congressional hearings.

For instance, in the late 1970s Representative Henry Reuss introduced a bill authorizing the General Accounting Office to audit the Federal Reserve system. It was defeated because, as Reuss later explained, "with the Federal Reserve Board in Washington serving as the command center, a well-orchestrated lobbying campaign was mounted, using the members of the boards of directors [of the regional banks] as the point men." In a speech to the American Bankers Association after the GAO bill was defeated, the Richmond Fed's chairman, Robert W. Lawson, congratulated the assembled commercial bankers for their success: "The bankers in our district and elsewhere did a tremendous job in helping to defeat the General Accounting Office bill. It shows what can be done when the bankers of the country get together."[6] Academics conducted themselves in an equally disgraceful way, warning of potential abuses and assuring Congress that the Fed could be trusted to behave responsibly.

For decades, believers in the "public interest" theory of Fed behavior blamed the Fed's failures to ensure price stability on the agency's incomplete knowledge and difficulty "fine-tuning" the economy. But research suggests that the Fed's abysmal record in controlling inflation reflects not mere incompetence, but the way in which the Fed is organized.

Until the Fed's creation, there was no overall upward trend in the price level. Inflation occurred during wars, but prices then gradually declined to their former levels. Since the establishment of the Fed, however, there has been a continuous upward surge in prices. Public choice scholars believe that an important reason why the Fed has caused so much inflation is that it benefits from inflation. Since the entire operation has been funded since 1933 from revenue acquired through interest payments on government security holdings, the Fed has an incentive to purchase securities (thereby expanding the money supply) more than it has an incentive to sell them. Purchasing government securities is a source of income to the Fed, whose income is "earned" by the interest paid on the securities. Selling securities, on the other hand, causes a loss of income.

The Fed is constrained to return "excess revenues" to the Treasury, but enjoys great discretion over its budget and managed to spend over $2 billion on itself in 1996. Fed officials live quite well on their revenues. As a recent General Accounting Office report revealed: "The Fed has 25,000 employees, runs its own air force of 47 Learjets and small cargo planes, and has fleets of vehicles, including personal cars for 59 Fed bank managers. . . . A full-time curator oversees its collection of paintings and sculpture."[7] The Fed held $451 billion in accumulated assets as of 1996, when it was engaged in building for itself several expensive new office buildings. The number of Fed employees earning more than $125,000 per year more than doubled (from 35 to 72) from 1993 to 1996; even the head janitor (known as the "support services director") is paid $163,800 in annual salary plus benefits. Money is lavishly spent on professional memberships, entertainment, and travel.

Economist Mark Toma has studied the Fed's spending habits and believes that the Fed does in fact conduct monetary policy with an eye toward how its managers and employees can themselves profit from it. That means instituting a bias toward bond purchases and money creation.[8] Similarly, William Shughart and Robert Tollison contend that the Fed behaves exactly like many other government bureaucracies, padding "its operating expenditures by increasing the number of employees on its payroll."[9]

That is, the Fed uses staff expansion to reduce the amount it must return to the Treasury. Thus, "when engaging in expansionary policies," write Shughart and Tollison, "the Fed can both increase the supply of money and increase the size of its bureaucracy because the two goals are served by open market purchases of securities." Contractionary policies, on the other hand, force the Fed to lower its profits and staff. Because of this unique financing mechanism, argue Shughart and Tollison, "the Fed has been more successful in enlarging its employee staff over time than the federal government as a whole." This employment effect, moreover, "may partially explain why the Fed has apparently been more willing to engage in expansionary than in contractionary monetary policies."

Regulation as a Political Tool

The Fed also uses its vast regulatory powers for political purposes, rather than to promote the "public interest." The Fed's authority is vast, but is most abused through enforcement of the Community Reinvestment Act of 1977. Under the CRA, the Fed must assess a bank's record of "meeting community needs" before allowing a bank to merge or open a new branch or even an automatic teller machine. An entire industry of nonprofit political activists routinely files protests with the Fed, which must be evaluated before the bank can win Fed approval. The activists typically threaten to stall mergers or branch expansions unless banks give *them*—not the poor in their communities—money, a practice that many bankers consider pure blackmail.

For example, the Chicago-based National Training and Information Center threatened to delay a merger by a Chicago bank unless it received $30,000 to renovate its office. The bank agreed, and also gave $500,000 to other leftist organizations. In Boston, left-wing activist Bruce Marks, the head of the Union Neighborhood Assistance Corporation, filed complaint after complaint with the Fed over Fleet Financial Group's community lending record until Fleet agreed to give $140 million to his organization and to make $8 billion in loans to individuals and businesses favored by Mr. Marks. "We are urban terrorists," Marks explained to the *Wall Street Journal*.[10]

The CRA is frequently used as a means of racial extortion. For example, the Fed, under the direction of former Governor Lawrence Lindsey, found "statistical disparities" in lending, i.e., the percentage of loans granted by the Shawmut Services Corporation to blacks and Hispanics did not match the groups' proportion in the population. Yet no individuals complained of discrimination and the Fed did not claim to have found any "victims." In fact, between 1990 and 1992, when the discrimination allegedly occurred, Shawmut's mortgage loans to blacks and Hispanics more than doubled, and the mortgage rejection rate fell by 45 percent and 26 percent, respectively. However, the Fed employed 150 people to go out and find people who claimed to have been "discriminated against" by Shawmut and to offer them $15,000 each, effectively robbing the company of $1 million.

Conclusions

Any government monopoly will be corrupt and inefficient, but the Fed may be the worst government monopoly of all. Not only does it operate for its own advantage in the name of promoting the public interest, and offer government officials political cover for their self-interested policies, the Fed also allows no escape. One can at least refuse to do business with, say, the government school monopoly by homeschooling or by sending one's children to private schools. But one cannot avoid the effects of the Fed's monetary monopoly. It is time to depoliticize and denationalize our money. □

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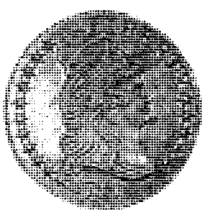

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THE FREEMAN
IDEAS ON LIBERTY

What Big Government Is All About

by David Boaz

Government has an important role to play in a free society. It is supposed to protect our rights, creating a society in which people can live their lives and undertake projects reasonably secure from the threat of murder, assault, theft, or foreign invasion. By the standards of most governments in history, this is an extremely modest role. That's what made the American Revolution so revolutionary. The Declaration of Independence proclaimed, "To secure these rights, governments are instituted among men." Not "to make men moral." Not "to boost economic growth." Not "to ensure everyone a decent standard of living." Just the simple, revolutionary idea that government's role was limited to securing our rights. But imagine how much better off we would all be if our government did an adequate job at this simple, limited task.

Unfortunately, most governments fail to live up to Thomas Jefferson's vision in two ways. First, they don't do a good job of swiftly and surely apprehending and punishing those who violate our rights. Second, they seek to aggrandize themselves by taking on more and more power, intruding themselves into more aspects of our lives, demanding more of our money, and depriving us of our liberty.

The most revolutionary aspect of the American Revolution was that it sought to create from scratch a national government limited to very little more than protecting individual rights. During the Middle Ages, in England and other European countries, the idea of limits on government had grown. Cities had written their own constitutional charters, and representative assemblies had sought to control kings through documents such as Magna Carta and the Golden Bull of Hungary. Many of the American colonists—and some of their British supporters such as Edmund Burke—saw the Revolution as a reclaiming of their rights as Englishmen. But the soaring words of the Declaration and the strict rules of the Constitution went further than any previous effort in declaring the natural rights of life, liberty, and property and delegating to the new government only the powers necessary to protect those rights.

We should distinguish at this point between "government" and "state." Those two terms are sometimes used interchangeably, especially in American English, but they actually refer to two very important but easily confused kinds of institutions. A government is the consensual organization by which we adjudicate disputes, defend our rights, and provide for certain common needs. A condominium association, for example, has a government to adjudicate disputes among own-

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ers, regulate the use of common areas, make the residents secure from outside intruders, and provide for other common needs. We can readily see why people seek to have a government in this sense. In every case, the residents agree to the terms of the government (its constitution or charter or by-laws) and give their consent to be governed by it. A state, on the other hand, is a coercive organization asserting or enjoying a monopoly over the use of physical force in some geographic area and exercising power over its subjects. The audacity and the genius of the American Founders was to attempt to create a government that would not be a state.

Historically, the real origins of the state lie in conquest and economic exploitation. The sociologist Franz Oppenheimer pointed out that there are two basic ways to acquire the means to satisfy our human needs. "These are work and robbery, one's own labor and the forcible appropriation of the labor of others." He called work and free exchange the "economic means" of acquiring wealth, and the appropriation of the work of others the "political means."

From this basic insight, Oppenheimer said, we can discern the origins of the state. Banditry and robbery and fraud are the usual ways in which people seek to forcibly appropriate what others have produced. But how much more efficient it would be to organize and regularize robbery! According to Oppenheimer, "The State is the organization of the political means." States arose when one group conquered another and settled in to rule them. Instead of looting the conquered group and moving on, the conquerors settled down and switched from looting to taxing. This regularization had some advantages for the conquered society, which is one reason it endured: rather than planting crops or building houses and then being subject to unpredictable looting by marauders, the peaceful and productive people may prefer simply to be forced to give up, say, 25 percent of their crop to their rulers, secure in the knowledge that that will—usually—be the full extent of the depredation and that they will be protected from marauders.

This basic understanding of the distinction between society and the state, between the people and the rulers, has deep roots in Western civilization, going back to Samuel's warning to the people of Israel that a king would "take your sons, and your daughters, and your fields" and to the Christian concept that the state is conceived in sin. The Levellers, the great fighters for English liberty in the time of Charles I and Cromwell, understood that the origins of the English state lay in the conquest of England by the Normans, who imposed on free Englishmen a "Norman yoke." A century later, when Thomas Paine sought to undermine the legitimacy of the British monarchy, he pointed out, "A French bastard, landing with an armed banditti, and establishing himself king of England against the consent of the natives, is in plain terms a very paltry rascally original."

In a 1925 essay, "More of the Same," the journalist H. L. Mencken agreed:

> The average man . . . sees clearly that government is something lying outside him and outside the generality of his fellow men—that it is a separate, independent, and hostile power, only partly under his control, and capable of doing him great harm. . . . [Government] is apprehended, not as a committee of citizens chosen to carry on the communal business of the whole population, but as a separate and autonomous corporation, mainly devoted to exploiting the population for the benefit of its own members. . . . When a private citizen is robbed, a worthy man is deprived of the fruits of his industry and thrift; when the government is robbed, the worst that happens is that certain rogues and loafers have less money to play with than they had before.

The Democratic State

It is usually argued in the United States that all this may have been true in ancient times, or even in the countries our forefathers fled, but that in a democratic country "*we* are the government." The Founders themselves hoped that a democratic—or, as they would have said, a republican—form of government would never violate people's rights or do anything against the interests of the people. The unfortunate reality is that we can't all be the government. Most of us are too busy working, producing wealth, taking care of our families to watch what the rulers are doing. What normal, productive person can read a single one of the 1,000-page budget bills that Congress passes each year to find out what's really in it? Not one American in a hundred knows how much he really pays in taxes, given the many ways that politicians hide the real costs.

Yes, we have the power every four years or so to turn the rascals out and put in a new set of rascals. But many factors limit the value of that power:

- There aren't many fundamentally different alternatives on the ballot. Most choices are hardly worth getting excited about.
- We have to choose a package deal. In the real world, one candidate offers higher taxes, legalized abortion, and getting out of the war in Vietnam; another promises a balanced budget, school prayer, and escalation of the war. What if you want a balanced budget *and* withdrawal from Vietnam? In the marketplace, you get lots of choices; politics forces you to choose among only a few.
- People employ what economists call "rational ignorance." That is, we all spend our time learning about things we can actually do something about, not political issues that we can't really affect. That's why more than half of us can't name either of our U.S. senators. And why most of us have no clue about how much of the federal budget goes to Medicare, foreign aid, or any other program. Even if a citizen studies the issues and decides to vote accordingly, he has a one in a hundred million chance of influencing the outcome of the presidential election, after which, if his candidate is successful, he faces a Congress with different ideas, and in any case, it turns out the candidate was dissembling in the first place. Instinctively realizing all this, most voters don't spend much time studying public policy.
- Finally, as noted above, the candidates are likely to be kidding themselves or the voters anyway. One could argue that in every presidential election since 1968, the American people have tried to vote for smaller government, but in that time the federal budget has risen from $178 billion to $1.6 trillion. George Bush made *one* promise that every voter noticed in the 1992 campaign: "Read my lips, no new taxes." Then he raised them. If we are the government, why do we get so many policies we don't want, from school busing and the war in Vietnam to huge deficits, tax rates higher than almost any American approves, and the intervention in Bosnia?

No, even in a democracy there is a fundamental difference between the rulers and the ruled. Mark Twain once said, "It could probably be shown by facts and figures that there is no distinctly native American criminal class except Congress." Of course, Congress is no worse than its counterparts in other countries.

One of the most charming and honest descriptions of politics ever penned came from a letter written by Lord Bolingbroke, an English Tory leader in the eighteenth century.

> I am afraid that we came to Court in the same dispositions as all parties have done; that the principal spring of our actions was to have the government of the state in our hands; that our principal views were the conservation of this power, great employments to ourselves, and great opportunities of rewarding those who had helped to raise us and of hurting those who stood in opposition to us.

Why Government Gets Too Big

Thomas Jefferson wrote, "The natural progress of things is for liberty to yield and government to gain ground." Two hundred years later, James M. Buchanan won a Nobel Prize in economics for a lifetime of scholarly research confirming Jefferson's insights. Buchanan's theory, developed along with Gordon Tullock, is called Public Choice. It's based on one fundamental point: Bureaucrats and politicians are just as self-interested as the rest of us. But lots of scholars did—and do—believe otherwise, and that's why textbooks tell us that people in the private economy are self-interested but the government acts in the public interest. Notice the little sleight of hand in that last sentence? I said "people in the private economy," but then I said "government acts." Switching from the individual to the collective confuses the issue. Because actually, the *government* doesn't act. *Some people in the government* act. And why should the guy who graduates from college and goes to work for Microsoft be self-interested, while his roommate who goes to work for the Department of Housing and Urban Development is suddenly inspired by altruism and starts acting in the public interest?

As it turns out, making the simple economic assumption that politicians and bureaucrats act just like everyone else, namely, in their own interest, has enormous explanatory power. Far better than the simplistic civics-book model that assumes public officials act in the public interest, the Public Choice model explains voting patterns, lobbying efforts, deficit spending, corruption, the expansion of government, and the opposition of lobbyists and members of Congress to term limits. In addition, the Public Choice model explains why self-interested behavior has positive effects in a competitive marketplace but does such harm in the political process.

Of course politicians and bureaucrats act in their own interest. One of the key concepts of Public Choice is *concentrated benefits and diffuse costs*. That means that the benefits of any government program are concentrated on a few people, while the costs are diffused among many people. Take Archer Daniels Midland's ethanol subsidy, for instance. If ADM makes $200 million a year from it, it costs each American about a dollar. Did you know about it? Probably not. Now that you do, are you going to write your congressman and complain? Probably not. Are you going to fly to Washington, take your senator out to dinner, give him a $1,000 contribution, and ask him not to vote for the ethanol subsidy? Of course not. But you can bet that ADM chairman Dwayne Andreas is doing all that and more. Think about it: How much would you spend to get a $200 million subsidy from the federal government? About $199 million if you had to, I'll bet. So who will members of Congress listen to? The average Americans who don't know that they're paying a dollar each for Dwayne Andreas's profits? Or Andreas, who's making a list and checking it twice to see who's voting for his subsidy?

If it were just ethanol, of course, it wouldn't matter very much. But most federal programs work the same way. Take the farm program. A few billion dollars for subsidized farmers, who make up about 1 percent of the U.S. population; a few dollars a year for each taxpayer. The farm program is even more tricky than that. Many of its costs involve raising food prices, so consumers are paying for it without realizing it.

Billions of dollars are spent every year in Washington to get a piece of the trillion dollars of taxpayers' money that Congress spends every year. Consider this ad from the *Washington Post*:

> *Infrastructure* ... is a new Washington buzzword for: A. America's crumbling physical plant? $3 trillion is needed to repair highways, bridges, sewers, etc. B. Billions of federal reconstruction dollars? The 5¢ per gallon gasoline tax is only the beginning. C. *Your bible for infrastructure spending—where the money is going and how to get your share*—in a concise biweekly newsletter?
>
> ANSWER: All of the above. Subscribe today.

Countless such newsletters tell people what kind of money the government is handing out and how to get their hands on it.

In 1987 an advertisement in the Durango, Colorado, *Herald* touting the Animas-La Plata dam and irrigation project made explicit the usual hidden calculations of those trying to get their hands on federal dollars: "Why we should support the Animas-La Plata Project: Because someone else is paying the tab! We get the water. We get the reservoir. They get the bill."

Economists call this process rent-seeking, or transfer-seeking. It's another illustration of Oppenheimer's distinction between the economic and the political means. Some individuals and businesses produce wealth. They grow food or build things people want to buy or perform useful services. Others find it easier to go to Washington, a state capital, or a city hall and get a subsidy, tariff, quota, or restriction on their competitors. That's the political means to wealth, and, sadly, it's been growing faster than the economic means.

Of course, in the modern world of trillion-dollar governments handing out favors like Santa Claus, it becomes harder to distinguish between the producers and the transfer-seekers, the predators and the prey. The state tries to confuse us, like the three-card monte dealer, by taking our money as quietly as possible and then handing some of it back to us with great ceremony. We all end up railing against taxes but then demanding our Medicare, our subsidized mass transit, our farm programs, our free national parks, and on and on and on. Frederic Bastiat explained it in the nineteenth century: "The State is that great fiction by which everyone tries to live at the expense of everyone else." In the aggregate, we all lose, but it's hard to know who is a net loser and who is a net winner in the immediate circumstance.

Thus, every group in society comes up with a way for the government to help it or penalize its competitors: businesses seek tariffs, unions call for minimum-wage laws (which make high-priced skilled workers more economical than cheaper, low-skilled workers), postal workers get Congress to outlaw private competition, businesses seek subtle twists in regulations that hurt their competitors more than themselves. And because the benefits of every such rule are concentrated on a few people, while the costs are spread out over many consumers or taxpayers, the few profit at the expense of the many, and they reward the politicians who made it happen.

Another reason that government grows too big is what Milton and Rose Friedman have called "the tyranny of the status quo." That is, when a new government program is proposed, it's the subject of heated debate. (At least if we're talking about big programs like farm subsidies or Medicare. Plenty of smaller programs get slipped into the budget with little or no debate, and some of them get pretty big after a few years.) But once it has passed, debate over the program virtually ceases. After that, Congress just considers every year how much to increase its budget. There's no longer any debate about whether the program should exist. Reforms like zero-based budgeting and sunset laws are supposed to counter this problem, but they haven't had much effect. When the federal government moved to shut down the Civil Aeronautics Board in 1979, they found that there were no guidelines for terminating a government agency—it just never happens. Even President Clinton's own National Performance Review—the much-touted "reinventing government" project—said, "The federal government seems unable to abandon the obsolete. It knows how to add, but not to subtract." But you could search a Clinton budget for a long time and not find a proposal to eliminate a program.

One element of the tyranny of the status quo is what Washingtonians call the iron triangle, which protects every agency and program. The Iron Triangle consists of the congressional committee or subcommittee that oversees the program, the bureaucrats who administer it, and the special interests that benefit from it. There's a revolving door between these groups: a congressional staffer writes a regulation, then she goes over to the executive branch to administer it, then she moves to the private sector and makes big bucks lobbying her former colleagues on behalf of the regulated interest group. Or a corporate lobbyist makes contributions to members of Congress in order to get a new regulatory agency created, after which he's appointed to the board of the agency—because who else understands the problem so well?

If bureaucrats and politicians are self-interested, like the rest of us, how will they act in government? Well, no doubt they will sometimes seek to serve the public interest. Most people believe in trying to do the right thing. But the incentives in government are not good. To make more money in the private economy, you have to offer people something they want. If you do, you'll attract customers; if you don't, you may go out of business, or lose your job, or lose your investment. That keeps businesses on their toes, trying to find ways to better serve consumers. But bureaucrats don't have customers. They don't make more money by satisfying more consumers. Instead, they amass money and power by enlarging their agencies. What do bureaucrats "maximize"? Bureaucrats! Their incentive, then, is to find ways to hire more people, expand their authority, and spend more taxpayers' dollars. Discover a new problem that your agency could work on, and Congress may give you another billion dollars, another deputy, and another whole bureau under your control. Even if you don't discover a new problem, just advertise that the problem you were commissioned to handle is getting a lot worse, and you may get more money and power. Solve a problem, on the other hand—improve children's test scores or get all the welfare recipients into jobs—and Congress or your state legislature is likely to decide you don't need more money. (It could even decide to shut your agency down, though this is largely an idle threat.) What an incentive system! How many problems are likely to get solved when the system punishes problem solving?

The obvious answer would seem to be to change the incentive system. But that's easier said than done. Government doesn't have customers, who can use its products or try a competitor instead, so it's difficult to decide when government *is* doing a good job. If more people send letters every year, is the U.S. Postal Service doing a good job of serving its customers? Not necessarily, because its customers are captive. If they want to mail a letter, they have to do it through the Postal Service (unless they're willing to pay at least ten times as much money for over-night service). As long as any institution gets its money coercively, through legally required payments, it is difficult if not impossible to measure its success at serving customers. Meanwhile, special interests within the system—politicians, administrators, unions—fight over the spoils and resist any attempts to measure their productivity or efficiency.

To see the self-interested nature of those in the state, just look at any day's newspapers. Check out how much better the federal employees' pension system is than Social Security. Look at the $2 million pensions that will be collected by retiring members of Congress. Note that when Congress and the president temporarily shut down the federal government, they kept on getting *their* paychecks while rank-and-file employees had to wait.

Political scientist James L. Payne examined the record of 14 separate appropriations hearings, committee meetings where members of Congress decide which programs to fund and by how much. He found that a total of 1,060 witnesses testified, of which 1,014 testified in favor of the proposed spending and only 7 against (the remainder were not clearly for or against). In other words, in only half the hearings was there even *one* witness against the program. Congressional staff members confirmed that the same was true in each member's office: The ratio of people coming in to ask the congressman to spend money versus those who opposed any particular program was "several thousand to one."

No matter how opposed to spending a new legislator may be, the constant, day-in-and-day-out, year-in-and-year-out requests for money have an effect. He would increasingly say, We've got to get spending down, but *this* program is necessary. Studies indeed show that the longer a person stays in Congress, the more spending he votes for. That's why Payne called Washington a Culture of Spending, in which it takes almost superhuman effort to remember the general interest and vote against programs that will benefit some particular person who visited your office or testified before your committee.

About a century ago a group of brilliant Italian scholars set out to study the nature of the state and its monetary affairs. One of them, Amilcare Puviani, tried to answer this question: If a government were trying to squeeze as much money as possible out of its population, what would it do? He came up with eleven strategies that such a government would employ. They're worth examining:

1. The use of indirect rather than direct taxes, so that the tax is hidden in the price of goods
2. Inflation, by which the state reduces the value of everyone else's currency

3. Borrowing, so as to postpone the necessary taxation
4. Gift and luxury taxes, where the tax accompanies the receipt or purchase of something special, lessening the annoyance of the tax
5. "Temporary" taxes, which somehow never get repealed when the emergency passes
6. Taxes that exploit social conflict, by placing higher taxes on unpopular groups (such as the rich, or cigarette smokers, or windfall profit makers)
7. The threat of social collapse or withholding monopoly government services if taxes are reduced
8. Collection of the total tax burden in relatively small increments (a sales tax, or income tax withholding) over time, rather than in a yearly lump sum
9. Taxes whose exact incidence cannot be predicted in advance, thus keeping the taxpayer unaware of just how much he is paying
10. Extraordinary budget complexity to hide the budget process from public understanding
11. The use of generalized expenditure categories, such as "education" or "defense," to make it difficult for outsiders to assess the individual components of the budget

Notice anything about this list? The United States government uses every one of those strategies—and so do most foreign governments. That just might lead a cynical observer to conclude that the government was actually *trying* to soak the taxpayers for as much money as it could get, rather than, say, raising just enough for its essential functions.

In all these ways, government's constant instinct is to grow, to take on more tasks, to arrogate more power to itself, to extract more money from the citizenry. Indeed, as Jefferson observed, "The natural progress of things is for liberty to yield and government to gain ground."

The State and War

The apotheosis of state power is war. In war the state's force is not hidden or implicit; it is vividly on display. War creates a hell on earth, a nightmare of destruction on an otherwise unimaginable scale. No matter how much hatred people may sometimes feel for other groups of people, it's difficult to conceive why nations have chosen so often to go to war. The calculation of the ruling class may be different from that of the people, however. War often brings the state more power, by drawing more people under its control. But war can enhance state power even in the absence of conquest. (Losing a war, of course, can topple a ruling class, so making war is a gamble, but the payoff is good enough to attract gamblers.)

Classical liberals have long understood the connection between war and state power. Thomas Paine wrote that an observer of the British government would conclude "that taxes were not raised to carry on wars, but that wars were raised to carry on taxes." That is, the English and other European governments gave the impression of quarreling *in order* "to fleece their countries by taxes." The early twentieth-century liberal Randolph Bourne wrote simply, "War is the health of the State"—the only way to create a herd instinct in a free people and the best way to extend the powers of government.

U.S. history provides ample evidence of that. The great leaps in federal spending, taxation, and regulation have occurred during wartime—first, notably, the Civil War, then World War I and World War II. War threatens the survival of the society, so even naturally libertarian Americans are more willing to put up with state demands at such a time—and courts agree to sanction unconstitutional extensions of federal power. Then, after the emergency passes, the government neglects to give up the power it has seized, the courts agree that a precedent has been set, and the state settles comfortably into its new, larger domain. During major American wars, the federal budget has gone up ten- or twenty-fold, then fallen after the war, but never to as low a level as it was before. Take World War I, for example: Federal spending was $713 million in 1916 but rose to nearly $19 billion in 1919. It never again fell below $2.9 billion.

It isn't just money, of course. Wartime has occasioned such extensions of state power as conscription, the income tax, tax withholding, wage and price controls, rent control, censorship, crackdowns on dissent, and Prohibition, which really began with a 1917 statute. World War I was one of the great disasters of history: In Europe it ended ninety-nine years of relative peace and unprecedented economic progress and led to the rise of Communism in Russia and Nazism in Germany and to the even greater destruction of World War II. In the United States the consequences were far less dramatic but still noteworthy; in two short years President Woodrow Wilson and Congress created the Council of National Defense, the United States Food Administration, the United States Fuel Administration, the War Industries Board, the Emergency Fleet Corporation, the United States Grain Corporation, the United States Housing Corporation, and the War Finance Corporation. Wilson also nationalized the railroads. It was a dramatic leap toward the megastate we now struggle under, and it could not have been done in the absence of the war.

Statists have always been fascinated by war and its possibilities, even if they sometimes shrink from the implications. The rulers and the court intellectuals understand that free people have their own concerns—family and work and recreation—and it's not easy to get them enrolled voluntarily in the rulers' crusades and schemes. Court intellectuals are constantly calling for a "national effort" to undertake some task or other, and most people blithely ignore them and go on about the business of providing for their families and trying to build a better mousetrap. But in time of war—*then* you can organize society and get everyone dancing to the same tune. As early as 1910, William James came up with the idea of "The Moral Equivalent of War," in an essay proposing that young Americans be conscripted into "an army enlisted against Nature" that would cause them to "get the childishness knocked out of them, and to come back into society with healthier sympathies and soberer ideas."

Collectivists don't like the killing involved in war, but they love its domestic effects: centralization, the growth of government power, and, not coincidentally, an enhanced role for court intellectuals and planners with Ph.D.'s. The dangers of war in the modern era have encouraged the state and its intellectual allies to look for more trumped-up emergencies and "moral equivalents of war" to rally the citizenry and persuade them to give up more of their liberty and their property to the state's plans. Thus we've had the War on Poverty, and the War on Drugs, and more crises and national emergencies than a planner could count on a super-computer. One advantage of these "moral equivalents of war" is that real wars eventually end, while the War on Poverty and the War on Drugs can go on for generations. And thus does the alliance between the state and its compliant intellectuals reach its zenith in war or its moral equivalent.

War, then, is Public Choice theory writ large: bad for the people but good for the governing class. No wonder everyone wishes it would stop but no one can stop it. □

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Can the Budget Be Cut?

by Doug Bandow

To listen to Washington officials, you'd think cutting the budget was impossible. In their view, every program, no matter how inconsequential, has played a critical role in America's past success and must be preserved to ensure the nation's future progress.

But you don't have to look far into the budget to find spending for which there is no conceivable justification. Consider welfare for business. For instance, over the last decade the Agriculture Department's Market Access Program (MAP) has spent roughly $1 billion to promote the export of goods produced by agribusiness. Impecunious enterprises like McDonald's, Ernest and Julio Gallo, Tyson's Foods, Pillsbury Company, Campbell Soup Co., Pepperidge Farms, Jim Beam, Ralston Purina, Welch's Food, Inc., and the Wine Institute have all ended up on the federal dole. Despite a new majority supposedly devoted to fiscal frugality, Congress actually *increased* program outlays for last year by $14.5 million annually.

Nor is MAP the only bit of corporate welfare in the federal budget. To the contrary, every year Uncle Sam spends $75 billion, roughly half the current deficit, on 125 different programs to directly enrich business. To these the 104th Congress made only modest reductions. "Of the $19.5 billion budgeted for the 35 least defensible programs, Congress cut just $2.8 billion in 1996," or about 15 percent, report Cato Institute analysts Stephen Moore and Dean Stansel. They add:

> Many corporate subsidy programs were reduced minimally, or not at all. Those programs include the Agricultural Research Service; the Conservation Reserve Program; the International Trade Administration; fossil energy R&D; the Bureau of Reclamation; the Office of Commercial Space Transportation; the Overseas Private Investment Corporation; the Export-Import Bank; and the Agriculture Department's Market Promotion program.

Business subsidies deserve to go on the chopping block simply as a matter of priorities. Deficits continue to accumulate at more than $100 billion a year, and, unless further cuts are made, will soon start rising again. Thus, every low-priority program should be eliminated, and enriching some of the largest and most profitable businesses in America should be considered the lowest priority of all.

Nor are loans and loan guarantees a cheaper means to achieve the same ends of direct outlays. For instance, the Rural Business Cooperative Service and Rural Housing Service use below-cost credit to underwrite virtually everything, from housing to business, in rural areas. Unfortunately, politicized credit usually turns out to be bad credit. Delinquency rates for the government average eight percent, roughly three times private rates. During the 1980s the Small Business

Mr. Bandow, this month's guest editor, is a Senior Fellow at the Cato Institute and the author of several books, including The Politics of Plunder: Misgovernment in Washington *(Transaction).*

NOTES FROM FEE

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April 1997

Faith in the Fed

Economic life is encompassed by political and social institutions. When they are conducive to economic effort and productivity, conditions may improve and bring forth general prosperity. When they turn hostile and burdensome, economic conditions are bound to deteriorate. This is why everyone must always keep an eye on the body politic.

A prominent political institution in every country is the central bank. In the United States, it is the Federal Reserve System, the 1914 masterwork of the Woodrow Wilson Administration. It is the federal moneybag which can finance any government expenditure and come to the rescue of any number of banks and financial institutions. It can create new money with the speed of a computer command and transfer it in seconds by high-speed modem. It can create deposits of one dollar as efficiently as it can create one million, one billion, or even one trillion dollars. The Fed derives this magical power from its position as money monopolist, from the legal tender force of its money, and from its regulatory powers over financial institutions. Its power is purely political, created and granted by the United States Congress, sanctioned by the courts, and enforced by the police.

The eyes of the economic profession, of the media, bankers, businessmen, investors, and speculators are glued on the Fed. Economic reporters on radio and television hasten to report on every move of the Fed. "Did it add liquidity today or did it abstain from creating credit?" When the Chairman speaks the financial world holds its breath. An encouraging remark may lift stock prices hundreds of points and add one trillion dollars to equity wealth. A critical remark may cause the bond and stock markets of the world to plummet. Woe to the investor who fails to listen or interpret correctly the words of the Chairman!

The powers of the Federal Reserve System reach to all corners of the world. It is the "lender of last resort" not only to the U.S. Government and American financial institutions but also to foreign central banks. It watches over and comes to the rescue of banks in distress from Mexico to Malawi. Its vast international powers rest on two foundations: the central position of the American financial market in the world and the central role of the U.S. dollar as the reserve money of the world. The Fed manages the international dollar standard.

Most economists view the vast powers of the Fed with favor and applaud its managers. Unfortunately, they seriously overestimate the Fed's power and take no heed of the fateful role played by the Fed. Their blind faith in political power cannot bear to look.

As the monetary arm of the Federal government, the Fed suffers from all the temptations, foibles, and uncertainties of politics. Its primary purpose is to finance government and conduct money and credit policies in accordance with the general plan of the administration in power. Ultimate control over the System rests in the hands of the President of the United States. He appoints the seven members of the Board of Governors and the United States Senate confirms them. His Secretary of the Treasury and his Treasurer sign all Federal Reserve currency from the one dollar bill to the $100 bill which is the largest denomination now being issued. These signatures alone make a farce of Federal Reserve independence.

While the Fed wields monopolistic power over U.S. money markets, it faces potent competition in international markets. The Japanese yen and the German mark are "hard-money" competitors to the U.S. dollar, setting limits to the inflationary powers of the Fed. To ignore them is to invite dangerous dollar crises and the demise of the world dollar standard. Therefore, the U.S. dollar must always remain competitive in purchasing power and worthy of the trust of its owners; Fed policies must remain in step with the policies of the competitors.

Despite its vast powers the Fed's ability must not be overrated. It has limits which are visible in the dollar-yen and dollar-mark quotations in the money markets of the world from London to Tokyo. The limits also make their appearance in rising consumer prices which reveal the consequences of the countless additions of Federal Reserve credit. When consumer prices rise beyond the margins of public tolerance, the Fed is caught in a bind. Its function to provide liquidity for multifarious purposes conflicts with the function of "fighting inflation." The problem is that the Fed has only one tool — adding or reducing its own liquidity. To fight inflation, it must cease and desist from adding liquidity, from inflating the currency and expanding its credits. In short, it must not pour more fuel on the fires of inflation which it ignited.

Americans may soon experience the limits of Fed power when the Bank of Japan or the Bundesbank raise their interest rates or when consumer price inflation raises its ugly head. The Fed would have to raise its rates in order to remain competitive with the Bank of Japan and the Bundesbank or to call a halt to the consumer price inflation. The raise would cause financial markets to tumble. In loss and suffering, Americans may finally realize that their faith in the Fed was painfully misplaced and their reliance on political money management a standing invitation to disaster. They may even learn that the creation of the Federal Reserve System by the Congress radically altered the political and economic order. It built a political command post over the people's money and banking which in time was to become the money monopolist. The law which created the System provided a federal fountainhead which in time was to become the paterfamilias of the trillion-dollar welfare state. It built a powerful engine of inflation and rendered the economy highly vulnerable to business booms and recessions. In the end, the American people may even regret the creation of the Fed and want to abolish the Wilson monster.

At this time, a wise man will not trust three things: the solemn promises of central bankers to "fight" inflation, the bluster of politicians to "balance" their budgets, and the chatter of Fed governors about the stabilizing effects of their policies.

Hans Sennholz

Hans F. Sennholz

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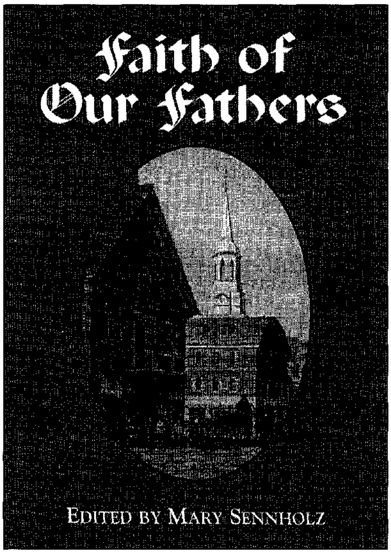

New this month from FEE

Faith of Our Fathers

Edited by Mary Sennholz

God-given natural rights were the guiding light of the Founding Fathers. The stirring closing paragraph of the Declaration of Independence was not only the formal pronouncement of independence but also a powerful appeal to the Creator of all rights: "We, therefore, the Representatives of the United States of America, in General Congress, Assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, do, in the Name, and by authority of the good People of these Colonies, solemnly publish and declare, that these United Colonies are and of Right ought to be free and independent States." In the final sentence of defiance they appealed to the Almighty for His protection: "And for the support of this declaration, with a firm reliance on the protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes and our Sacred Honor."

The moral precepts and the self-evident truths that guided our Founding Fathers may not be fashionable in our time, but they are as inescapable and inexorable as they have been throughout the ages. We are free to ignore and disobey them, but we cannot escape the rising price we must pay for defying them.

Faith of Our Fathers includes an incisive introduction by Mary Sennholz and powerful essays by Clarence B. Carson, John Wesley Young, Robert A. Peterson, Wesley H. Hillendahl, Gary North, Ridgway K. Foley, Jr., Hal Watkins, James C. Patrick, Hans F. Sennholz, George C. Roche III, F. A. Harper, Jarret B. Wolstein, Leslie Snyder, Bruce D. Porter, Benjamin A. Rogge, Paul L. Adams, Ken Ewert, Ben Barker, John K. Williams, Edmund A. Opitz, Erik von Kuehnelt-Leddihn, and Calvin D. Linton.

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Administration saw 20 percent of its loans go bad. The delinquency rate for the Farmers Home Administration (since folded into the Rural Housing Service) ran nearly 50 percent. And even loans that are repaid are not cheap, since they divert credit from more productive uses elsewhere in the economy. That is, money is not free, so if Uncle Sam is providing subsidized loans to politically favored interests, he is inevitably directing money away from more deserving, but less well-connected, businesses and individuals.

A Matter of Principle

There is a more fundamental principle at stake, however. The problem isn't just that we can't afford to subsidize corporate America. It is that we shouldn't do so. It isn't right to take money from average taxpayers for the benefit of business interests. Put bluntly: Gallo Wine should pay to promote its own products. The role of government is to fulfill critical common goals that can't be achieved privately, not to redistribute wealth among private parties based on the size of their campaign contributions.

The fact that major corporations don't have to pay their own way, and instead are able to enlist legislators to mulct common citizens—and businesses with more modest political connections—deforms the entire political system. It is the availability of hundreds of billions of dollars in taxpayer loot that has encouraged the creation of PACs and the consequent flow of special interest money into politics. Companies like Archer Daniels Midland simply buy access to politicians in both parties, access lacked by the people who pay the bill. As a result, the only way to "clean up" politics is to eliminate the benefits up for auction, not to rerig the political game.

Of course, advocates of corporate welfare are rarely foolish enough to admit that their goal is self-enrichment. Rather, they argue that the programs generate countervailing benefits—usually jobs. After all, if McDonald's is selling more hamburgers overseas, it is employing more people at home. But there is nothing in the Constitution that empowers Congress to take money from some to benefit others, even if a few jobs are created in the bargain.

In fact, far more jobs are destroyed in the transaction. The point is, federal spending is not free. Money given to Archer Daniels Midland, Boeing, General Electric, IBM, and Ralston Purina is taken from people and enterprises across America. Which reduces their purchases, investments, and other economic activities—and thus the number of jobs created. There ain't no such thing as a free lunch, goes the saying, and nowhere does it apply with more force than to the issue of corporate welfare.

At the very least policymakers could target the most egregious of the 125 business welfare programs. The worst 35 alone cost $19.5 billion in 1995.

Where the Money Goes

The Commerce Department has always been the epicenter of general corporate welfare. Among the most outrageous business subsidies are:

- Advanced Technology Program ($431.0 million in 1995)—R&D grants to the giants of corporate America.
- Economic Development Administration ($409.7 million)—grants and loans to help local governments lure firms to their areas.
- International Trade Administration ($266.1 million)—export promotion services.
- Manufacturing Extension Partnership ($91.0 million)—technical assistance to manufacturing enterprises.
- Minority Business Development Agency ($43.8 million)—assistance to minority-owned firms.
- National Oceanic and Atmospheric Administration ($1.912 billion)—specialized forecasting activities for the agricultural, aviation, fishery, and shipping industries.

Another important fount of corporate welfare is the Agriculture Department, which spends even more money while benefiting an even narrower special interest. The culprits include:

- Agricultural Research Service ($758.4 million)—subsidies to increase agricultural productivity, improve food products, and encourage new uses of them.

- Commodity Credit Corporation ($9.813 billion)—assorted crop subsidies.
- Conservation Reserve Program ($1.743 billion)—payments to farmers not to farm their land.
- Cooperative State Research, Education, and Extension Service ($932.1 million)—assistance to farmers in their operations.
- Economic Research Service ($53.9 million)—agriculture industry research.
- Export Enhancement Program ($800 million)—subsidies for big exporters.
- Federal Crop Insurance Corporation Fund ($709.2 million)—underwriting crop insurance for farmers.
- Foreign Agricultural Service ($118 million)—overseas government offices to promote food exports.
- Forest Service/Road and Trail Construction ($130.9 million)—building roads, most of which primarily benefit private lumber companies.
- Market Promotion Program [since renamed the Market Access Program] ($85.5 million)—underwriting corporate advertising abroad.
- National Agricultural Statistics Service ($81.3 million)—collection of data used to formulate crop subsidies.
- Rural Utilities Service ($128.1 million)—subsidizing the cost of electricity and telephones in one-time rural areas, delivering many of the resulting savings to business.

Energy and Transportation Subsidies

The Energy Department devotes billions of dollars to research and statistical activities that primarily benefit the energy industry. The Energy Information Administration ($84.6 million) accumulates industry data, the Energy Supply Research and Development program ($3.315 billion) underwrites research on energy technologies, the Fossil Energy Research and Development program ($423.7 million) subsidizes more energy research, and the Power Marketing Administrations ($272.5 million) provide cheap power to some of the nation's most affluent regions.

The Transportation Department is another agency that benefits business more than the public. The Essential Air Service program ($33.4 million) subsidizes airlines to serve politically favored areas, the Federal Highway Administration/Demonstration Projects ($352.1 million) deliver almost pure pork to local construction firms, the Maritime Administration/Differential Subsidies ($214.4 million) underwrite high-cost merchant ships, and the Office of Commercial Space Transportation ($6.1 million) funds supposedly private-sector space activities.

The Department of the Interior, through the Bureau of Mines ($152.4 million) and Bureau of Reclamation ($841.2 million), supports the mining and cattle industries. The Geological Survey ($547.6 million) maps resource deposits, to the benefit of mining interests. In the Department of Defense, the Army Corps of Engineers ($3.409 billion) creates waterways and water projects, which typically enrich local business interests. The Semiconductor Manufacturing Technology program ($89.5 million), known as Sematech, provides direct handouts to the semiconductor industry. The Technology Reinvestment Program ($443.0 million) underwrites the behemoths of industry to produce dual-use (for both civilian and military) technologies.

Moreover, Congress has established a number of independent agencies with no function other than the enrichment of business. The Export-Import Bank ($782.1 million)—long known as Boeing's bank because it financed so many of the aircraft manufacturer's deals—provides loans, loan guarantees, and credit insurance to the purchasers of American goods. The Overseas Private Investment Corporation ($58.3 million) offers loans, loan guarantees, and risk insurance to U.S. businesses that invest overseas. The Small Business Administration ($917.4 million) hands out loans and loan guarantees, and provides consulting services, to smaller enterprises. The Tennessee Valley Authority ($142.9 million), like the Power Marketing Administrations, offers low-cost electricity. The Trade and Development Agency ($45.0 million) promotes U.S. investment overseas.

Restrictions, Quotas, and Tariffs

Some corporate welfare is delivered indirectly. The $1.4 billion sugar price-support program is backed by quotas on imported sugar, which cost consumers several billion dollars a year. Some 40 percent of the benefits of the program go to the largest one percent of sugar farms. All told, the U.S. government imposes restrictions, like quotas and tariffs, on more than 8,000 products, including autos, computer parts, mushrooms, steel, and textiles. Estimates of the cost of protectionism, which primarily enriches domestic producers, run as high as $80 billion annually.

The Jones Act requires that private companies use U.S. flag vessels to ship products between U.S. ports. Military goods and half of other government cargoes (furnished under federal contract, for instance) must go on more expensive American carriers. This simple regulatory directive, which cost the Department of Defense alone $436 million in 1995, acts as a huge windfall for corporate America.

Ethanol, a corn-based substitute for gasoline, is expensive and inefficient, but receives two tax benefits—credits for firms that produce ethanol and exemption from federal excise taxes—worth some $500 million annually. Companies like Archer Daniels Midland, which dominates the ethanol market and contributes heavily to Democrats and Republicans alike, are the primary beneficiaries.

Subsidies to Amtrak support a quasi-independent firm and lower the price to business travelers. So-called Food for Peace, ostensibly a foreign-aid initiative, was created to unload domestic food surpluses abroad. NASA offers a cornucopia for government contractors. The Corporation for Public Broadcasting provides welfare to the wealthy, if not specifically to corporate America. And on and on.

Even a decade of huge budget deficits has changed nothing. Over that time Congress eliminated two truly egregious programs, the Synthetic Fuels Corporation (which subsidized the production of high-cost synthetic energy) and Urban Development Action Grants (which paid businesses to invest in particular regions). But the rest continue, though occasionally with different names (Congress turned the Rural Electrification Administration into the Rural Utilities Service). And new ones, like Sematech, continually arise.

It is time to kick corporate America off of the dole. The federal budget has long been filled with waste. But few expenditures are more obnoxious than those for business welfare. Policymakers should be able to agree that there is at least one thing government should not do—mulct taxpayers to enrich corporate interests. If legislators won't cut this kind of abusive spending, what programs will they kill? □

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Government-Mandated Insecurity

by Tadd Wilson

As a 22-year-old still paying off college debts, I may seem a bit premature in worrying about my retirement. Then again, how could I not? Every payday, more than 15 percent of my check is syphoned away, ostensibly to ensure that I have an income when I retire at age 65. Or will it be 70—or 75? And will there really be any funds to collect when I retire? Most importantly, why can't I decide how best to provide for my own future?

The Making and Breaking of Trust

A glance at the history of Social Security shows why it has been dubbed the "third rail" of American politics. In their debate on the Social Security Act of 1935, the two major parties appeared to switch traditional roles. The Republicans advocated a program targeted solely at the poor (not the party's usual constituency) to be a funded on a pay-as-you-go basis out of general tax revenues. The Democrats, on the other hand, backed a program to include everyone (not just their poorer supporters), and to be paid for with earmarked tax dollars held in a "trust fund."

This apparent shift in the parties' usual preferences was no mere quirk. According to political scientist William Keech, the "Democrats seem to have known that if people believed that 'insurance contributions' were being held in a 'trust fund,' they would feel entitled to those benefits and would retain higher self-esteem than if they were receiving tax revenues doled out to the needy, [making it] more difficult to limit or scale down the Democratic program in times of budgetary stringency." In short, no one would want to cut Social Security because doing so would reduce benefits to themselves. By 1936, Republican opposition to Social Security had disappeared.

Unfortunately, Republican fears about the program were soon confirmed. Until 1972, when a presidential candidates' bidding war burned off the excess in the Social Security coffers, Social Security increases corresponded suspiciously to even-numbered (i.e., election) years. Most beneficiaries were paid many times what they and their employers contributed. (In 1982 the Federal Reserve Bank of New York reported that the average 65-year-old retiree with a nonworking spouse recovered his lifetime contributions within nine months of retirement.)

Moreover, the alleged trust fund, which in truth is nothing more than a pile of IOUs from the U.S. Treasury Department, camouflaged the system's pay-as-you-go operation. Some Social Security critics understandably call it the trust fund with "no trust and no fund."

Can We Trust Uncle Sam?

The issue of trust becomes even clearer when considering how to respond to the looming Social Security crisis. The basic prob-

Mr. Wilson is a free-lance writer in Fairfax, Virginia.

lem is demographics. When the Social Security Act was passed, 65-year-old male retirees could expect to live for another 12 years, females another 13. By 2030, male retirees can expect to live another 17 years, females another 21. Moreover, the population is aging, as the baby-boom bulge nears retirement. Thus, while the number of workers supporting each Social Security recipient stood at 16 in 1950, there will be less than two by 2030.

There are three basic policy options to "preserve" Social Security: do nothing, raise taxes, or cut benefits. The first ensures disaster. Even the Social Security Administration admits that by 2013 outgo will exceed income.

The second option is to increase the 15.3 percent payroll tax (employers theoretically pay half of that, but it comes out of the worker's check). Unfortunately, the levels of taxation required to maintain the current system would impoverish workers and cripple the economy. According to A. Haeworth Robertson, former chief actuary of the Social Security Administration and president of the Retirement Policy Institute, a payroll tax of between 26 and 44 percent would be necessary to cover currently promised benefits. Even if the economy still functioned under such a burden, observes Robertson, people "would retain such a small proportion of what they produced, and there would be such a massive redistribution of income, that the nation would have moved a long way—if not all the way—toward a socialist economy."

The third option is to cut benefits. However, the reductions would have to range between 25 percent and 50 percent, forcing individuals to retire much later and with a lower standard of living than they had planned. Government would find its own credibility brought into question.

In essence, then, with Social Security sliding toward fiscal disaster, Washington has only two options, neither of which is attractive: break its promise to taxpayers and wreck the economy, or break its promise to Social Security recipients and destroy its image.

But the problem gets even worse. Even if the government could preserve the current system without further raising taxes or cutting payments, beneficiaries would still lose. Most taxpayers below the age of 37 face a negative rate of return, if they collect at all. This compares to the 5 to 10 percent, or more, compounded annual return possible with private investments, a much greater long-term opportunity cost imposed by the system. Ironically, in the name of retirement security, Social Security forces rich and poor worker alike to retire with a lower standard of living than if the program did not exist.

A Seventeenth-Century Solution to a Twenty-First-Century Problem

Although the Social Security debacle is primarily seen as a fiscal emergency, the economic problem is really an extension of a larger moral crisis: government's assumption of control over individuals' lives and livelihoods. While such concerns may seem abstract, they represent fundamental flaws in the program, which we must recognize, lest we risk replacing one failed policy with another.

Yet the lack of such an understanding is evidenced by the reform proposals put forth by Washington's usual suspects. For example, several members of President Clinton's Social Security Advisory Council have suggested investing a portion of the existing Social Security Trust Fund in stocks to help stave off bankruptcy. While taking advantage of higher returns in the private marketplace might seem to make sense, government investment would suffer from two crippling flaws. First, individuals would still not be allowed to prepare for their retirement as they wished. Second, allowing the federal government to purchase stock on such an enormous scale would give it dangerous control over private industry. We would end up in the same collectivist mire as with the high-tax "solution."

Thus, the only morally and economically sound reform is privatization: allowing individual investors to choose where to put their money and retain a property right to that money. Moving to such a system would not be costless: Workers would obviously have to assume the risks normally associated with investing. Moreover, protecting those near retirement who have already paid large sums into Social Security would generate transition costs of as much as $7 trillion over the next 75 years, according to the Cato Institute.

However, these costs are not insurmountable, nor are they unique to privatization. The system as it now exists gives those retiring in future decades no choice but to invest in a "fund" that is not only risky but guaranteed to cost them money. And it is a deal that can only get worse, as taxes are raised, benefits are cut, or some combination of the two. In short, no system can avoid paying high costs. However, the privatization solution forthrightly replaces today's decrepit system with a better alternative, rather than attempting to patch it for another few decades. Without doubt, the benefits of privatization make it the best alternative available.

Wall Street and the Paradox of Trust

With their economic arguments exhausted, critics of privatization fall back on vague appeals to the spirit of Social Security. Robert Dreyfus, writing in the November/December 1996 issue of *Mother Jones*, says, "privatization would destroy the communal vision that is the strength of the Social Security system." Dreyfus worries that a privatized system "would evolve from a universal retirement system to a welfare program for poor and low-income workers" which would rapidly lose support from those with higher incomes, undoing the political Gordian (some would say Machiavellian) knot constructed by the Democrats back in 1935, and giving the Republicans their victory at last, albeit over half a century late. However, Social Security's "communal vision" is political, not moral—a delicately coordinated set of self-interested constituencies, as Dreyfus's own Realpolitik concerns reveal. Moreover, a private system would allow poor and low-income workers to secure a higher standard of living for their retirement by investing their own money, rather than devolving into a welfare program.

Some critics of privatization still balk at the prospect of relying on Wall Street to ensure Americans' retirement. However, the beauty of a private system rooted in individual investors' property rights is that they don't have to trust either Pennsylvania Avenue or Wall Street. Every investor could choose to take his money elsewhere, giving private fund managers an interest in actively attracting and retaining customers. If one fund is losing money or even earning a smaller profit than the market as a whole, individuals can simply change companies. Investment firms must earn profits for their clients, irrespective of their "communal vision," or lack thereof.

Thus, it is private property and economic competition, not political campaigns, that breed true trust. With would-be retirees treated as individual customers, not as constituencies to be bought off at the expense of all, and with investors reaping the benefits of an expanding stock market and compound interest, trust would naturally develop. Paradoxically, then, real trust evolves out of a property rights-based system that does not need it, while trust is destroyed by an outdated Social Security system that demands it.

Ultimately, for both economic and moral reasons, people should be allowed to invest their money as they please, especially when it has such a dramatic impact on their future quality of life. So serious are the flaws of the existing system that most young workers would be better off stuffing their savings under their mattresses rather than letting the federal government "invest" it. We must replace, not "fix," Social Security. □

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Competition in Education: The Case of Reading

by Daniel Hager

The nature of accountability in the public and private sectors is fundamentally different. Perhaps nowhere is the contrast more vivid than in education, particularly the teaching of reading to young children.

A private school named H.O.P.E. (an acronym for Heightened Options in Private Education) Academy in Lansing, Michigan, offers a good example of free-market accountability. The school is organized as a for-profit institution sustained solely by tuition money. Its owners must provide value to attract and retain customers.

The school markets its ability to teach youngsters to read. More than half of its customers are minority families, many with limited incomes. As a result, the owners have to offer a reading pedagogy that is not only effective but inexpensive. Failure to deliver the promised results would lead to declining enrollment, loss of revenue, and potential extinction for the enterprise.

By contrast, there is little accountability in public school systems. The schools isolate their customers from the choice of reading pedagogy. Parents must try to exert their influence through elected representatives, who usually defer to professional managers on curriculum matters. This political insulation allows professionals with motives and agendas at odds with those of parents to nevertheless impose their choices. Only through political pressure, a process that is simultaneously more time-consuming and less effective than merely taking one's business elsewhere, can customers modify the services offered to their children.

H.O.P.E. Academy's teaching technique is phonics. Children are taught the relationships between sounds and alphabetic symbols and learn how to combine the correlations into words, sentences, and meanings. This system flourished when private schools were the rule in teaching the nation's children. The dominant text then was Noah Webster's "Blue-Backed Speller," the familiar name for a book first published in 1783 and used for more than 100 years. Webster provided an analysis of sounds leading from the simple to the complex, numerous tables of words illustrating "an easy standard of pronunciation," and practice lessons for students to read.

Make Way for Dick and Jane

The method used to teach reading that prevails in public school systems today originated in America in the first half of the nineteenth century, when it was touted by a number of educational elitists, including Horace Mann, the leading figure in establishing state control over education. Under this system children are introduced to reading by memorizing whole words and later receive instruction in symbol relationships, though not in the systematic manner provided by Webster.

In his 1973 book *The New Illiterates*, Samuel Blumenfeld traced the roots and development of this newer reading technique. Thomas Gallaudet, who taught from 1817 to 1830 at the American Asylum at Hartford for the Education of the Deaf and Dumb, used it, plus supplemental pictures to link words with objects, to teach deaf-mutes to read. He applied the method to his own children, who had normal hearing; they enthusiastically and rapidly learned the meanings of simple words

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without having to first master phonetic principles. The sight-word technique was soon adopted by other textbook authors. But it resulted in poor results in Boston, where a group of schoolmasters succeeded in banishing it after 1844.

However, the social-management *philosophes* who fashioned the "progressive education" principles that spread into the nation's schoolrooms in the early decades of the twentieth century revived Gallaudet's method after a period of obscurity. In 1930 "Dick and Jane" made their debut in a series of readers featuring controlled vocabularies to be mastered by students through the sight-word or look-and-say technique.

Hooked on Failure

As this reading pedagogy proliferated, Blumenfeld noted, "the failures of the method" soon led to "a whole remedial reading industry." Critic Rudolf Flesch pointed out that the method reduces English to an ideographic language, using symbols to stand for whole words and negating the advantages offered by alphabetization. He explained, "We have decided to forget that we write with letters and learn to read English as if it were Chinese." According to Blumenfeld, whole-word memorization enables children to get off to a fast start, but "this initial success is deceptive because it does not provide the foundation for learning thousands of additional words, and therefore it is in the second and third years in which the sight readers' problems become evident."

This pedagogy, despite significant opposition, has remained entrenched in public educational systems. An amendment to the 1986 Human Services Reauthorization Act required the Department of Education to study costs and benefits of different beginning reading instruction programs, including phonics. It took seven years for the Department to produce a report titled *The Beginning Reading Instruction Study*.

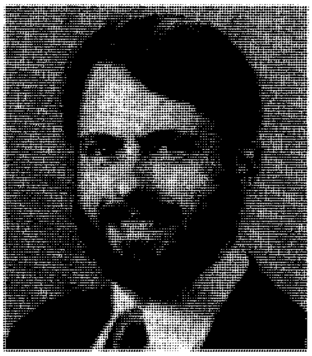
The highest-priced programs employ sight-word instruction. The most expensive cost \$312.97 per pupil to implement, or nearly \$9,400 per 30-student classroom, based on 1992 prices. Other systems ranged downward between \$309.80 and \$205.26 per pupil, and several fell below \$200 per pupil. Phonics-based programs ranged from relatively costly to very inexpensive. One system ran \$215.20 per pupil, but others, consisting simply of kits for classroom use, cost as little as \$.83 per pupil. The cheapest offered only a teaching manual and cost just \$18, or \$.60 per pupil.

That manual is used in each classroom at H.O.P.E. Academy in conjunction with an \$18 set of phonograms or flash cards to drill students in phonetic relationships. A library of graded books enables them to practice and improve their reading skills. Making the cards instead of buying them could further reduce costs, says school co-owner Eleanor Sambaer. The students also use notebook paper for students' writing exercises instead of the expensive workbooks included in sight-word programs.

H.O.P.E.'s tuition runs about two-thirds the average cost per pupil in Michigan's public school systems. Sambaer and partner Marina Farhat are so confident of their pedagogy that they offer a tuition refund to parents of any kindergartner who is not reading at first-grade level by the end of the school year. The school has not had to issue a refund in its nearly 12 years of operation.

The public sector, of course, could not make such a guarantee, since it would quickly run out of money. Insulated from consumer pressure, educational professionals continue to promote their costly pedagogy while refusing to take responsibility for substandard literacy around the nation. Only the marketplace can determine the best pedagogy—the process of teaching reading that produces the best results for the lowest cost.

In short, the only really effective educational reform would be to abolish public education. Then schools would have to compete for customers, and parents could choose with their checkbooks. □



The Judgment of History

President Bill Clinton has run for public office for the last time. No longer subject to judgment by the voters, he is now accountable only to history, or at least to the historians who write the history books.

Nearly 50 years ago historian Arthur Schlesinger organized a poll of 55 historians to rate America's presidents. Schlesinger staged a repeat in 1962. Some journalists subsequently conducted their own surveys. Now Schlesinger's son, writer Arthur Schlesinger, Jr., has organized yet another survey of the historical establishment. The results of all these efforts are predictable. Presidential greatness is defined as action, the more frenetic the better. Which means big government, the more intrusive the better.

Abraham Lincoln tops the list, a unanimous choice for greatness. There's no doubt that he was a skillful politician and succeeded in his primary goal of preserving the union. But was it worth plunging the nation into a war that killed 620,000 Americans? His predecessor, James Buchanan, is judged to be a failure and indeed Buchanan did much to exacerbate sectional tensions. But he, at least, held back from the fateful step of making war on states that only sought to peacefully depart the union.

Lincoln also began a tradition of subverting constitutional liberties. He unilaterally suspended *habeas corpus*; his administration jailed political opponents, banned critical newspapers from the mails, and manipulated border state elections. At his urging Congress conscripted men into the army and turned paper money into legal tender. Moreover, the Civil War proved the truth of the adage that war is the health of the state: Abraham Lincoln created the first national government that intimately intruded into the lives of its citizens.

Second in the rankings is Franklin Delano Roosevelt. This president, too, was a political master. His economic policies were a failure, however. The New Deal, as he termed it, might have improved Americans' morale, but it did not spark a sustained recovery. Now, decades later, we are reaping the bitter harvest of many of his misguided initiatives: deposit insurance, which led to the S&L debacle; Social Security, which is heading over a fiscal cliff; and pervasive government meddling, which has slowed our economy's growth and reduced our freedom.

Moreover, while his wartime leadership may have been competent, he had a wildly naive view of mass murderer Joseph Stalin. Equally important, Roosevelt maneuvered secretly to drag the United States into the worst war in human history, a decision which deserved to be debated fully by the American people. Finally, he committed perhaps the single greatest violation of civil liberties of any president—the incarceration of over 100,000 Japanese-Americans based on their national origin. Equally grotesque was his administration's refusal to allow the entry of Jewish

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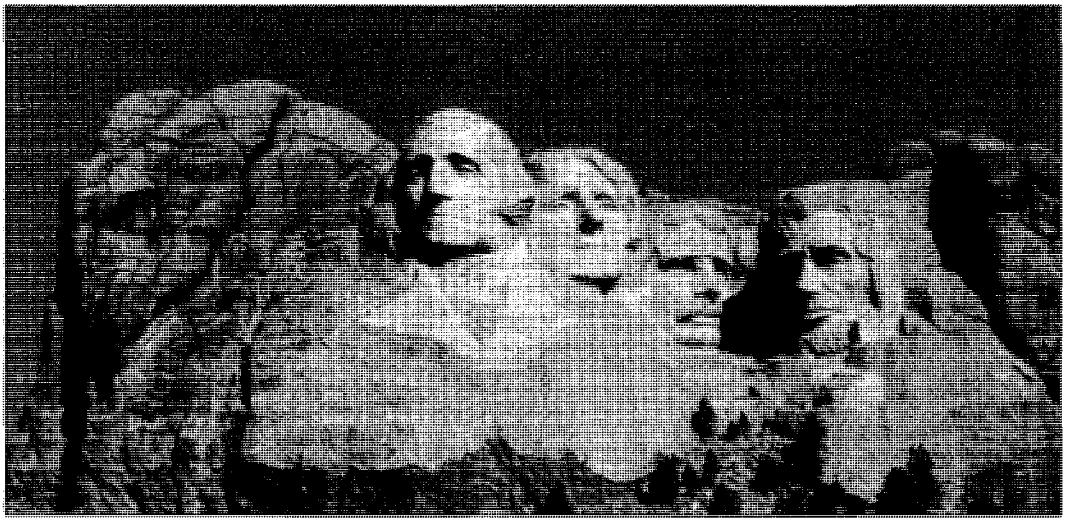

"Greats" and "near-greats" on Mount Rushmore.

refugees even while the Nazis were destroying European Jewry.

The third and last "great" president is George Washington. He is the only one who deserves that designation, as much for what he did not do as for what he did. President Washington, in contrast to so many of his successors, rejected the opportunity to accumulate power. Nor did he see America's role as that of an international nanny; to the contrary, he warned against foreign entanglements. He truly believed in individual liberty and republican government.

The near-greats are led by Thomas Jefferson and Andrew Jackson who, like Washington, are good selections. Both had their flaws; the latter favored slavery, for instance. But neither mistook a desire to expand state authority with public-spiritedness. Both inveighed against the use of government to enrich the politically powerful.

Next in line, however, is Woodrow Wilson, a man who pushed the United States into World War I and sacrificed 110,000 lives in his belief that he had been anointed to save mankind. His administration was the most repressive in U.S. history; it persecuted critics of both conscription and the war and inflamed popular hysteria against anyone who demonstrated anything other than enthusiasm for the president's policies. Wilson even proposed outlawing criticism of the government. He ended his presidency crippled by a stroke but hanging onto power by deceiving the public.

Then comes Theodore Roosevelt. He was a complex and fascinating man, but his appetite for war was probably unmatched by any other president. The specific opponent didn't matter—over the years he advocated conflict with Britain, Germany, and Spain. Rather, he believed in war as a matter of principle. His view of non-Western peoples was disgraceful. His interventionist economics ultimately made the economy less, not more, competitive.

The next near-great is Harry S. Truman. President Truman is impressive only insofar as he rose above the worst sort of machine politics with a performance adequate to avoid disaster in the dangerous post-World War II era. But his international policies exacerbated the Cold War, yielding the national security state and outsized military that plague us to this day. His mistakes in Korea turned a small regional conflict into a lengthy war with China. Constitutional limits did not deter him, as exhibited by his attempted seizure of the steel industry. His domestic policies were marked by inefficient economic intervention.

The last of the almost-greats is James Knox Polk, an unabashed imperialist. He initiated what was, truth be told, a war of aggression against Mexico that led to the seizure of half of that nation's territory. He was frugal when it came to economics, but his belief that territorial expansion warranted war was more befitting a twentieth-century dictator. Today we can thank him for the addition of Arizona, California, New Mexico, and Texas; the people subjugated by U.S. troops probably had a different view, however.

In contrast, Dwight Eisenhower, who ended the Korean War, warned against militarism, and moderated domestic federal expenditures, is judged to be merely average. At least he now comes in better than he did in 1962—an embarrassing 22nd out of 31.

Calvin Coolidge, who presided over prosperity and peace, is rated below average. He had no grand initiatives, since there was no cause for grand initiatives. But to establishment historians, leaving the American people alone is considered to be a sign of mediocrity, not greatness.

Warren Harding, whose associates were notoriously corrupt, is termed a failure. But it was Harding who restored civil liberties after the repressive Wilson era. He also kept America aloof from France's vindictive post-World War I policies and presided over a strong economy. This is a better record than that amassed by most of the supposed greats and near greats.

What will history say of Bill Clinton? It's too early to tell, though historians obviously like presidents who send the military into action around the globe, propose massive new social programs, and talk endlessly in action-oriented terms.

However, the judgment that matters most will be that of history—as reflected in the actions of millions and billions of people around the globe. Already they have rendered their verdict on the ruthless totalitarians who were venerated as demigods earlier this century. Those dictators' monuments have been toppled and their memories are now execrated. As what historian Paul Johnson calls the age of politics recedes in America too, many of the great and near-great presidents are likely to find their reputations falling in the same way. Presidents mesmerized by power and willing to sacrifice American lives, wealth, and freedom for social engineering projects at home and abroad will find history, if not historians, to be unkind. □

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Benjamin Franklin: The Man Who Invented the American Dream

by Jim Powell

Benjamin Franklin pioneered the spirit of self-help in America. With less than three years of formal schooling, he taught himself almost everything he knew. He took the initiative of learning French, German, Italian, Latin, and Spanish. He taught himself how to play the guitar, violin, and harp. He made himself an influential author and editor. He started a successful printing business, newspaper, and magazine. He developed a network of printing partnerships throughout the American colonies.

When Franklin saw that something needed doing, he did it. In Philadelphia, he helped launch the city's first police force, the first volunteer fire company, the first fire insurance firm, the first hospital, the first public library, and the academy that became the first institution of higher learning (the University of Pennsylvania). As postmaster, he doubled and tripled the frequency of mail deliveries.

Franklin, who reportedly amassed early America's largest private library, helped expand the frontiers of science and invention. He started the American Philosophical Society, which was this country's first scientific society and maintained the first science library, first museum, and first patent office; more than 90 members of this society went on to win Nobel Prizes. On his eight trans-Atlantic crossings, Franklin made measurements that helped chart the Gulf Stream. He pioneered the study of water flowing around a hull—hydrodynamics. He investigated meteorology. He invented bifocal spectacles. He was most famous, of course, for his experiments with electricity, especially lightning. His lightning rod helped banish the terror of thunderstorms.

Franklin had more to do with founding the American republic than anyone else. As American representative in London, he helped persuade Parliament to repeal despised Stamp Act taxes, giving America an additional decade to prepare for armed conflict with Britain. He was on the committee that named Thomas Jefferson to draft the Declaration of Independence. He went to France and secured military help as well as a formal alliance, without which America probably wouldn't have won the Revolutionary War. He helped negotiate the peace with Britain. He crafted a compromise that helped prevent the collapse of the Constitutional Convention, and he was the one who moved that the Constitution be adopted.

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Franklin, more than anybody, linked the emerging international movements for liberty. James Madison recalled that he "never passed half an hour in his company without hearing some observation or anecdote worth remembering." Franklin dined with *Wealth of Nations* author Adam Smith. The Scottish philosopher David Hume told Franklin: "America has sent us many good things, Gold, Silver, Sugar, Tobacco, Indigo, &c. But you are the first Philosopher, and indeed the first Great Man of Letters for whom we are beholden." Edmund Burke, who had opposed Britain's war against America, called Franklin "the friend of mankind." When the French wit Voltaire met William Temple Franklin, he quipped: "God and Liberty! It is the only benediction which can be given to the grandson of Franklin." Laissez-faire economist Anne Robert Jacques Turgot remarked that Franklin "snatched the lightning from heaven and the scepter from tyrants."

Franklin was a late-blooming radical. During his 30s, he brokered the sale of some slaves as a sideline for his general store. He and his wife owned two slaves. In 1758, when he was 52, he suggested establishing Philadelphia's first school for blacks. He abandoned his support for the British Empire and committed himself to the American Revolution when he was 70. Philadelphia Quakers had launched the abolitionist movement by organizing the Pennsylvania Society for Promoting the Abolition of Slavery (1775), but its activities ceased during the Revolution; this pioneering society revived in 1787 when Franklin became its president, at 81. Two years later he voiced his support for the ideals of the French Revolution.

Franklin was famous for his charm and tact, which enabled him to get the most out of people, but he had detractors. For instance, John Adams complained that "I could never obtain the favour of his Company in a Morning before Breakfast which would have been the most convenient time to read over the Letters and papers. . . . Mr. Franklin kept a horn book always in his Pockett in which he minuted all his invitations to dinner, and Mr. [Arthur] Lee said it was the only thing in which he was punctual . . . and after that went sometimes to the Play, sometimes to the Philosophers but most commonly to visit those Ladies. . . ." John Dickinson, head of Pennsylvania's delegation to Congress, hated Franklin so much that he refused to install a lightning rod on his Philadelphia mansion—and it was struck by lightning.

While Franklin was generous with his friends and adopted families, he could be insensitive with his own. He disregarded pleas from his dying wife, Deborah, whom he hadn't seen in almost a dozen years, to return home from Britain where he represented American colonial interests. He refused to approve his daughter's proposed marriage to the man she loved. His son's decision to side with Britain during the American Revolution provoked a bitter break that never healed.

As biographer Ronald W. Clark noted, Franklin "was only an inch or two less than six feet in height, thickset and muscular, with dark brown hair above friendly hazel eyes. He was obviously able to look after himself, a distinct advantage in the rougher eighteenth century. . . . These physical attributes were compounded by a nimbleness of mind, so that in argument as well as in action he tended to be off the mark quicker than most men. Above all, and largely concealed by his instinctive hail-fellow-well-met nature, there was a steely determination to succeed and some impatience with those who got in his way."

Childhood and Youth

Benjamin Franklin was born in a Milk Street, Boston, house January 17, 1706, the tenth son of Abia Folger, daughter of an indentured servant. His father Josiah Franklin was a candlemaker.

At eight, he was sent to Boston's Latin school with the idea of entering Harvard, which would prepare him for the ministry. But Harvard required unquestioning devotion, and Franklin exhibited some religious skepticism. At one point, for instance, he suggested that his father shorten his lengthy mealtime prayers and "say Grace over the whole cask—it would be a vast saving of time." Within two years, Franklin was transferred to a more practical Boston school for writing and arithmetic. He apprenticed in his father's candlemaking shop.

But by age 12, he had become restless. Apparently because he began to enjoy books, his father arranged for him to apprentice with his 21-year-old brother James, who had set himself up as a Boston printer. "I was fond of reading," Franklin recalled, "and all the little money that came into my hands was ever laid out in books." Among other titles, he read Plutarch's *Lives*, John Bunyan's *Pilgrim's Progress*, and John Locke's *Essay Concerning Human Understanding*.

Franklin gained experience writing when his brother began publishing a newspaper, the *New-England Courant*. At 16, he anonymously wrote 14 articles known as the *Dogood Papers*, satirizing religious dogmas and government officials, and his brother published them apparently without ever knowing the identity of the author. As a consequence, the Massachusetts Governor's Council sentenced James Franklin to a month in jail, and it ordered him to stop publishing the *New-England Courant*. The paper continued to appear, however—under Benjamin Franklin's name. But the brothers began squabbling, apparently over control. Impatient to become his own man, he ran away from home in September 1723.

Somewhere along the line, Franklin learned how to be more tactful and persuasive. He expressed himself "in Terms of modest Diffidence, never using when I advance any thing that may possibly be disputed, the Words *Certainly, undoubtedly, or any others that give the Air of Positiveness to an Opinion*; but rather say, I conceive, or I apprehend a Thing to be so and so, It appears to me, or I should think it so or so for such & such Reasons, or I imagine it to be so, or it is so if I am not mistaken."

Franklin went to Philadelphia, where he heard a printer was looking for help. "I was dirty from my Journey," he wrote about his arrival at the Market Street Wharf, "my Pockets were stuff'd out with Shirts & Stockings; I knew no Soul, or where to look for Lodging. I was fatigued with Travelling, Rowing & Want of Rest. I was very hungry, and my whole Stock of Cash consisted of a Dutch Dollar and about a Shilling in Copper." Yet as biographer Ronald Clark noted, Franklin "was distinctly presentable, a well-set-up young man in his early twenties, lacking the plumpness of his later years and radiating an apparently inexhaustible energy."

Young Ben Franklin in London

Franklin got a job and somehow met Pennsylvania's governor William Keith, who needed a good printer. Although Franklin was just 18, his evident intelligence made him a standout. The governor offered to provide financing so Franklin could establish his own print shop. Accordingly, in November 1724 he sailed for England to buy about £100 of printing equipment, but the governor's promise turned out to be worthless. During the next 20 months, Franklin worked for a couple of big London printers. He wrote a pamphlet which, questioning certain religious doctrines, served as a calling card. Franklin met Bernard Mandeville, the Dutch doctor who wrote *The Fable of the Bees, or Private Vices, Public Benefits*, anticipating Adam Smith's idea of the "invisible hand."

London, an intellectual capital of Europe, had expanded Franklin's vision. He had become a first-class printer and met many sophisticated people. During the tedious 79-day voyage home, he wrote down some principles for success. His original draft was lost, but the main points were probably similar to what he remembered later: "1. It is necessary for me to be extremely frugal for some time, till I have paid what I owe. 2. To endeavor to speak truth in every instance, to give nobody expectations that are not likely to be answered, but aim at sincerity in every word and action; the most amiable excellence in a rational being. 3. To apply myself industriously to whatever business I take in hand, and not divert my mind from my business by any foolish project of growing suddenly rich; for industry and patience are the surest means of plenty. 4. I resolve to speak ill of no man whatever, not even in a matter of truth; but rather by some means excuse the faults I hear charged upon others, and, upon proper occasions, speak all the good I know of everybody."

Within months after his return in late 1726, he was in business for himself. He landed a contract to print Pennsylvania's currency—and, alas, promoter that he was, he touted it in a pamphlet, *A Modest Enquiry into the Nature and Necessity of a Paper-Currency.* Franklin printed a wide range of things, including the first novel published in America (Samuel Richardson's *Pamela*), and sold material printed by others, including Bibles and all kinds of legal forms. Moreover, Franklin served as a moneylender for the poor, providing as little as two shillings.

The Pennsylvania Gazette and "Poor Richard"

Franklin bought a failing newspaper, changed its name to *The Pennsylvania Gazette*, wrote many of the articles himself and made money. The December 28, 1732, issue announced that he would be offering *Poor Richard: an Almanack.* It was published annually until 1758, offering memorable aphorisms about success. For instance: "God helps them that helps themselves.... Diligence is the Mother of Good-Luck.... Early to bed and early to rise, makes a man healthy, wealthy and wise.... Well done is better than well said.... He that has a Trade, has an Office of Profit and Honour.... Life with Fools consists in Drinking; With the wise Man Living's Thinking.... Employ thy time well, if thou meanest to gain leisure.... As Pride increases, Fortune declines.... Be always asham'd to catch thy self idle.... Wink at small faults; remember thou hast great ones. ... Folly and Wickedness shortens Life.... Drive thy business; let not that drive thee.... When you're good to others, you are best to yourself.... Love, and be lov'd." *Poor Richard's Almanack* sold some 10,000 copies a year—a big number in those days—and helped make Franklin a household name.

Meanwhile, in 1727, Franklin started a group called the "Junto," which he described as "a Club for mutual Improvement." Participants—many of whom were young apprentices—suggested "one or more Queries on any Point of Morals, Politics, or Natural Philosophy, to be discuss'd by the Company, and once in three Months produce & read an Essay of his own Writing on any Subject he pleased." They met weekly on Friday evenings, initially at a tavern and later in a rented room. When the Junto reached what Franklin considered an optimum size (12), he encouraged interested people to form their own groups, and they sprouted all around Philadelphia.

During the next three decades, Franklin's Junto helped pioneer many of Philadelphia's institutions, starting with the city's first public library. After members discussed the idea, it was considered by people in the other groups. Then Franklin talked about it in the columns of *The Pennsylvania Gazette.* The library began by charging an entrance fee and an annual subscription fee. Next, to provide greater security against crime, Franklin started City Watch, which organized teams of constables patrolling neighborhoods at night. Through the Junto, Franklin promoted the paving, cleaning, and lighting of streets.

Reflecting his cosmopolitan view, Franklin decided that "The first drudgery of settling new colonies, which confines the attention of people to mere necessaries, is now pretty well over...." He believed it was time "to cultivate the finer arts and improve the common stock of knowledge." In 1744, he and fellow Junto members helped organize the American Philosophical Society; he served as its first secretary.

Franklin thought college education should be available to people in Pennsylvania—as it was available in Connecticut (Yale), Massachusetts (Harvard), and Virginia (William and Mary). He discussed his idea with members of the Junto and wrote a pamphlet, *Proposals Relating to the Education of Youth in Pennsylvania.* He recommended that the curriculum focus on basic skills like writing and speaking. His proposed reading list included works by the seventeenth-century radical author Algernon Sidney and *Cato's Letters*, the influential early eighteenth-century case for natural rights. In 1749, Franklin was elected the first president of this new Academy, helping to recruit trustees, raise money, rent a house, and hire teachers. The Academy prospered and went on to become the University of Pennsylvania.

A doctor named Thomas Bond tried to establish Philadelphia's first hospital, but he couldn't get support. People assumed that if the project were worthwhile, Franklin would be involved. So Bond approached Franklin, who became a subscriber and enthusiastically solicited support from others. This was the beginning of Pennsylvania Hospital.

Franklin was becoming a successful self-made man, but his life wasn't complete. He had some romantic adventures, one of which brought a son, William. On September 1, 1730, he began a common-law marriage with Deborah Read, a carpenter's daughter. They had a son, Francis, who died four years later from smallpox, and a daughter, Sally (Sarah), who was born in 1743. Franklin's first son, William, lived with them. Deborah seems to have been a barely literate homebody, and she couldn't begin to keep up with her husband. During the next 45 years, she displayed phenomenal patience as he spent decades away on business throughout the colonies and Europe.

By 1748, Franklin turned over management of his printing business to a partner and retired from it, while continuing to receive half the profits. He still edited *The Pennsylvania Gazette* and *Poor Richard.*

With his buoyant curiosity, Franklin pursued myriad scientific interests. He investigated weather patterns. Before geology was a science, Franklin speculated about the origin of mountains. He invented a more efficient wood-burning stove, connected to a radiator. In 1744, he started popularizing this stove as the Pennsylvania Fire Place.

Experiments with Electricity

Franklin began to experiment with electricity. He determined that there were two kinds of charges, which he called "positive" and "negative." In June 1752, he climbed a Philadelphia hill, flew a silk kite during a thunderstorm, touched one knuckle to a key on the wet string—and felt an electrical shock. Franklin published *Experiments and Observations on Electricity*, and it was translated into French, German, Italian, and Latin. The English editor and statesman Lord Brougham marveled, years later, that Franklin "could make an experiment with less apparatus and conduct his experimental inquiry to a discovery with more ordinary materials than any other philosopher we ever saw. With an old key, a silk thread, some sealing-wax, and a sheet of paper, he discovered the identity of lightning and electricity." Franklin developed lightning rods that could draw lightning away from a house and protect it from fire. Lightning rods earned Franklin the gratitude of people throughout America and Europe. Harvard and Yale universities awarded him honorary degrees. He was elected a Fellow of the English Royal Society and the French Académie des Sciences.

By the time Franklin had become famous for his experiments on electricity, he was in the thick of Pennsylvania politics. He was elected to the Pennsylvania Assembly in August 1751. As Britain and France struggled for control of North America, the French won over many Indian tribes as allies, and people in Pennsylvania were vulnerable to attack. The Penn family, known as "the Proprietors" because they owned the colony, refused to mount a defense. Franklin helped organize a people's militia. In 1754, the British Board of Trade and Plantations asked nine colonies north of the Potomac River to participate in a Congress aimed at preventing the Iroquois Indians from becoming allies of the French. Pennsylvania's governor appointed Franklin as a representative, and the conference took place in Albany, New York, "the gateway to French Canada," as historian Catherine Drinker Bowen called it. A peace treaty was signed. Franklin proposed the "Albany Plan of Union," which would have established a federal union of the colonies under the British crown. Although the plan wasn't adopted, Franklin had emerged as a person whose vision and capabilities could take him far beyond Pennsylvania.

He prepared the 1758 *Poor Richard* and turned it into a pamphlet. Lacking fresh material, he rewrote some of his aphorisms. For instance: "I will tell thee, my friend, what

Poor Richard says, Employ thy time well if thou meanest to gain leisure; and, since thou art not sure of a minute, throw not away an hour. Leisure is time for doing something useful; this leisure the diligent man will obtain, but the lazy man never; so that, as poor Richard says A life of leisure and a life of laziness are two things. No, for as poor Richard says, Trouble springs from idleness, and grievous toil from needless ease. Many without labour, would live by their wits only, but they break for want of stock. Whereas industry gives comfort, and plenty, and respect." This little work was issued as *The Way to Wealth*, which went into nine Spanish printings, 11 German printings, 56 French printings, and 70 English printings. Moreover, it also appeared in Bohemian, Catalan, Chinese, Danish, Dutch, Gaelic, Greek, Polish, Russian, Swedish, and Welsh.

Pennsylvania politics intensified. Many people resented the Penns because their vast landholdings were tax-exempt. Since Franklin had been to England, was well known in Europe, and had proven himself as a negotiator, the Assembly sent him to London where, it was hoped, he could secure their interests against the Penns. After a fruitless discussion with Thomas Penn, William Penn's son, it was clear that Franklin was in for a long stay. He learned the fine art of British-style lobbying. He brought to it his skill of writing letters and essays—he contributed 32 articles to the *London Chronicle*, 33 articles to the *Public Advertiser,* and additional articles in *The Citizen* and *The Gentleman's Magazine*. He anonymously collaborated with fellow Pennsylvania agent Richard Jackson to produce *An Historical Review of the Constitution and Government of Pennsylvania* (1758), a polemic against the Penns; and *The Interest of Great Britain Considered, With Regard to her Colonies, And the Acquisitions of Canada and Guadeloupe* (1760), a pamphlet supporting the expansion of the British Empire. Franklin dined out six days a week, developing relationships with influential people. In April 1759, the Pennsylvania Assembly had passed a bill which aimed to raise £100,000 for defense against the French—by taxing all land. It specified that the long tax-exempt Penn properties would be taxed, at a rate no higher than any other property. The bill was upheld in London.

Soon after Franklin returned on November 1, 1759, battles resumed with the Penns. He was convinced Pennsylvania would be better run as a royal colony. The Pennsylvania Assembly agreed and sent him back to London the following October. He was appointed by assemblies in Massachusetts and Georgia to represent their interests, too.

The Stamp Act Crisis

Asking George III to take over Pennsylvania turned out to mean support for British taxation. Britain and France had concluded their costly Seven Years' War, and Britain wanted the Colonies to help pay for it. Parliament passed the Stamp Act, which became law November 1, 1765. It called for taxes on legal documents, newspapers, and playing cards in the colonies, and Franklin accepted it as a fait accompli. He did speak out against "the mistaken Notion . . . that the Colonies were planted at the Expense of Parliament, and that therefore the Parliament has a Right to tax them, &c." America, he emphasized, "had not been conquer'd by either King or Parliament, but was possess'd by a free People."

Franklin was startled by the intensity of colonial resistance to the Stamp Act. He feared the Stamp Act could provoke a break with Britain. Accordingly, he launched one of his trademark propaganda campaigns against it. Writing under such pseudonyms as "Homespun" and "Traveler," he presented a case that it was in Britain's interest to repeal the Stamp Act. When Parliament held hearings on repeal, Franklin was among the 30 witnesses who testified. Asked if Americans would accept a more moderate tax, Franklin declared: "No, never unless compelled by force of arms." The Stamp Act was repealed.

Parliament tried again to assert its supremacy over the colonies. It passed a Quartering Act that empowered the British commander in America to demand lodgings for his soldiers. In June 1767, Parliament enacted new colonial taxes on glass, lead, paint, paper, and tea. Franklin urged some kind of conciliation, but back in the colonies Boston patriots Samuel Adams and James Otis spurred the Massachusetts Assembly to call for renewed resistance against British policies. Public opinion radicalized after the "Boston Massacre," in which British soldiers killed five Boston patriots.

In 1771, Franklin visited his friend Jonathan Shipley, bishop of St. Asaph, at his Twyford home, near Winchester. There he started work on his autobiography. "Franklin," reported Yale University scholars, "wrote the autobiography on large folio sheets, two leaves or four pages to a sheet. In initial composition he used only one vertical half of each page, leaving the other temporarily blank. As he later reviewed what he had written, he canceled words or phrases in the first draft, inserted between the lines new or revised phraseology, or, if more room was necessary, used the space in the adjoining blank column."

In Britain, Franklin met Anthony Benezet, the Philadelphia Quaker teacher who was probably the earliest abolitionist and an advocate of educating blacks and women. He encouraged Quaker merchants to get out of the slave trade. He introduced Franklin to leading abolitionists and prodded him to join the opposition to the slave trade. In 1772 Franklin wrote "The Somerset Case and the Slave Trade," an unsigned article for the *London Chronicle*. He asked: "Can sweetening our tea with sugar be a circumstance of such absolute necessity? Can the petty pleasure thence arising to the taste compensate for so much misery produced among our fellow creatures, and such a constant butchery of the human species by this pestilential, detestable traffic in the bodies and souls of men?" Franklin agreed to serve on the board of Bray Associates, an organization that established schools for black boys and girls in Newport, New York, Philadelphia, and Williamsburg. In 1774, Franklin wrote the Marquis de Condorcet: "Negroes ... are not deficient in natural Understanding, but they have not the Advantage of Education."

Somehow, Franklin got his hands on six explosive letters by Massachusetts governor Thomas Hutchinson. In one, drafted after the Stamp Act crisis, Hutchinson had written: "There must be an abridgment of what are called English liberties ... there must be a great restraint of natural liberty." On December 2, 1772, Franklin secretly sent them to Thomas Cushing, Speaker of the Massachusetts Assembly, asking that they be kept confidential. But Samuel Adams broke the news, and the letters were published. The Massachusetts Assembly petitioned George III to remove Hutchinson as governor.

In London, Franklin became an outcast. Perhaps attempting to redeem himself, he publicly criticized the "Boston Tea Party" (in which Samuel Adams and the Sons of Liberty dumped 342 chests of British tea into Boston Harbor) and offered to pay for the lost tea. Franklin was summoned to a hearing before the British Privy Council. It cleared Hutchinson of any wrongdoing, and Solicitor General Alexander Wedderburn denounced Franklin. Maverick member of Parliament Charles James Fox warned that "all men tossed up their hats, and clapped their hands in boundless delight, at Mr. Wedderburn's speech against Dr. Franklin, without reckoning the cost it was to entail upon them." As Fox anticipated, this experience irrevocably turned Franklin against Britain.

The "Shot Heard Round the World"

Before he sailed for America on March 21, 1775, he learned that his wife, Deborah, had died of paralysis. He hadn't seen her in 11 years, and little is known about his feelings toward her. Whatever they were, Franklin became swept up with fast-breaking events. While he was at sea, Paul Revere warned his compatriots that British soldiers were preparing for action in Lexington, Massachusetts, and then came the "shot heard round the world," as Ralph Waldo Emerson later immortalized it. Edmund Burke wrote a friend in the French army: "What say you to your friend and brother Philosopher Franklin, who at upwards of seventy years of age, quits the Study of the Laws of Nature, in order to give Laws to new Commonwealth; and has crossed the Atlantick ocean at that time of Life, not to seek repose but to lunge into the midst of the most laborious and most arduous affairs that ever were."

On May 6, 1775, the day after Franklin reached Philadelphia, the Pennsylvania Assembly made him a delegate to the Second Continental Congress, and a week later the British government issued an order for his arrest. "My time was never more fully employed," Franklin wrote. "In the morning, at six, I am at the Committee of Safety, appointed by the Assembly to put the province in a state of defense, which Committee holds till nine, when I am at the Congress, and that sits till after four in the afternoon." Franklin was named to the Secret Committee of Congress, responsible for acquiring war supplies; and the Committee of Secret Correspondence, the fledgling State Department, whose aim was "corresponding with our friends in Great Britain, Ireland, and other parts of the world." Franklin met George Washington to learn what was needed, and since the government didn't have any credit, Franklin advanced another American commander £353 in gold from his personal funds.

In October 1775, Franklin talked with an impassioned English immigrant whom he had met in London, suggesting the Englishman write "a history of the present transactions." Indeed, the young man was already at work on such a project. He seems to have showed Franklin a draft in December. It was published as a 47-page pamphlet on January 10, 1776, and the author reportedly gave Franklin the first copy. The young man was Thomas Paine, and the pamphlet was *Common Sense*, whose eloquent call for independence electrified people throughout the colonies. In just a few months, *Common Sense* sold some 120,000 copies. With this single mighty blow, Paine banished efforts to achieve a reconciliation with Britain.

The Declaration of Independence

On June 21, 1776, Franklin, John Adams, Thomas Jefferson, Robert Livingston (New York), and Roger Sherman (Connecticut) were appointed to a committee for producing a declaration which would announce American independence. The committee asked Jefferson to draft it. Adams and Franklin read at least one version. Handwritten revisions suggest it was Franklin's idea to change Jefferson's description of "sacred and undeniable" truths to "self-evident." Jefferson had written "reduce them to arbitrary power," which Franklin changed to "reduce them under absolute despotism." Franklin changed Jefferson's phrase "deluge us in blood" to "destroy us." And he had a number of other changes that tightened up Jefferson's magnificent draft.

Jefferson later remembered that "I was sitting by Dr. Franklin, who perceived that I was not insensible to these mutilations. 'I have made it a rule,' said he, 'whenever in my power, to avoid becoming the draftsman of papers to be reviewed by a public body.'"

When time came to sign the Declaration on August 2, John Hancock, President of Congress reportedly remarked: "We must be unanimous; there must be no pulling different ways; we must all hang together." According to legend—not any contemporary accounts—Franklin urged that the Declaration be adopted unanimously, saying "we must, indeed, all hang together, or most assuredly we shall all hang separately."

With war underway, the best bet for help was France, which, having lost a war with Britain, would surely have wanted the British Empire to come apart. But the French were circumspect. They were at peace with Britain. The Americans were the underdogs, and nobody, including the French, wanted to publicly back a loser. King Louis XVI saw danger in supporting revolution against another monarchy. The Americans, for their part, felt some uneasiness seeking help from a king who claimed absolute power, and they didn't want the French to know how desperate they were. In addition, the British had spies everywhere, so it was likely that whatever the Americans did would soon be known in London.

In Paris, a private outfit, Rodrique Hortalez and Company, was set up to acquire and ship war supplies. The Secret Committee of Con-

Benjamin Franklin being presented at the French court. Illustration by John Andrew (1856).

gress thought they should have one of their own on the spot, so they dispatched Connecticut Congressman Silas Deane. But he wasn't able to move things along. "Unknown and unconnected in Europe," he acknowledged, "I was without personal credit, and the accounts of our misfortunes in America, with the confident assurances of the British Ministry by their ambassadors and partisans in Paris, that everything would be finished." When Franklin was asked if he would go to France, he noted his gout and other infirmities and reportedly replied, "I am old and good for nothing." But he agreed, then withdrew more than £3,000 from his bank and lent it to Congress. French intellectuals respected him for his pioneering experiments with electricity, and ordinary people knew that his lightning rods saved homes from fire. As John Adams put it: "there was scarcely a peasant or a citizen, a valet de chambre, coachman or footman, a lady's chambermaid or a scullion in a kitchen, who was not familiar with [Benjamin Franklin], and who did not consider him as a friend to human kind."

Franklin in Paris

On October 26, 1776, Franklin secretly left Philadelphia with his grandsons William Temple Franklin and Benjamin Franklin Bache. They reached Paris on December 22. Franklin established his headquarters at Passy, a chateau in the town of Chaillot which was about one mile from Paris and seven miles from Versailles. The chateau belonged to Jacques Donatien Le Ray de Chaumont, an entrepreneur who had made money supplying uniforms to the French army. It was at Passy that Franklin gave dinner parties and cultivated business relationships. Among other things, he learned how to deal effectively with the French. "Telling them their commerce will be advantaged by our success, and that it is in their interest to help us, seems as much as to say, help us, and we shall not be obliged to you. Such indiscreet and improper language has been sometimes held here by some of our people, and produced no good effects."

Franklin discovered how to make an appealing impression. He described himself as "very plainly dressed, wearing my thin, gray straight hair, that peeps out under my only coiffure, a fine fur cap, which comes down my forehead almost to my spectacles. Think how this must appear among the powdered heads of Paris!" Pictures of Franklin seemed to appear everywhere. Fashionable artists like Jean Honoré Fragonard did paintings of Franklin. His portrait was reproduced as engravings and aquatints. His likeness was on medallions, wall plaques, rings, bracelets, snuffboxes, and hats. He wrote his daughter, Sally: "These, with pictures, busts and prints (of which copies upon copies are spread everywhere), have made your father's face as well known as that of the moon."

On one occasion, Franklin was dining at a Paris restaurant and learned that Edward Gibbon, the British historian who chronicled ancient Rome's decline and fall, was there, too. Franklin invited Gibbon to his table, but Gibbon declined, saying that since he was loyal to George III, he wouldn't speak with a rebel. Franklin replied that if Gibbon ever wanted to write a history of Britain's decline and fall, he would provide "ample materials."

Despite all Franklin's savvy, he might not have accomplished much without evidence that the Americans could win. Washington provided that when he crossed the Delaware River on Christmas Day 1776 and won the Battle of Trenton, capturing over 900 fierce Hessian soldiers, mercenaries for the British. Franklin negotiated two treaties ("Alliance" and "Commerce") with France, giving important diplomatic recognition to the American republic. Franklin arranged a succession of shipments to America. That they included the most basic goods suggests how vulnerable America was. In one shipment, for instance: 164 brass cannon, 3,600 blankets, 4,000 tents, 4,000 dozen pairs of stockings, 8,750 pairs of shoes, 11,000 grenades, 20,000 pounds of lead, 161,000 pounds of gunpowder, 373,000 flints, and 514,000 musket balls. Altogether, Franklin secured some 26 million francs of military supplies.

Franklin handled many more tasks. For example, he met the Scottish-born naval captain John Paul Jones and encouraged his bold raids along Britain's coast, undermining British morale. Jones's flagship, the *Bon Homme Richard*, honored the "Poor Richard" of Franklin's Almanack.

Franklin's phenomenal diplomacy clinched victory. In 1781, the British General Charles Cornwallis retreated from advancing forces led by George Washington and the French Marquis de Lafayette. Cornwallis brought his 8,000-man army to Yorktown, a Virginia coastal town where he expected relief from the mighty British navy. But the ships off Yorktown were commanded by the French Admiral François Joseph Paul de Grasse, and Cornwallis was cornered. He surrendered on October 19, 1781, essentially ending the Revolutionary War.

Franklin had worked wonders even though London learned about practically every move. His chief assistant at Passy was his friend Dr. Edward Bancroft, an American who worked as a British spy. Jonathan Dull, author of *Franklin the Diplomat*, remarked that "The American mission was so full of people stealing information it is surprising they did not trip over each other." British spies routinely opened Franklin's letters, and sometimes the spies were able to alert British ships which captured war materials bound for America.

Despite his hard work and health complaints, Franklin seems to have enjoyed himself. "You mention the Kindness of the French Ladies," he remarked to a friend. "This is the civilest Nation upon Earth. Your first Acquaintances endeavour to find out what you like, and they tell others. . . . Somebody, it seems, gave it out that I lov'd Ladies; and then every body presented me their Ladies . . . as to the kissing of Lips or Cheeks it is not the Mode here, the first, is reckon'd rude, & the other may rub off the Paint."

Franklin's work still wasn't done. Congress named him to a committee which would negotiate peace terms with Britain. Negotiations dragged on because the British refused to acknowledge American independence and sovereignty. Finally, after eight and a half years, missions accomplished, Franklin left Paris on July 12, 1785. He took five days to go the 146 miles to Le Havre, and he bid farewell to friends and well-wishers all along the way. He sailed for America with Jean-Antoine

Houdon, the sculptor who had done a noble bust of Franklin and would help immortalize Jefferson, Lafayette, and Washington.

Soon after arriving, Franklin declared: "I shall now be free of Politicks for the Rest of my Life." He spent time with his daughter and grandchildren. He planned an expansion of his house. His most recent inventions, at age 80, included an eight-foot-long gadget with a wooden "thumb" and "finger" at the end, to help a reader retrieve a book from a high shelf; a chair which, turned upside down, could serve as a step-stool; and a bathtub with a book rest.

The Constitutional Convention

Franklin's last great opportunity came as the Constitutional Convention gathered in Philadelphia, in the spring of 1787. He was elected to the Philadelphia delegation. When Washington arrived on May 13, he stopped first at Franklin's Market Street house. The Convention met in the State House where the Second Continental Congress had met and where the Declaration of Independence had been signed.

When it looked like the Convention might collapse because of conflict between small states and big states (Massachusetts, Pennsylvania, and Virginia) over how they would be represented, Franklin suggested that subsequent sessions begin with a prayer. Although the proposal was rejected, it seemed to help calm down the participants. Congress named a "Grand Committee" in hopes of proposing a solution. Franklin, a member of it, recommended there be two legislative bodies—an idea which others had suggested—because this made possible a compromise: states would have equal representation in one legislative body (the Senate) and representation according to population in the other legislative body (the House of Representatives), with the House having the power to originate money bills. This "Great Compromise" assured the small states that their interests would be protected, and they were more willing to compromise on other issues, helping to move the proceedings forward.

Finally, Franklin made a motion that the Constitution be adopted. "When you assemble a number of men to have the advantage of their joint wisdom," he reflected, "you inevitably assemble with those men, all their prejudices, their passions, their errors of opinions, their local interests, and their selfish views. From such an assembly can a perfect production be expected? It therefore astonishes me, Sir, to find this system approaching so near to perfection as it does. . . . On the whole, Sir, I cannot help expressing a wish that every member of the Convention who may still have objections to it, would with me, on this occasion doubt a little of his own infallibility, and to make manifest our unanimity, put his name to this instrument."

In late 1787, Franklin had a bad fall going down steps to his garden, and he suffered excruciating pain from a kidney stone. He wrote his will and resumed work on his autobiography. He corresponded with friends. George Washington wrote: "As long as I retain my memory, you will be thought of with respect, veneration and affection." Franklin declared that the new Constitution looked like it might last, but "in this world nothing can be said to be certain, except death and taxes." As the French Revolution exploded across the Atlantic, Franklin wrote his friend David Hartley: "God grant that not only the love of liberty, but a thorough knowledge of the rights of man, may pervade all the nations of the earth, so that a philosopher may set his foot anywhere on its surface, and say, 'This is my country.'"

In March 1790, Thomas Jefferson visited him and reported: "I found him in bed where he remains almost constantly. He had been clear of pain for some days and was cheerful & in good spirits. . . . He is much emaciated. I pressed him to continue the narration of his life, & perhaps he will." Franklin entrusted Jefferson—the only one outside his family—with a copy of some chapters from his *Autobiography*. The last letter Franklin ever wrote, nine days before his death, was to Jefferson.

Franklin developed a fever and complained about pain on the left side of his chest. His daughter expressed the hope that he would live for quite a while, but he replied: "I hope not. A dying man can do nothing easy." Then a lung abscess burst, and breathing became ever more difficult. He died on April 17, 1790, about 11:00 at night. He was 84. Four days later, a funeral procession began at the State House, and he was buried at Christ Church cemetery. Some 20,000 people paid their respects, including officials, militia men, scientists, merchants, bankers, teachers, printers, apprentices, and others whose lives were touched by the extraordinary enterprising spirit of Benjamin Franklin.

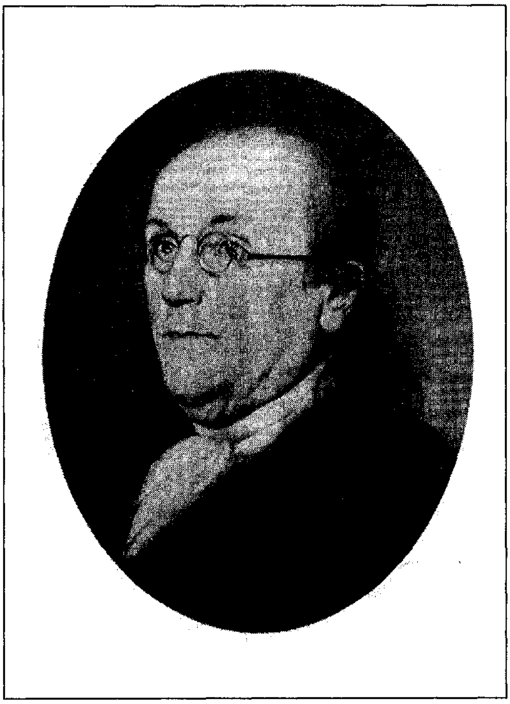
He had written his wry epitaph long ago: "B. Franklin, Printer; like the Cover of an old Book, Its Contents torn out, And stript of its lettering and Gilding, Lies here, Food for Worms. But the Work shall not be wholly lost, For it will, as he believ'd, appear once more, In a new & more perfect Edition, Corrected and amended By the Author."

John Adams, though a Franklin critic, acknowledged his "reputation was more universal than that of Leibnitz and Newton, Frederick or Voltaire, and his character more beloved and esteemed than any or all of them." In Paris, Comte de Mirabeau, the orator and revolutionary leader, told the French National Assembly: "Franklin is dead—he has returned to the bosom of God—the genius who has liberated America, and shed over Europe the torrents of his light."

Franklin's *Autobiography*

Part One of Franklin's *Autobiography*—a pirated French edition—was published in 1791. Then came two English editions. There were 14 reprintings before 1800. Franklin's selected works, including the *Autobiography*, weren't published until 1817 because of delays by the aimless William Temple Franklin, who had inherited his grandfather's manuscripts. The rest of Franklin's manuscripts were stored in a stable and eventually recovered by the American Philosophical Society. John Adams expressed appreciation for what was available, because "there is scarce a scratch of his Pen that is not worth preserving."

The *Autobiography* had many factual errors, since Franklin recalled events years after they happened. The story only went up to 1760. Franklin revealed little about his feelings. But the book appealed to people because he



Benjamin Franklin

chronicled his failures as well as his successes, and he identified principles for building strong character. He wrote in a refreshingly plainspoken manner.

Franklin, noted American historian Carl Becker, was "a true child of the Enlightenment, not indeed of the school of Rousseau, but of Defoe and Pope and Swift, of Fontenelle and Montesquieu and Voltaire. He spoke their language, although with a homely accent, a tang of the soil, that bears witness to his lowly and provincial origin. . . . He accepted without question and expressed without effort all the characteristic ideas and prepossessions of the century . . . its healthy, clarifying skepticism; its passion for freedom and its humane sympathies; its preoccupation with the world that is evident to the senses; its profound faith in common sense, in the efficacy of Reason for the solution of human problems and the advancement of human welfare."

The book had significant impact around the world. Inspired by Franklin, the great German poet Johann Wolfgang von Goethe organized a "Friday Club" whose aims and practices were similar to Franklin's Junto.

Franklin inspired Simón Bolívar and José de San Martín, who helped people in South America achieve independence. Franklin's *Autobiography* was a hit in Japan, where Fukuzawa Yukichi and other thinkers promoted his principles, which inspired entrepreneurs. The Florentine painter Gaspero Barbera published an Italian translation, explaining: "At the age of 35 I was a lost man.... I read again and again the *Autobiography* of Franklin, and became enamoured of his ideas and principles to such a degree that to them I ascribe my moral regeneration.... Now, at the age of fifty-one, I am healthy, cheerful and rich."

During the heyday of American individualism, Franklin's story was taken up by educators whose books sold in the tens of millions. For instance, drawing on the *Autobiography*, Noah Webster included an 11-page account of Franklin's life in his *Biography For the Use of Schools* (1830). Peter Parley wrote a *Life of Benjamin Franklin* (1832). William Holmes McGuffey included selections from the *Autobiography* in his enormously popular *Readers*.

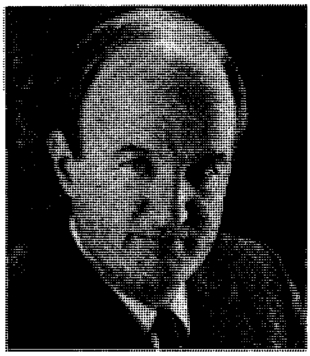
By the 1850s, the *Autobiography* had been reprinted almost 100 times. Between 1860 and 1890, Franklin was reportedly the most popular subject for American biographers. Many successful Americans testified about the impact Franklin had on their lives. The *Autobiography* inspired James Harper to leave his Long Island farm and launch what became one of America's most venerable publishing houses (now HarperCollins). "Yes, sir," Harper told a friend, "the basis on which we commenced was *character, not capital*"—and he had an artist paint a profile of Franklin into his own portrait. Horace Greeley, a poor boy who became the famous editor of the *New York Tribune*, declared in 1862: "Of the men whom the world currently terms Self-Made—that is, who severally fought their life-battles without the aid of inherited wealth, or family honors, or educational advantages, perhaps our American Franklin stands highest in the civilized world's regard."

The *Autobiography* inspired Thomas Mellon to leave his farm for business; he became a banker and made his family fortune. "I regard the reading of Franklin's *Autobiography* as the turning point of my life," he wrote. "Here was Franklin, poorer than myself, who by industry, thrift and frugality had become learned and wise, and elevated to wealth and fame." The *Autobiography* inspired steel entrepreneur Andrew Carnegie. Harvard University President Jared Sparks told how the *Autobiography* "first roused my mental energies . . . prompted me to resolutions, and gave me strength to adhere to them.... It taught me that circumstances have not a sovereign control over the mind."

Mark Twain noted Franklin's influence on millions. Savings banks across America were named after Franklin. Altogether, reported American historian Clinton Rossiter, Franklin's *Autobiography* has been "translated and retranslated into a dozen languages, printed and reprinted in hundreds of editions, read and reread by millions of people, especially by young and impressionable Americans. The influence of these few hundred pages has been matched by that of no other American book."

But as individualism fell out of fashion, intellectuals belittled personal responsibility and self-help. For instance, novelist D.H. Lawrence in 1923: "The soul of man is a dark vast forest, with wild life in it. Think of Benjamin fencing it off! . . . He made himself a list of virtues, which he trotted inside like a gray nag in a paddock.... Middle-sized, sturdy, snuff-coloured Franklin.... I do not like him." In recent decades, some professors focused on his personality, claiming the *Autobiography* was an elaborate pose, covering up the allegedly "hidden" Franklin—complex, elusive, secretive, intriguing. One professor talked about Franklin's "dark side."

But none of the critics deny that Benjamin Franklin achieved stupendous things. He championed personal responsibility, intellectual curiosity, honesty, persistence, and thrift—principles that have helped people everywhere lift themselves up. He nurtured an entrepreneurial culture which creates opportunity and hope through peaceful cooperation. He affirmed that by improving yourself and helping your neighbors you can make a free society succeed. His most glorious invention was—and is—the American dream. □



Free Marketers Miss Opportunity at AEA Meetings

"People saved more and we had a recession in 1990."

—Olivier Blanchard

"A reduction in the federal deficit is short-term expansionary."

—Alan Blinder

The two statements above, made on January 7, 1997, at the American Economic Association meetings in New Orleans, contrast the "old" and the "new" visions of economic policy.

MIT professor Olivier Blanchard, reflecting old-style Keynesian thinking, blamed the 1990–1991 recession on excessive saving instead of higher taxes and tight money.

Alan Blinder, Princeton economist and former Fed official, represented new classical thinking when he declared that increased deficit spending was bad for the economy and that a deliberate policy of cutting the deficit was expansionary because it would mean a decline in interest rates. Keynes must be turning over in his grave!

Both statements were made at a well-attended meeting titled, "Is there a core of practical macroeconomics that we should all believe?" The participants were all mainstream economists from established institutions, yet they could not agree on many fundamental issues. Blanchard (MIT) was anti-saving and John Taylor (Stanford) was pro-saving. Some said the Phillips trade-off between inflation and unemployment was real, others said it was chimera. Supply-side economics was not represented. No one advocated tax reduction in an age of high tax burdens.

The debate could have been much more lively if the organizers had invited economists from outside the mainstream, such as Marxists and Austrians. But in most cases unorthodox thinkers are not invited to the sessions sponsored by the AEA. What to do? Most outcasts offer their own programs, side by side with the regular AEA sessions.

Where Were the Free-Market Advocates?

The Marxists are particularly well organized—the Union for Radical Political Economists sponsored over 30 sessions of their own. The "Growth and Gender" session was especially unprecedented: All five members of the panel were from the University of Utah's economics department, which has apparently been taken over by Marxists. Imagine, a Marxist revolution in the center of conservative Utah!

Why the free-market schools don't offer their own agenda at these national meetings is a mystery. The Society for the Development of Austrian Economics has its own program at the annual meetings of the Southern Eco-

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nomic Association; why not sponsor sessions at the annual AEA meetings? In the exhibit hall, where thousands of academic economists mingle and search for alternative books and materials, there were hardly any representatives of free-market economics. The American Enterprise Institute was there, but that was about it.

My Debate with Paul Samuelson

Quite by accident, I ran into Paul Samuelson, the famed MIT economist and Nobel Prize winner. We had recently been corresponding over an article I wrote entitled, "The Perseverance of Paul Samuelson's *Economics*." It is a rather unfriendly review of all 15 editions of Samuelson's famed textbook. (The article, along with a rebuttal by Samuelson, appears in the Spring 1997 issue of *The Journal of Economic Perspectives*.) I accuse Samuelson of, among other things, an anti-saving mentality. But Samuelson denied the charge, saying that he regularly appeared before Congressional committees advocating a higher saving rate to stimulate economic growth. In response, I said it was too bad he didn't inform his students of his views in his textbook. Instead they got the "paradox of thrift."

What Will Stimulate Long-Term Growth?

One of the more interesting sessions I attended was a discussion about the 50th anniversary of the Employment Act of 1946. Murray Weidenbaum (Washington University) and Martin Feldstein (Harvard) represented the free-market viewpoint, while Robert Eisner (Northwestern) represented the Keynesian approach. Andrew Brimmer, a former Fed official, chaired the panel.

The Employment Act of 1946 established three economic policy goals: full employment, stable purchasing power of money, and economic growth. Most of the panel agreed that all three policies had been achieved in the 1990s—employment was dynamic and growing, inflation was low, and recession had been avoided. However, there was an uneasy feeling that economic growth could be substantially higher than the current 2–3 percent rate. In a recent *Business Week* column (September 2, 1996), MIT professor Rudi Dorbusch advocated two structural reforms in the United States that would substantially increase economic growth: privatize Social Security and privatize education. I asked the panelists what they thought of these proposals. Surprisingly, everyone on the panel except Eisner endorsed them.

The Dismal Science Comes to China

Most of the agenda at AEA meetings is pretty plain fare, although I encountered a few exceptions. One was a paper presented by K. K. Fung, who teaches at the University of Memphis. "Dying for Children" advocates the buying and selling of "birth rights" as a way of solving China's population problem. Each Chinese married couple would have the right to one child, plus an additional child if a parent or grandparent died. Or they could buy a birth right in the marketplace from an elderly Chinese who chooses to "exit early" (commit suicide). Accordingly, "hopelessly ill" grandparents would be encouraged to "exit early" in order to create another grandchild. According to Fung, suicide would then be viewed as beneficial—allowing a child to be born! Brigham Young University's Larry Wimmer, who presided over the session, called the paper "grim," a proposal that "sets families against parents and grandparents." It amounts to a "social program of euthanasia."

Apparently the dismal science has a long way to go before solving the world's problems. □

BOOKS

Business as a Calling: Work and the Examined Life

by Michael Novak

The Free Press • 1996 • 246 pages • $22.50

Reviewed by Raymond J. Keating

The relationship between economics, business, philosophy, and theology periodically received serious attention from the time of Adam Smith into the early twentieth century. Albeit with a handful of very valuable exceptions, this discussion unfortunately has been on a general decline ever since.

With his book *Business as a Calling: Work and the Examined Life*, Michael Novak offers one of these precious exceptions. Novak is a trained philosopher and theologian with a sound understanding of economics. In his introduction he notes the prevailing weaknesses in the two camps that at least supposedly ponder the mix of business, economics, and morality. He criticizes business and economics faculties for being "complacently concerned almost exclusively with *means* rather than with *ends*," and also observes that, "religious leaders speak inadequately about business—more so than about almost anything else they preach on." *Business as a Calling* attempts to fill some of the void left by both these camps.

Novak captures the ultimate and critical purpose of the business enterprise: "Business is about creating goods and services, jobs and benefits, and new wealth that didn't exist before." In contrast to today's predominant views, Novak illustrates clearly that business is neither morally bankrupt nor amoral. Instead, business is "a morally serious enterprise" that "requires moral conduct." Indeed, since he rightly identifies business as "the single largest institution of civil society" under the project of self-government, Novak concludes that the "moral health of society, therefore, depends to a great extent on the moral character of business leaders."

The author cites seven responsibilities of the business enterprise which spring from the ubiquitous nature of business as an economic association serving "the common good of the community": (1) satisfying customers with goods and services of real value, (2) earning a reasonable return on the funds entrusted to the business corporation by its investors, (3) creating new wealth, (4) creating new jobs, (5) defeating envy—which Novak correctly identifies as the ultimate destroyer of republics—by generating upward mobility and empirical evidence that hard work and talent are fairly rewarded, (6) promoting invention and ingenuity, and (7) diversifying "the interests of the republic."

Novak lists "seven further sets of moral responsibilities proper to the business worker as Christian or Jew": (1) establish a sense of community and respect within the firm, (2) "protect the political soil of liberty," (3) "exemplify respect for the law," (4) practice social justice as a social virtue, (5) communicate with investors, shareholders, pensioners, customers and employees, (6) make the surrounding community a better place, and (7) "protect the moral ecology of freedom."

All of these responsibilities can sound almost trite at first glance. But as described, discussed, and examined by Novak in *Business as a Calling*, they carry a great weight and deserve serious attention.

For example, Novak makes a very important Madisonian economic point as to why business is important to "the interests of the republic": "The sheer dynamism of economic invention makes far less probable the coalescing of a simple majority, which could act as a tyrant to minorities. The economic interests of some citizens are, in an important sense, at cross-purposes with the economic interests of others, and this is crucial to preventing the tyranny of the majority."

As for protecting the "political soil of liberty," the author sagaciously advises: "Since the survival of business depends on the survival of free institutions, the responsibilities of people in business include the need to build majorities well informed about the principles of free society." Many businesses take this responsibility quite seriously.

Business as a Calling can be appreciated for many reasons. This reviewer, though, was most satisfied by its understanding and explanation of individuals as creators, and that only the free-market economic system allows individuals to fully unleash their creative energies and abilities for the good of all. Religious leaders who too often look down upon the business vocation need to understand Novak's following point:

> The dynamism driving a capitalist system forward . . . is the virtue of creative initiative. The other side of that virtue is the responsibilities it imposes. Implicit in that dynamism is a commitment to make things better. The assumption behind it is that the Creator did not make the world finished but to be finished. His purpose in making women and men in his image was to draw them into his own creative work as co-creators.

Michael Novak proves to be far closer to the original concept of the economist as exemplified by Adam Smith, than are many of today's narrow economists who see economics as only dealing with aggregate demand theories or econometric models. Novak understands that economics ultimately is about human actions. □

Mr. Keating, as chief economist for the Small Business Survival Foundation, is the author of New York by the Numbers: State and City in Perpetual Crisis *(Madison Books, 1997).*

The Truth About the National Debt: Five Myths and One Reality

by Francis X. Cavanaugh

Harvard Business School Press • 1996 • 192 pages • $22.95

Reviewed by Robert Batemarco

"The last temptation is the greatest treason: to do the right deed for the wrong reason." In this book, Francis X. Cavanaugh, an astute former Treasury Department economist, applies these words of T. S. Eliot to most of the popular discussion of federal budget deficits. In using economic analysis like a bowling ball to mow down fallacious arguments, he leaves just one standing. And it is a non-fallacious one: the ability to run deficits lets politicians have "the pleasure of spending (getting votes) without the pain of taxing (losing votes). Without that discipline, federal spending is out of control." On the other hand, a budget which must be balanced forces legislators to ask the necessary questions before embarking on new projects: "Is it essential? Is it good for the country, for now and for the future: Should it be done by government or by the private sector?"

One of the virtues of this book is that it sees government spending as a burden regardless of how it is financed. The author makes clear that whenever the government acquires resources that could be put to better use in the private sector, it makes at least some of us poorer. Moreover, when it uses resources for consumption that would otherwise have gone for investment, it reduces future production possibilities as well. This focus on spending as the burdensome aspect of deficits demonstrates the absurdity of fighting deficits through tax increases. Whether government finances resource acquisition through taxes, selling bonds in the open market, or selling those bonds to the central bank in exchange for newly created money merely determines *which* of us it makes poorer.

This redistributionist aspect seems to underlie most of the arguments regarding the deficit the author sees as fallacious. Indeed, it seems to me that one of his blind spots is the failure to see an economic or moral problem with using state power to redistribute income. This causes him to repeat an old falsehood about the deficit—that, "we owe it to ourselves." (The phrase smacks of Keynesianism at its worst.) While he does not let aggregation run amok to the point of suggesting that "we" and "ourselves" are the very same people, he does give short shrift to the disincentive effects that result from the higher taxes needed to repay the debt, including the interest on it. He also fails to recognize the injustice of making future taxpayers pay for current government spending. He perceptively notes that deficits cannot literally shift resources from the future to the present. But he fails to mention that deficits do create a two-way redistribution (of present resources from bondholders to taxpayers, and of future resources from taxpayers to bondholders), which makes it seem that way from the taxpayers' viewpoint.

Still, for a man who spent his career in the government's employ and probably learned his economics at a time when Keynesianism ruled the roost, Cavanaugh steers clear of many of Keynes's pet notions. Thus, he denies in no uncertain terms that fiscal policy has any role to play in fine-tuning the economy. He also refutes the notion that full employment is necessary in order for government spending to crowd out private spending.

This is not to say that the author has completely risen above the "conventional wisdom." He repeats the silly notions that the Fed is concerned with fighting inflation, that inflation is caused by increased economic activity, and that the American people collectively own the government. He also suggests that there is such a thing as government investments that actually pay for themselves (while this is not a logical impossibility, my guess is that it would be harder to find than kind words for socialism in *The Freeman*).

On balance, this book makes a valuable contribution to our understanding of a crucial subject. By shifting the emphasis from deficits to government spending as the problem, it should reduce the appeal of tax increases as a solution. Or at least it would in a more rational world. □

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Slouching Towards Gomorrah: Modern Liberalism and American Decline

by Robert H. Bork

ReganBooks/HarperCollins • 1996 • 382 pages • $25.00

Reviewed by Jessica Schupak

Robert Bork's *Slouching Towards Gomorrah* thoroughly chronicles how modern liberalism has corrupted American culture and set the country on the road to moral chaos. In the 1960s the Left developed its two main tenets: radical individualism and radical egalitarianism. The first describes the decreasing limits individuals place on personal gratification, and the second refers to the growing emphasis on equality of outcomes rather than opportunity. Together they have formed the new religion of the Left.

It is logically impossible to be both a radical individualist and a radical egalitarian. In trying to do so, the Left has become what Harold Rosenberg termed the "herd of individual minds." It recommends a leveling of income not out of genuine compassion for the poor, but an aversion for the successful. As Bork observes, liberals are driven not by what they lack, but what others have. Their strategy has been to vilify the rich, in an attempt to stop anyone from attaining such status. It is, after all, easier to arrive at the Left's utopia by preventing success than by engaging in mass redistribution of wealth.

Likewise, as Bork notes, liberals are opposed to any real achievement in academia. Self-esteem overrides learning not only in the Ivory Tower, but in elementary and secondary education as well. Learning also succumbs to politics as universities disparage Western civilization, and academic bankruptcy and political correctness plague their curricula, perpetuating facets of liberal ideology such as radical feminism and Afrocentrism, not to mention blatant historical inaccuracies like the myth of the "robber barons."

Such revisionism comes without remorse. The Left, having renounced any claims to objective truths, embraces moral relativism and eschews institutions that once defined moral constraints on liberty, including religion, family, and community. Consequently, it ignores fact for political expediency—in this case, that laws indeed impose a morality and that a public morality is both unavoidable and necessary.

Liberalism, asserts Bork, is incompatible with true democracy because it seeks to concoct conditions that no individual would actually desire. In fact, the radical egalitarian element of liberalism is necessarily statist because it cannot be implemented and enforced by any entity other than the government. Bork cites Alexis de Toqueville's observation that Americans are more obsessed with equality than freedom, and notes that this misguided prioritization did not pose a threat to liberty until the twentieth century. Liberals now view inequality of income as one of the most pressing issues that need attention and rectification—by politicians, of course.

Bork does an excellent job relaying the components of America's cultural demise. He lacks solutions, however, and many of those he does offer are dubious, such as his proposal for a constitutional amendment allowing Congress to override state and federal court decisions. More disappointing is his unadulterated pessimism about America's cultural future. He dismisses the popular conservative theory that because modern liberalism is predicated on intellectual dishonesty and moral nihilism it will fail on its own. Instead he proposes that only an unlikely "optimism of the will" can divert America from the highway to Gomorrah. Judge Bork gives liberalism too much credit. □

Miss Schupak is a junior at Tufts University in Medford, Massachusetts.

The Last Monopoly: Privatizing the Postal Service for the Information Age

edited by Edward L. Hudgins

Cato Institute • 1996 • 140 pages • $9.95 paperback

Reviewed by William H. Peterson

"Private Postal Service in the 21st Century." That was the brave title of a 1995 Cato conference seeking privatization of the vast vertically integrated, largely unionized 800,000-employee U.S. Postal Service.

The USPS fights back. Its newspaper ads trumpet the claim that it gets not a dime of federal subsidies. Oh. Edward Hudgins, Cato director of regulatory studies and editor of this volume of conference papers, begs to differ. He points to federal support of some $1.2 billion, mainly to offset revenue forgone by federally mandated free or reduced-rate mail such as Congress's franking privileges. Still, with annual revenues at about $56 billion, that two percent or so of federal support seems not too tiny.

Hudgins also takes note of many indirect subsidies. He observes, for example, that the Postal Service is virtually tax-free, gets preferential federal borrowing treatment, and has billions of dollars of unfunded pension liabilities backed by Uncle Sam. Too, the USPS boasts monopoly power dating back to the private express statutes of 1845. This power has long enabled the post office to raise its prices, have a grip over all residential and company mail boxes, and allow no competitors on its exclusive turf.

Today, however, the Information Age intrudes more and more on this slipping monopoly via faxes, E-mail, Internet, telephone calls, electronic check deposits, and overnight delivery couriers such as United Parcel Service and Federal Express.

A key argument for maintaining the USPS monopoly is that it is "a natural monopoly," so competition would fragment its ability to serve the public. Conferee-economist Thomas J. DiLorenzo of Baltimore's Loyola College disagrees. He views the natural monopoly idea as a fiction. Why? He says that prices are not set by historical costs but by the interplay of supply and demand, that a free-market monopoly is an oxymoron because competition is a discovery process of dynamic rivalrous entrepreneurship.

DiLorenzo notes, for example, that California and other states are transforming the regulated electric utility industry of fixed-area franchises into a free market of price-cutting interstate and intrastate competition. He also sees that while cable TV operators complain of "duplication" and accordingly win franchise monopolies, prices tend to fall fast whenever new operators break into local franchises.

So, is USPS "the last monopoly," as claimed in the title? Maybe. One proposed congressional bill would create the world's largest ESOP or employee stock ownership plan and transfer the entire Postal Service to its 800,000 employees. They would get comparable retirement benefits and a spur to control costs and raise productivity. Postal unions show some interest, even if after a five-year grace period their industry would be open to all comers.

For his part, conferee-U.S. Postmaster General Marvin T. Runyon rejects the proposal. Mr. Runyon asserts that universal mail service must be "backed by the full faith and trust of the U.S. Government." He calls for "the right amount of deregulation" that will allow the USPS to "compete on an equal footing with other couriers and alternative communication."

But what's meant by "the right amount" and "equal footing"? Enter politics. Or will uninhibited competition with its cleansing action be at last allowed to enter the postal industry? In a sense, it already has, if imperfectly. So shouldn't Congress act to privatize the USPS and avoid what Milton Friedman calls "the tyranny of the status quo"? □

Mr. Peterson, a Heritage Foundation adjunct scholar, is the Distinguished Lundy Professor Emeritus of Business Philosophy at Campbell University.

The Industrial Revolution and Free Trade

Edited by Burton W. Folsom, Jr.

The Foundation for Economic Education • 1996 • 178 pages • $14.95 paperback

Reviewed by Gene Smiley

By the mid-1800s, socialists had initiated an attempt to show that the industrial revolution and concomitant rise of free trade had worsened the lives of British workers. Great Britain's adoption of free trade internationally with the repeal of the Corn Laws in 1846 only made detractors more determined to show that a society built on private property and free exchange did not improve the general lot of workers. For years historians taught this as fact. But modern scholarly research has shown that this simply was not true.

Unfortunately, myths tend to persist. Some contemporary historians continue to believe and teach that the industrial revolution harmed, rather than helped, workers. Government officials and others, not understanding the true nature of the industrial revolution of the last half of the eighteenth and first half of the nineteenth centuries, continue to call for restrictions on internal and international trade to improve the well-being of their citizens. These individuals would do well to read the collection of essays, primarily from *The Freeman*, that Burton W. Folsom, Jr., has assembled in this volume.

The book is divided into three sections: "Theories and Theorists," "The Industrial Revolution and Its Consequences," and "The Case for Free Trade." In the first essay on theory, Murray Rothbard points out the similarities between mercantilism and Keynesianism and then describes a number of the restrictive practices that mercantilists employed which were incompatible with the industrial revolution and free trade. John Montgomery's essay on Adam Smith describes how *The*

Wealth of Nations undermined the legitimacy of mercantilism and led to the development of a science of economics focused on freedom and free trade. Smith provided the intellectual foundations and legitimacy for the industrial revolution already underway in Great Britain and for the breaking down of trade barriers. Nick Elliott's and John Chodes's essays on John Bright and Richard Cobden describe two individuals at the center of the movement toward free trade in nineteenth-century Britain. They focus on Bright and Cobden's successful battle for the elimination of restrictive British trade practices, most importantly the cessation of the Corn Laws. Henry Hazlitt's essay describes how Marx took the labor theory of value from Smith and Ricardo and developed it into a theory of the exploitation of the worker. It was the development of the theory of marginal productivity that overturned the labor theory of value and strengthened the case for capitalism and free trade.

The essays in the second section of the book examine the nature and consequences of the industrial revolution. Ludwig von Mises points out that the true facts about the industrial revolution show that the rise of the British factory system improved the lives of the workers who came to the factories and created cheap goods to improve the lives of people in general. It was not the case that government interference brought about these improvements. Lawrence W. Reed shows that the problem with child labor was one of apprentices in the custody of parish government officials, not free voluntary labor. F. A. Hayek makes it clear that the industrial revolution began in the eighteenth century and was probably a by-product of the increased freedom brought about by seventeenth-century limitations on government power. Any deplorable conditions in the Midlands manufacturing populations of the 1830s and 1840s cannot be attributed to the industrial revolution.

Although many Christian leaders seem to deplore capitalism, James Gwartney argues that Christians would do well to defend an economic system that "reinforces Christian virtues, improves living standards, and provides for minority views." James Robbins describes how capitalist technology saved the whales, while Stephen Gold shows that the improvements brought about by capitalist market developments facilitated the decline of infectious diseases. Bettina Bien Greaves argues that the true liberation of women was brought about by the market advances and economic growth of capitalist societies. George Winder shows how Ferdinand de Lesseps struggled to privately build the Suez Canal against the desires of the most powerful government in the world, and how government support was only forthcoming after the canal had demonstrated its profitability and importance to world commerce. Robert A. Peterson argues that Hong Kong, Southeastern Asia's jewel of capitalism, is further demonstration of the importance of free-market economics.

The final section of the book presents essays that make the case for free trade. Donald Billings and Ellis Lamborn consider the arguments for subsidization and protection of domestic industries against foreign competition. They cite Frederic Bastiat's satiric plea to the French government in 1846 to protect French producers of lighting and lighting equipment from the sun. Steven Daskal argues that free trade inevitably brings prosperity and needs to be applied on a global scale. Thomas J. DiLorenzo demolishes ten common myths that politicians have used to justify protectionism. Hans Sennholz explains how protectionism does not reduce unemployment, while John Finneran recounts how the Irish potato famine helped Robert Peel's government end the Corn Laws. Jo Kwong explains how free trade and environmental concerns are not antagonistic and S. J. Cicero takes a closer look at "dumping" as a justification for protectionism. In the final essay, Mark Skousen points out that even though some producers may have benefited from recent protectionist moves by the government, consumers on the whole were harmed. He argues that a far better way to provide relief for domestic businesses would be to give domestic tax and regulatory relief to them. Imagine, says Skousen, the economic growth that would ensue with reductions in corporate income and capital gains taxes and with reductions in red tape and streamlined regulations.

Overall this is an excellent set of essays which I highly recommend to anyone who wishes to learn more about the interrelationships between the industrial revolution, the freeing up of trade, and the market system. □

Professor Smiley teaches economics at Marquette University.

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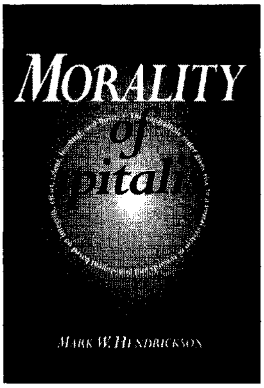

THE MORALITY OF CAPITALISM

Edited by Mark W. Hendrickson
Introduction by Hans F. Sennholz

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

—HANS F. SENNHOLZ (from the Introduction)

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

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

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