THE FREEMAN

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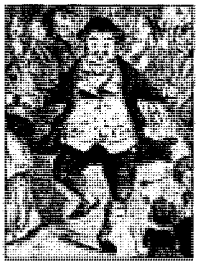
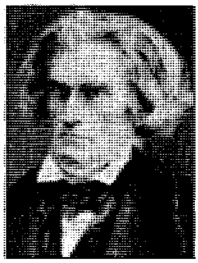
FEATURES





COLUMNS

DEPARTMENTS

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PERSPECTIVE

5,999,999,999 and Counting

Sometime this fall the world's population was estimated to have reached six billion. The U.N. Population Fund, which "knows" precisely how many people there should be in the world, also "knows" precisely what day the world hit six billion: October 12.

In fact, no one knows precisely how many people there are on earth. One would have to have an exaggerated confidence in the record keeping of governments to make such a claim. How reliable are the records—birth and death—of, say, Rwanda?

The Population Fund's perennial campaign to scare us about the number of people is another unfortunate use of taxpayers' money. On its face the number six billion says nothing. In context it says nothing disturbing. The population's rate of increase is slowing markedly. Fertility rates have been falling for decades. According to MSNBC, "Since 1992, the United Nations has had to push back its 6 billion estimate by almost two years."

The Population Fund and its brooding boosters such as Paul Ehrlich and Lester Brown have been predicting disaster from population growth for decades. No set of predictions has been more forcefully falsified. Even Alex Marshall of the Population Fund had to concede that "No one in history thought it would be possible to reach this number with an intact planet; they predicted ecological collapse, famine, and nuclear war, but we are doing rather well and that's an achievement." Marshall is apparently unfamiliar with the work of P. T. Bauer, Julian Simon, and others.

Marshall could not resist adding: "But the other side is that so many people are living in desperate poverty and the population is still growing, mostly in the poorest countries to the poorest families." In fact, people in most places are living longer, healthier lives than ever before. The population grows because the death rate falls.

One of the myths too many of us live by is that people cause poverty. This is worse than wrong. Poverty needs no cause or explanation.

It is wealth that must be explained. And by now we should know the cause of that: people!—more precisely, free and enterprising people living in a regime of private property.

Thus it is interference with private property, not population growth, that should be the cause of concern.

* * *

The countdown to the triggering of the infamous "Y2K bug" nears the zero hour. Whatever happens at midnight on the 31st, there is no gainsaying that people have spent a lot of money to make sure that computers and embedded chips read "00" as "2000" and not "1900." Was it the work of dunderheads that necessitated all the expense, effort, and worry? Or is it only hindsight that permits condemnation of the programmers of decades ago? Bill O. Reitz puts himself in their place.

Ebenezer Scrooge is the Christmastime figure people love to despise. The oddly self-centered man who spent no money on himself is often taken as a foil for anticapitalism. But is Dickens's *A Christmas Carol* really a brief against free markets and for the welfare state? Daniel Oliver goes to the text to examine this question.

The term "states' rights" got a bad reputation because it was identified with slavery and later legally enforced segregation. Yet as Gene Healy argues, if one safeguard of liberty is the fragmentation of political power, then "states' rights," however unfortunate the name and some of its past applications, deserves another look from classical liberals.

Fans of activist government admire America's quiet neighbor to the north for its "enlightened" public policy. In the interest of multiculturalism, Monte Solberg provides a tour of Canada's political milieu.

What happens when the free market displaces central economic planning? James Madison strolls through Prague and samples the fruits of international investment.

Government regulation of business is sometimes mocked for its waste and occasional outright silliness. But the regulatory machine chugs on undaunted. Michael Catanzaro shows the myriad ways that regulation is bad for everyone's prosperity.

By now it's an old saw: no one takes care of someone else's property the way he takes care of his own. George Leef found a super-sized illustration of this principle: the North Carolina university system.

Economics is everywhere, even in the choice to go to the movies rather than stay home and read a book. Ninos Malek explores some of the economics of everyday life.

Economically, China was once among the most virulent of communist countries. Over the last 20 years some market reform has taken place. But Christopher Lingle shudders to think of that country's next economic phase: old-fashioned Keynesianism.

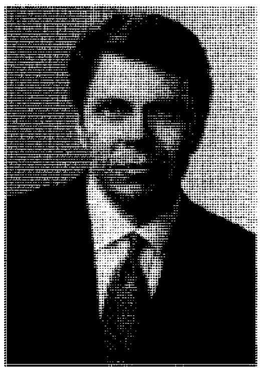
People sometimes let their language fool them, as when they attribute features of individuals to groups. Mischief can come from such imprecision, as Tibor Machan demonstrates.

In columns this month, Donald Boudreaux dismantles statist slogans; Lawrence Reed reflects on the difference between government and everything else; Doug Bandow scrutinizes the Korean peninsula; Dwight Lee explains protectionism; Mark Skousen probes Robert Heilbroner's biases; and Russell Roberts wonders if people get the politicians they want. Richard Timberlake reads a newspaper article claiming that the Federal Reserve sets interest rates and protests, "It Just Ain't So!"

Our book reviewers chew over works on the philosophy of individualism, the libertarian-conservative divide, foreign interventionism, the diet gendarme, the New Deal, and the relationship between politics and culture.

—Sheldon Richman

by Donald J. Boudreaux



Unfettered Powerful Extremes

Over the years, intelligent and well-meaning opponents of private property and free markets have offered thoughtful and articulate arguments in support of government intervention. None of these arguments have withstood close scrutiny, but at least they were offered in the spirit of honest debate. Such arguments, even though deeply flawed, never infuriate me. Not so with a far-more-common mode of criticizing the market, namely, tossing out slogans. Three of these anti-free-market slogans are particularly galling.

Is Capitalism "Unfettered"?

The first is "unfettered capitalism" (or "unfettered free markets"). Opponents of laissez faire love this one because it so obviously describes an economic system that no reasonable person endorses. So, before I go on, let me declare without qualification: I, too, oppose unfettered capitalism.

The trouble with this slogan is that capitalism, by its very nature—by the fact that it is the product of a system of private property rights—is necessarily constrained. Capitalism is internally and inexorably fettered. To the extent that a society is capitalistic, no one in that society can coercively or fraudulently harm others. Everyone is restrained from violating the equal rights of others.

Consider, for example, Michael Dell, founder of Dell Computers. He earned an impressive fortune by producing affordable computers that consumers voluntarily purchase. Like everyone in a capitalist system, Dell was and remains quite constrained by the rules of private property. Had he produced lousy machines, or had he stubbornly priced his machines so high that too few consumers bought them, he would today be in some less-lucrative line of work. Dell is emphatically fettered by the ability of consumers to spend their money as they see fit, along with the ability of other entrepreneurs to compete with him.

Indeed, central to the economic and ethical case for laissez faire is the recognition that it is the *only* system that provides adequate and appropriate fetters. One of the great benefits of private property and voluntary exchange is that, because no one is compelled to engage in any exchange, all exchanges that do take place are believed by all parties to them to be beneficial.

The ability *not* to exchange—what Boston University law professor Randy Barnett calls "freedom *from* contract"—is an enormously effective fetter protecting the weak from the strong.[1] And only under laissez faire is everyone's freedom *from* contract (along with the freedom *to* contract) consistently respected.

Does Capitalism Favor "The Powerful"?

Reflecting on freedom from contract allows us to dismantle another popular slogan, namely, that "markets favor the powerful over the

Donald J. Boudreaux is president of FEE.

weak." Indeed private property rights eliminate the distinction between "powerful" and "weak." In a market economy, some people are wealthier than others, but no one exercises power over others. Although Bill Gates's wealth is about 600,000 times greater than my own, he has no more power over me than I have over him. If he wants my car, he cannot have it unless I agree to sell it to him. He cannot imprison me, shoot me, or enslave me. He cannot tell me what to eat or drink or with whom I may be intimate. He cannot tell me how to educate my son, or how I may earn a living. It's true that if I want to use Microsoft software I must first buy it from him, but so, too, must he buy from me anything that he wants which I own. We are both free not to contract with the other. It would be perverse to assert that Bill Gates has "power" because he is unusually talented at producing products that please consumers.[2]

A person (or an institution) is powerful only insofar as he can use authorized force to compel others to act against their wills. Only the state has such power. This fact is why the further we move toward laissez faire, the smaller is the scope for the truly powerful—those with political authority—to dominate others. At the laissez-faire limit, all power is eliminated.

Is Laissez Faire "Extreme"?

The third galling slogan is that those of us who consistently champion laissez faire are "extremists." "We must strike a balance between the state and the market," the refrain goes. "Laissez-faire proponents such as Milton Friedman, F. A. Hayek, and Ludwig von Mises are extremists."

Wrong.

The fact is, laissez faire *eliminates* extremes and extremists. That's one of its principal virtues. The greater the scope of the market, the less likely there will be extremes and extremists.

Compare the relationship of one market participant to another with that of the state to its subjects. On the market, farmer Jones can get Ms. Smith's money only by offering her something that she values. Each party to the exchange gains; no one is harmed and no one carries away all of the benefit. If farmer Jones seeks to be an extremist—say, if he asks Ms. Smith to pay $1,000 per bushel of his corn—Ms. Smith walks away. Ms. Smith's freedom not to contract with farmer Jones, along with her freedom to contract with other suppliers, ensures that farmer Jones will abandon his extremist position. Likewise, Ms. Smith cannot be an extremist. She might initially offer farmer Jones a mere one cent for each bushel of his corn, but farmer Jones need not accept. If Ms. Smith wants to buy corn from farmer Jones, she'll raise her offer; she'll abandon her extremist position.

Market prices balance the costs and benefits to all parties of producing and consuming. Extremes are avoided.

Suppose, though, that farmer Jones is so greedy that he isn't content to play by the rules of private property. So he successfully lobbies Uncle Sam for a higher, guaranteed minimum price for corn. The state might achieve this price hike by paying farmer Jones and other corn farmers to reduce their production, and by prohibiting upstart corn farmers from entering the market. Now we've got true extremism. Not only does the state stand ready, ultimately, to kill anyone who insists on doing nothing more heinous than selling corn at prices lower than the dictated minimum, but farmer Jones need no longer bargain with Ms. Smith. If Ms. Smith isn't content to pay the state-enforced minimum price, too bad for her. She remains free not to buy the corn (except insofar as her taxes are used to subsidize corn farmers!), but she may not now bargain with other farmers for a lower price. Government intervention favors corn farmers with a disproportionate—we might say "extreme"—advantage.

Beware of slogans. They are verbal camouflage for weak arguments. □

1. For a more elaborate explanation, see Barnett's impressive and important book *The Structure of Liberty* (New York: Oxford University Press, 1998).

2. The popular belief that Microsoft's current large market share is due to monopolistic practices, network effects, or inefficient "lock-in" has been convincingly exploded in the fact-laden book by Stan J. Liebowitz and Stephen E. Margolis, *Winners, Losers, and Microsoft* (Oakland, Calif.: The Independent Institute, 1999).

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The Fed Sets Interest Rates?

It Just Ain't So!

Newspaper headlines across the country on July 1 provided some bad news for consumers: "Fed moves to raise interest rates." Associated Press writer Martin Crutsinger explained:

"The Federal Reserve raised interest rates for the first time in two years . . . nudging borrowing costs higher for millions of American consumers and businesses. . . . At the conclusion of two days of closed-door discussions, Fed policy-makers said they were increasing the target for the federal funds rate, the interest [rate] that banks charge each other on overnight loans, from 4.75 to 5 percent. The Fed said in a statement that it felt the need to be 'especially alert to the emergence, or potential emergence, of inflationary forces that could undermine economic growth.'"

"When the economy is growing at a rate the Fed believes is too fast," Crutsinger advised his readers, "it raises interest rates to slow spending on big-ticket items such as homes, autos and appliances."

How It Works

Every householder and businessman can relate to an interest rate. They see it as contributing to the cost of the monthly mortgage payment and the payment owed the bank for a business loan. So everyone has some idea that the Fed occasionally cranks up its interest-rate machine, which it keeps in a crypt in the basement of the Federal Reserve Bank of New York, to raise or lower rates. But how does that infernal machine work? Who follows the blueprint, manipulates the levers, and chants the rites to implement an interest-rate change? Let's peek into the basement of the bank and see what goes on there.

I do not have Superman's X-ray vision, but I am certain beyond any doubt that neither the Fed Bank of New York nor any other Fed institution has an interest-rate machine. Nevertheless, the popular belief, as emphasized by the newspaper headline "Fed moves to raise interest rates," must have some foundation in fact. So in what sense did the Fed "raise rates"?

What the Federal Reserve does have is a powerful moneymaking machine that operates through the offices of its New York bank. In activating this machine to raise rates, the Fed's decision-making board, the Federal Reserve Open-Market Committee (FOMC), issues a directive to the bank's account manager to sell more or buy fewer government securities in New York's financial market. This time the directive was to buy fewer. Since the Fed is a major player in the government securities market, when it buys fewer securities it causes the price to fall and their interest rate to increase.

Unlike anyone else who buys something in markets, a Federal Reserve purchase is not made with old money but with brand-new money. *The Fed creates the means of payment.* If the seller of the securities wants cash, the Fed uses its authority to print new Federal Reserve notes. If the seller wants a check, the Fed account manager has the authority to issue one that becomes new bank reserves when deposited. Since the Fed creates new currency and bank reserves to purchase government securities, the securities are perforce *monetized.* They are no longer outstanding debt, but by the alchemy of central banking have been converted into money. Likewise, when the FOMC sells securities or buys fewer than it had been buying, as in this case, the quantity of money in the economy is reduced or its rate of increase is slowed.

The action on July 1 called for the account manager to buy fewer securities until the Fed funds rate rose from 4.75 to 5 percent. "Fed funds" are the loans banks make to each other for a 24-hour period. Some banks need extra reserves, others have excess reserves. The Fed funds market resolves these asymmetries. Since Fed funds are an important segment of the reserves commercial banks need to carry on their lending and investing business, any central bank action that constrains reserves raises that particular interest rate.

Monopoly Power Over Money

The answer to the question posed above, therefore, is: the FOMC can raise this one short-term interest rate—the Fed funds rate—for a few days. Its means for doing so, however, is its monopoly power to increase or decrease the economy's stock of money, not any device that directly alters market interest rates.

Let's see what happened to other interest rates.

The Federal Reserve Bank of St. Louis publishes weekly a newsletter, *U.S. Financial Data*, which furnishes week-by-week accounts of the U.S. economy's monetary and financial data over the most recent 15 months. According to the July 22 issue, the Fed funds rate duly recorded an uptick on July 1 following the FOMC's action. Most other rates, however, did not follow suit. Corporate AAA bond rates hit a low point in January 1999, rose 100 basis points (1 percent) to June 25, and *fell* 20 basis points in the weeks after the Fed "raised rates." Tax-free municipal bonds, which show little interest-rate movement, had risen slightly since October 1998. After the July rate "hike," their rates too showed a slight decline. Rates for 30-day commercial paper, loans made by nonfinancial companies, were flat for the first six months of this year, rose slightly in June until the rate "hike," then showed a downtick. Thirty-year Treasury rates hit a low spot in October 1998 and rose constantly (about 100 basis points) until the rate "hike." After that, they too declined.

The AP report included charts of interest rates on mortgages and Treasury bonds that showed significant increases in rates since the autumn of 1998. So how could the AP claim that the "Fed raised interest rates" on July 1, when most rates had been rising since the previous October and several rates fell after the rate "hike"? Their report was not an example of valid news but of "economically correct" journalism.

Traditional economics properly teaches that many complex market forces—countless investment and savings decisions not dependent on monetary factors—are essential in determining interest rates. The Fed funds rate that Fed policy can influence through its monopoly over the quantity of money is inconsequential in shaping most short-term and long-term rates in capital markets, unless that moneymaking power subsequently promotes a pervasive price inflation.

Federal Reserve policy is responsible for the quantity of money—cash and bank deposits—that all households and business firms have in their possession at any moment. Furthermore, all severe price inflations and contractions (such as the one from 1929 to 1933) result from excesses or deficiencies of central bank money. All of which means that the Fed's current role in "fighting inflation" amounts to nothing more than undoing things it should not have done in the first place.

By controlling the basic stock of money in the U.S. economy, Fed policy determines the general level of prices. And for a fleeting moment through its control over the money stock, the Fed may influence a few short-term interest rates. But the media claim that the "Fed moves to raise [or lower] interest rates"? It just ain't so. □

—RICHARD H. TIMBERLAKE
Contributing Editor

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Why Y2K?

by Bill O. Reitz

We are fast approaching that fateful day, January 1, 2000. Whether the much-debated Y2K problem will come in with a bang or merely a whimper, only time will tell. But it is interesting to ask why we are in this situation today.

In a recent issue of *The Freeman*, Mark Skousen blamed the problem—which stems from storing dates with only two digits for the year—on a "classic . . . shortsighted blunder" based on "stupidity and incompetence."[1] I must take issue with his characterization. Managers, engineers, and even economists live in a world of imperfect information: we all do the best we can, given the information at hand. I believe that anyone who had to make the decision at that time would have invariably come to a similar conclusion. To call this an "error" is one thing; to blame it on shortsightedness, stupidity, and incompetence is quite another.

Certain important factors are missing from many analyses of Y2K, including the time value of money, the expected probability of a particular outcome, and the uncertainty about projections far into the future. These elements played such an important part in the Y2K decision, and its eventual impact, that they must be discussed further.

In the mid-1950s, computing power was far more expensive than it is today. Programmers of the time, and the managers they worked for, would have been accused of the height of arrogance had they claimed that the software they wrote would still be in use nearly half a century later, or that any decision they made would have any effect so far into the future. Most programmers expected that the life of their products would be a few years—ten at most—and that by the 1960s new software would be written to run on newer, better machines. Even the most arrogant among them would probably not have estimated more than a 1 percent chance that anything they did then would matter to anyone in the year 2000. In hindsight we know that it was the decision these programmers made about how to store data, and not the programs themselves, that would create the legacy known as the Y2K bug.

Moore's Law

If there is anything that is truly responsible for the Y2K predicament, it is Moore's Law, or more properly, the engine of human progress that Moore's Law describes. Gordon Moore, chairman emeritus of Intel Corporation, first observed the rapid improvement in computing power in 1965. At the time, he thought that power doubled every 12 months, but with better information he found 18 months to be more accurate.

The programmers of the original software did not have the benefit of Moore's data to draw on. Even if they had, they most likely would have thought there was a limit to how

Bill O. Reitz is a pen name for a west-coast electronics executive.

far computing power could expand—a wall, as it is called. (Moore himself has been recently quoted as saying that there is a wall.[2])

The implication of Moore's Law is that the cost of a megabyte of computer main memory (now a dollar or two) would have been a few billion dollars in the mid-1950s. Actually, the cost was closer to a few million, because the performance (which for memory is measured as access speed, or the number of times per second you can read or write a piece of data) was thousands of times slower. Because of the incredibly high cost of computers and their limited capabilities, even the most optimistic estimates of the time placed the total world market at a few hundred units. In hindsight we now know that this estimate was off by a factor of about a million. If it were not for this progress, the impact of the Y2K problem would be felt only by a few of the world's largest corporations and government agencies, and its cost would have been far less significant.

Even if these people had thought their decisions might have consequences so far into the future, they would have had to discount the expected value of such a future expense by the time value of money—a factor of around 100 at a discount rate of 10 percent. If we say that the total cost of fixing the Y2K bug is $1 trillion, we see that the expected present value to those programmers and managers would have been $100! Even this improbable result would have been weighed against the present and very real cost of including the extra digits in the databases of the time.[3]

Whether anyone actually went through such an analysis we will probably never know. But if they had, the result was a foregone conclusion—based on the best information available at the time. To conclude that this was entrepreneurial error is simply inappropriate.

In the early days of computers, the central processing unit, or the CPU, used vacuum tubes for logic gates, and memory technology consisted of magnetic "drum" and "core." The engineers and programmers who developed the initial software containing the Y2K bug had probably never heard of three researchers working quietly in a laboratory off the beaten path at AT&T Bell Labs. Walter Brittain, William Shockley, and John Bardeen were developing what would become the transistor. After the first transistors were built, the first practical commercial application would require many years of research and development. One of the early adopters of transistors was Sony Corp., at the time a small, little-known, and struggling Japanese radio manufacturer trying to eke out a profit in the difficult years of rebuilding after World War II. While the big U.S. radio manufacturers were not particularly interested in transistors, Sony realized that they might allow miniaturization and portability. This insight certainly must rank with the greatest advances in the field of electronics, for no matter how clever an innovation is, it is worth nothing until someone uses it for something consumers will buy.

After the transistor was in production, computers also used it. Solid-state memory (as opposed to magnetic core memory) was theoretically possible but neither cost-effective nor size-competitive at that time. Advances in transistor manufacturing made the devices smaller, faster, and cheaper. One of the advances was an imaging process, whereby patterns were placed on the surface of a silicon wafer using photosensitive coatings. This made possible the production of thousands of transistors at once; but more important, it led to the next major advance in electronics.

The Integrated Circuit

An integrated circuit (IC) is a silicon wafer containing the patterns of several transistors, along with a connection pattern hooking them together in a circuit to perform a function.The first IC, built in 1958 by Jack Kilby of Texas Instruments, contained just one transistor and four other components. The first production IC, designed by Robert Noyce (later co-founder, with Gordon Moore, of Intel Corp.), contained eight transistors and eight resistors. The first microprocessor, the Intel 4004 in 1971, used 2,300 transistors. Today's Pentium II has 7.5 million.

Moore's Law applies today primarily to the ever-decreasing scale of the patterns of ICs. The first IC used a "geometry," as it is called, of about 100 microns. This means that the size of the metal connections making up the transistors and wiring on the chip was about 100 microns wide, which is about 0.004 inch or the width of a human hair. While this sounds small enough, today's leading-edge microprocessors (CPUs) and memory ICs use geometry of 0.25 micron. This is 400 times smaller, but because ICs are basically two-dimensional, you can get 400 squared or 160,000 times as many transistors on the same piece of silicon as you could at 100 microns. The next generation of ICs will have 0.18 micron geometry, nearly doubling capacity yet again.

However, Moore's Law also applied to the cost of computing in the pre-IC days. Just as a wall was hit with one technology (say, vacuum tubes), another came along (the transistor or the IC) to make possible the continuing reduction in cost that has so greatly benefited mankind. Moore's statement that there is a wall in our future is conditioned on limits inherent in the continual reduction in scale of current IC processes. But who is to say that there will not be another technology to come along at that point—or earlier? One obvious possibility is to develop some sort of three-dimensional process for IC manufacture; people are working on this idea today.

Lost Opportunities

You will recall that the true cause of the Y2K bug was not actually the programs developed by the original team of programmers, but rather their decision to store the year with two, not four, characters. Recall also that there have been times when new software has been put into production over the last half century to take advantage of improvements in hardware capability and of software design.

While it is difficult to modify an existing program to use four-digit years, it is relatively simple to design a program that way from the start. New programs, however, had to be compatible with existing databases, which contained thousands or even millions of records representing vast value. It would not only be prohibitively expensive to re-enter these databases, but numerous errors would occur, which would have to be found and fixed, all adding to cost and causing disruption.

However, one issue that is often overlooked in this discussion is that it is relatively simple to write a program for an existing (two-digit) database and append a leading "19" to every date field, thereby converting it to a four-digit database. While these databases may be huge, they are very structured: every record has exactly the same format. The dates are always in the same place, and adding a couple of characters to each record would be relatively easy.

So why didn't this happen? As the '70s, '80s, and then '90s came upon us, the problem was understood by many. The old justification for two-digit years (cost of memory) was no longer valid. Why, other than the natural human tendency to procrastinate, was this simple change not made? Perhaps it was because multiple programs used the same databases and they couldn't all be updated at once. I don't know the answer to this question, but if the Y2K problem turns out to have consequences as dire as some predict, it will be a question that many will wonder about.

If there is any blame to be placed in all of this, surely it does not rest on the shoulders of those who, nearly half a century ago, used their best engineering and management judgment to make what seemed then to be a simple decision. It lies, instead, with the inevitable shortcomings of making decisions based on imperfect information. Let us hope that our descendants will be more generous with us when they examine the effects of our work in the year 2050. □

1. Mark Skousen, "Y2K and Entrepreneurial Error," *The Freeman*, March 1999.

2. Gordon Moore, Intel Developer Forum, September 30, 1997, as quoted by Michael Kanellos, CNETNews.com.

3. The calculation goes like this: $1,000,000,000,000 divided by one million multiplied by 1 percent and divided by 100 equals $100. One million is for the greater number of computers now in use than were expected; 1 percent for the likelihood that the programmers' decisions would affect us today, and 100 for the time value of money at 10 percent.

Reclassifying a Classic

by Daniel T. Oliver

For a century and a half, *A Christmas Carol* by Charles Dickens (1812–1870) has been read and reread, told and retold, performed and reperformed. Written in 1843, it is the best-known and best-loved Dickens tale. We all know the story. Or do we?

Many people, both fans and critics of Dickens, believe *A Christmas Carol* disparages free enterprise through its portrayal of Ebenezer Scrooge—the "squeezing, wrenching, grasping, scraping, clutching, covetous" miser. Many also think the story, through its depiction of nineteenth-century poverty, was meant to persuade readers to support a welfare state. Yet both these assumptions are mistaken, as a careful reading of the story shows.

Scrooge's character defect is not so much greed as miserliness. He hoards his money *even at the expense of personal comfort.* While many remember the single lump of coal that burns in the cold office of his assistant Bob Cratchit, the fire in Scrooge's own office is described as "very small." Scrooge lives in three sparsely furnished, dingy rooms and has no live-in servants, though he could easily afford them. At one point, Scrooge's nephew Fred remarks that his "wealth is of no use to him. He doesn't do any good with it. He doesn't make himself comfortable with it. He hasn't the satisfaction of thinking—ha, ha, ha!—that he is ever going to benefit us with it."

Dickens gives us no reason to believe that Scrooge has ever been dishonest in his business dealings. He is thrifty, disciplined, and hard-working. What Dickens makes clear is that these virtues are not enough. This becomes apparent when the ghost of Jacob Marley, Scrooge's former business partner, visits him on Christmas Eve. Marley's ghost must forever roam the earth, agonizing over acts of goodwill and kindness that the living Marley left undone: "My spirit never walked beyond our counting house—mark me! in life my spirit never roved beyond the narrow limits of our money-changing hole." Elsewhere the ghost laments, "Why did I walk through crowds of fellow-beings with my eyes turned down, and never raise them to that blessed Star which led the Wise Men to a poor abode. Were there no poor homes to which its light would have conducted *me*?"

That Dickens believes money-making, generosity, and a spirit of goodwill are compatible is evident in the character of Mr. Fezziwig, Scrooge's former employer. Transported back in time by the Ghost of Christmas Past, Scrooge watches the jovial businessman throw a lavish Christmas Eve ball for his employees, relatives, neighbors, and servants. Likewise, during Scrooge's walk home on Christmas Eve, Dickens describes profit-seeking merchants caught up in the spirit of Christmas: "Poulterers and grocers' trades

Daniel Oliver (doliver@smart.net) is a research associate at the Washington, D.C.-based Capital Research Center (www.capitalresearch.org) and a freelance writer. A version of this article originally appeared in the December 26, 1997, Wall Street Journal.

became a splendid joke; a glorious pageant, with which it was next to impossible to believe that such dull principles as bargain and sale had anything to do." Elsewhere, he remarks that "the grocer and his [employees] were so frank and fresh that the polished hearts with which they fastened their aprons behind might have been their own, worn outside for general inspection." Dickens even takes evident enjoyment in describing the cornucopia of items that shop owners have placed in their windows to delight passers-by—what some today would deride as the crass commercialism of Christmas: "great, round, pot-bellied baskets of chestnuts," "pears and apples, clustered high in blooming pyramids," "French plums blushed in modest tartness from their highly decorated boxes."

Nowhere in the story does Dickens endorse welfare. Rather, he suggests that charity and hard work in the business world are how best to combat poverty. Early in the story, two gentlemen visit Scrooge's office and ask him to contribute to a fund to buy food and clothing for the poor. Scrooge inquires whether "the Union workhouses" are still in operation. These composed the welfare system of the day, consisting of bleak facilities where the sick, aged, and poor sometimes went to break rocks or fashion rope in exchange for food and shelter. One gentleman replies, "I wish I could say they were not," adding that "many would rather die" than go there, since they cannot "furnish Christian cheer of mind or body." The two gentlemen clearly disparage these government institutions while trying to convince Scrooge, to no avail, that private charity is preferable.

Similarly, there is no suggestion that welfare would help the struggling Cratchit family—although more employment might. When Scrooge and the Ghost of Christmas Present visit the Cratchit household on Christmas Eve, Bob Cratchit mentions a possible business position for his eldest son, Peter, that would supplement the family's income. Again, when Scrooge and the Ghost of Christmas Yet to Come visit the Cratchit family, Cratchit excitedly relates that Scrooge's nephew Fred may help get Peter "a better situation" in business, to which Mrs. Cratchit and one of her daughters excitedly respond.

We all know how the story ends. Scrooge's life is spared, and he resolves to be kind and generous. During a walk on Christmas morning, he encounters the two gentlemen who visited the day before and promises to give a sizable sum to charity. He also encounters beggars. Interestingly, Dickens gives no indication that Scrooge gives to them. Rather, he "questioned" them, perhaps to find out what had brought them to their current state—misfortune or irresponsible conduct—so that appropriate support, whether material or moral, could be given.

After Scrooge's change of heart, he remains a businessman. He is "early at the office" the day after Christmas, where he tells a surprised Bob Cratchit, "I am about to raise your salary!" (Dickens errs here by implying that wages are determined by the renitency of employers' hearts.) He does not become a rabble-rouser for welfare programs. Instead, he takes personal responsibility for assisting the Cratchit family, becomes "a second father" to Tiny Tim, and practices other acts of kindness that Dickens must have hoped his readers would emulate.

In our own age, when the respective roles of business, charity, and welfare are being questioned and debated anew, *A Christmas Carol* offers quite a bit of wisdom. □

Government Education Reinvents Government

Perhaps the most important principle one can ever learn about the nature of government is this: It is different from all other institutions in society because it is the only one that can legally employ force. Unfortunately, it is a principle that has been largely erased from the American memory bank. More than a hundred years of compulsory public education may be largely to blame.

Let's get something straight before we go any further. To note that government rests on the use of force is not some radical anarchist idea. It is the very definition of the institution and its ultimate distinguishing feature. For much of the last half millennium, political scientists of virtually every stripe accepted the notion as fact. No respectable scholar tried to paper it over and pass government off as some kind of voluntary, benevolent society.

America's founders understood this principle well and crafted a regime that never purported to *eliminate* force; they only sought to restrict it to a narrow sphere of life and thereby preserve a large measure of individual liberty. Perhaps George Washington said it best when he purportedly observed, "Government is not reason. It is not eloquence—it is force! Like fire it is a dangerous servant and a fearful master." In other words, even when government does no more than what Washington wanted it to do, and when it does those few things very well as a "servant" of the people, it's still *dangerous* because behind it all is the employment of legalized force.

The Yellow Light

A deeply rooted understanding of this inherent character of government is a pillar of the free society. It's the yellow caution light that prompts wise and peaceful citizens to deliberate long and hard before accepting an expansion of government duties. It creates a healthy skepticism about seductive schemes to supplant private initiative with public action. It discourages attempts to impose a collective conformity at the expense of the individual.

If you are an advocate of the free society today, you surely have noticed an erosion in the understanding of this principle. It may not be an exaggeration to assert that the erosion has been massive and far more deleterious to our liberty and well-being than all but a few ever imagined.

This point struck me hard recently when I read a letter to the editor of a local newspaper. The letter writer was responding to a previously published commentary by a man who had argued that Ernest Hemingway opposed government funding of the arts because he felt that artists should be independent of political influence. She took issue with the commentator on the grounds that Hemingway "did accept money from benefactors." Accepting money freely given by patrons, in the mind of the letter writer, was indistin-

Lawrence Reed is president of the Mackinac Center for Public Policy (www.mackinac.org), a free market research and educational organization in Midland, Michigan, and chairman of FEE's Board of Trustees.

guishable from accepting money from the government.

Similarly, I have witnessed countless occasions when individuals argued that if government does something and is well intentioned, it couldn't possibly be coercive; or, that if it's "democratic," it's somehow voluntary. The mere fact that politicians are elected validates almost whatever they do as nothing more than consensual acts between altruistic adults. A much more sober and rational view of the limitations of a democratic republic, preferable though it is to any other form of government, is the one that describes it as two wolves and a lamb voting on what to have for lunch.

So it is that we've arrived at the point described by Edgar Freidenberg's 1964 classic, *Coming of Age in America*, where "American high school students viewed the government as a benign institution that one should obey because it was working for the benefit of all the people."[1] How is it possible for such a sad state of intellectual affairs to befall a nation founded on liberty and a rational view of the state? How did it come to be that millions of Americans recoil at the "radical" suggestion that government and legalized force are one and the same?

I can think of no other source of the problem than a century of government ("public") education. When nearly 90 percent of Americans are schooled for 12 formative years by government employees, most of whom earned their teaching degrees at government universities, why should we expect anything other than an obsequious citizenry that views government as the benevolent vicar of what Rousseau called "the general will"?

The history of American public education is replete with statements by professional government school advocates that reek of statism. Judge Archibald Douglas Murphey, founder of the public school system in North Carolina, said that government must educate because "parents know not how to instruct them. . . . The state, in the warmth of her affection and solicitude for their welfare must take charge of those children and place them in school where their minds can be enlightened."[2]

A 1914 bulletin of the U. S. Bureau of Education stated, "The public schools exist primarily for the benefit of the State rather than for the benefit of the individual." And Edward Ross, a prominent sociologist, offered the most chilling description of the role of government in education: "To collect little plastic lumps of human dough from private households and shape them on the social kneading-board."[3]

This outcome was predictable from the earliest days of American public education, and it's no different from anything else the government comes to dominate. He who pays the piper calls the tune. It just isn't in the interests of the government or those who depend on it to sully their own nests with an honest admission that their handiwork is financed and imposed at gunpoint. As education scholar Joel Spring put it 20 years ago, "A teacher, school administrator, or elected official in charge of schools may believe that his personal values represent the general values of the community; worse, he may think that his values should be adopted by the community."[4]

Such explicit statements notwithstanding, it would be hard and perhaps politically counterproductive to argue that today's deficient government school system derives from some grand conspiracy. To explain the appalling ignorance of the American citizenry regarding the essential nature of government, conspiracy theories are not necessary. It's sufficient simply to observe that few employees of the system will rise above immediate self-interest to even recognize, let alone propagate, the notion that government in general and their jobs in particular rest on legalized force.

What difference does all this make? A lot. I can think of no situation more hostile to liberty than a failure of a free people to tell the difference between government and everything else. □

1. Cited in William F. Rickenbacker, ed., *The Twelve-Year Sentence* (San Francisco: Fox & Wilkes, 1999 [1974]), p. 140.

2. Quoted in Murray Rothbard, "Historical Origins," in ibid., p. 11.

3. Quoted in Joel Spring, *The American School, 1642–1985* (New York: Longman, 1986), p. 155.

4. Quoted in Joel Spring, *Educating the Worker-Citizen* (New York: Longman, 1980), p. 14.

THE FREEMAN
Ideas On Liberty

States' Rights Revisited

by Gene Healy

Lamenting the Supreme Court's recent batch of pro-federalism decisions, the *New York Times* termed the Court's newfound affinity for states' rights "Supreme mischief," "deeply disturbing" to right-thinkers everywhere. One expects such talk from dedicated cheerleaders for centralized power. What's more disturbing, however, is the extent to which the *Times*'s perspective has gained credence among advocates of limited government. Modern libertarians, rightly concerned with what the Institute for Justice's Clint Bolick has termed "grassroots tyranny," ridicule and disparage the time-honored doctrine of states' rights.

It's understandable that the under-informed general public associates states' rights with slavery, Jim Crow, Bull Connor's police dogs, and "segregation forever." But classical liberals ought to take a longer view. "States' rights" merely stands for the propositions that (1) the Constitution should be interpreted strictly with regard to the narrow set of enumerated powers granted the federal government; and (2) that the states can nullify or obstruct federal actions that violate the Constitution. As such, the doctrine has a long and honorable pedigree among advocates of limited government. States' rights, in the view of classical liberals like Lord Acton, was no mere excuse for states to violate the rights of their citizens. Rather, the independence of the states in the period before the Civil War served as an effective check on federal aggrandizement. As Acton put it, "Centralization finds a natural barrier in the several State governments."

Modern libertarians tend to have a different perspective, believing that strong federal oversight is indispensable to securing liberty. For example, John McLaughry, head of the libertarian Ethan Allen Institute, says the doctrine of states' rights is little more than "a hoary legacy from the days of human slavery." This view rests on a tendentious version of history, one quite at odds with Lord Acton's, to the effect that in the nineteenth century, state governments were a more serious danger to individual freedom than the federal government. (That perspective is perhaps best encapsulated in Bolick's *Grassroots Tyranny* [1993]. See also the Civil War history offered in "Reviving the Privileges or Immunities Clause" by Kimberly C. Shankman and Roger Pilon; Cato Policy Analysis No. 326, at www.cato.org.)

The true story is more complicated, and, from a libertarian perspective, far more favorable to the states than the federal government. During the nineteenth century, the people, through the agency of their respective states, repeatedly and effectively resisted federal tyranny. A brief historical survey will make that clear. It will also, I hope, suggest some reasons why modern libertarians should rethink their hostility to states' rights.

Gene Healy is a recent graduate of the University of Chicago Law School.

The "Reign of Witches" and the Kentucky and Virginia Resolutions

The nation was still in its infancy, and the Bill of Rights not a decade old, when the Federalist party flagrantly violated the First Amendment with the Sedition Act. The Act criminalized uttering or publishing anything of a "false, scandalous, and malicious nature" with the intent to bring the government or its officers "into contempt and disrepute." Anyone found guilty could be fined up to $2,000 and imprisoned for two years. The Federalists promptly put it to use in a crackdown aimed at their political enemies.

One Luther Baldwin was convicted of violating the act for little more than the rough expression of admirable libertarian sentiment. Stumbling into a Newark, New Jersey, saloon, during a parade for President John Adams, Baldwin asked what all the ruckus was. A cannon salute for President Adams, he was told. Baldwin exclaimed that it was all the same to him if the cannon was shot up Adams's rear end. Other convictions were less amusing. David Brown of Dedham, Massachusetts, was sent to jail for 18 months for refusing Supreme Court Justice Samuel Chase's order to name associates who shared Brown's Jeffersonian views. Congressman Matthew Lyon of Vermont, an Irish-born republican radical, was imprisoned for criticizing President Adams's alleged "continual grasp for power." While in jail, Lyons was overwhelmingly re-elected to his seat.

Vice President Thomas Jefferson saw the Federalists' tyrannical rule as a "reign of witches." He and James Madison determined to oppose the Alien and Sedition Acts through the agency of the state governments of Virginia and Kentucky. As historians Stanley Elkins and Eric McKitrick put it in their book *The Age of Federalism*, "the protest was taken up in a formal way by no less a power than the constituted legislatures of two states against an act of the national government." Acting in secret, Jefferson drafted the Kentucky Resolutions, Madison, the Virginia ones. Each articulated the "compact" theory of the Union: that the states are equal partners in the federal union, each with the power to interpret the Constitution and thwart federal abuses thereof.

The Virginia Resolutions warned that "a spirit has in sundry instances, been manifested by the Federal Government . . . to consolidate the States by degrees, into one sovereignty, the obvious tendency and inevitable consequence of which would be, to transform the present republican system of the United States, into an absolute, or at best a mixed monarchy." The states, declared the Resolutions, "have the right and are in duty bound to interpose for arresting the progress of the evil." Jefferson's Kentucky Resolutions urged the other states to join Kentucky "in declaring [the Alien and Sedition] acts void and of no force."

With Jefferson's accession to the presidency, the "reign of witches" passed, as Jefferson ended prosecutions under the Acts. But the compact theory of the Union lived on, to be invoked again in the service of individual rights.

Nullifying the Tariff of Abominations

During the nullification "crisis" of 1828–33, the power of the states was again employed to counter federal abuses. In *For Good and Evil: The Impact of Taxes on the Course of History*, Charles Adams describes the disproportionate burden that the federal tariff imposed on the Southern states: "The South exported about three quarters of its goods and in turn used the money to buy European goods, which carried the high import tax." Most of the revenue was spent on internal improvements and other federal projects in the North.

Understandably, the South chafed at the burdens imposed by the tax system. Some of her most prominent political leaders argued that the Constitution granted no power to tax for the purpose of protecting industry, as opposed to raising revenue. With the tariff of 1828, the "Tariff of Abominations," the battle was joined. The South Carolina legislature denounced the tariff, which brought duties to their highest pre-Civil War level, as "unconstitutional, oppressive, and unjust."

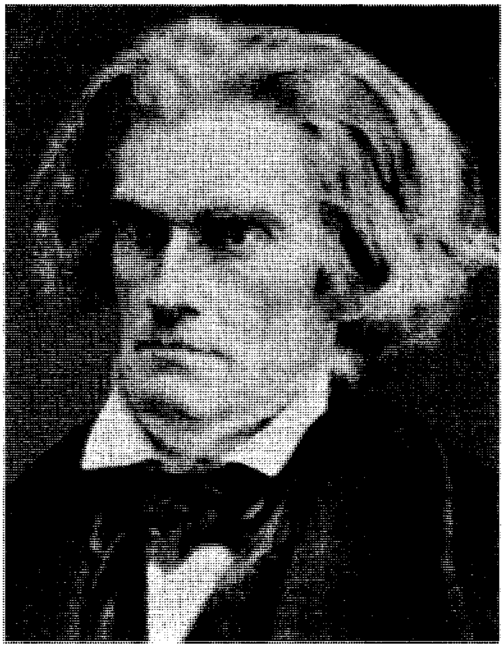
Playing Jefferson's role of 30 years before, Vice President John C. Calhoun secretly wrote South Carolina's Exposition and Protest, in which he outlined the doctrine of nullification. According to Calhoun, state conventions, the same bodies that had ratified the Constitution, could nullify federal legislation that they considered to be in violation of that document. The federal government thereupon could only enforce the law if it secured a new constitutional amendment through the approval of three-fourths of the states.

Calhoun intended the doctrine as a moderate middle position short of the extreme remedy of secession. But soon, a military clash seemed imminent, as President Andrew Jackson denounced nullification and privately swore to hang Calhoun. In the end, though, South Carolina's defiance forced a partial climb-down by the feds. Senator Henry Clay of Kentucky helped usher through a bill securing a 20 percent reduction in the tariff.

Disputes over the unjust federal revenue system would play a central role in bringing about the Civil War (contrary to most contemporary accounts, which emphasize slavery to the exclusion of almost everything else). The centrality of the tariff issue is revealed in Lincoln's First Inaugural, in which he disclaimed any intention to interfere with slavery, but was adamant about collecting federal revenue via the tariff. Republican corporate statism and Northern manufacturing depended on the Union and a high tariff. As a troubled editorialist in the March 18, 1861, *Boston Transcript* put it: "The difference is so great between the tariff of the Union and that of the Confederated States, that the entire Northwest must find it to their advantage to purchase their imported goods at New Orleans rather than at New York. . . . [The government] would be false to all its obligations, if this state of things were not provided against."

Personal Liberty Laws

Ironically, the controversy over fugitive slaves would find Southerners clamoring for a strong federal role and cursing the doctrine of nullification. In his *Battle Cry of Freedom: The Civil War Era*, historian James M. McPherson notes a tension in Southern appeals to states' rights before 1860: "On all issues but one, antebellum southerners stood for state's rights and a weak federal government. The exception was the fugitive slave law of 1850, which gave the national government more power than any other law yet passed by Congress." The South's deviation from principle on this point stemmed in part from economic motives: the federal government's assistance in recovering escaped slaves made the peculiar institution more secure. But those Northerners who opposed slavery fought back with a states'-rights-based resistance to the tyrannical and unjust fugitive slave laws.


DAGUERREOTYPE BY MATHEW BRADY. COURTESY LIBRARY OF CONGRESS

John C. Calhoun (1782–1850)

The federal Fugitive Slave Law of 1793 authorized slave owners and their agents to cross state lines and recapture fugitive slaves by force, bringing them before local magistrates to prove ownership. Under the law, the deck was stacked against the purported fugitive, who lacked the protection of habeas corpus and jury trial, and had no right to testify in his own behalf. Small wonder, then, that Southern bounty hunters were less than meticulous in ensuring they'd captured the right person.

Most of the Northern states responded with "personal liberty laws," providing the fugitive with the procedural protections denied him by the federal statute, and in several cases subjecting slave hunters to kidnapping charges. In Vermont, for example, all fugitives were declared free, and anyone who attempted to capture one could be subject to 20 years imprisonment or a fine of $10,000.

Not even the Supreme Court could deter the North from the path of resistance. When the Court overturned a kidnapping conviction under Pennsylvania's personal liberty statute, and voided the statute itself, Pennsylvania merely enacted another. Massachusetts was equally open in its defiance of federal authority. Its legislature passed a law providing that: "No judge of any court of record in this Commonwealth . . . shall take cognizance or grant a certificate in cases that may arise under the third section" of the Fugitive Slave Law of 1793. (Northern defiance of Supreme Court decisions on the slave issue would continue when the Court issued its infamous 1857 opinion in *Dred Scott*. The Maine legislature, for example, was one of several Northern states to declare that *Dred Scott* was "not binding, in law or in conscience, upon the government or citizens of the United States." (Shades of George Wallace!)

To appease an increasingly indignant South, Congress in 1850 passed an even harsher fugitive slave statute. Under that law, proceedings were to be held before (newly created) federal "commissioners," who would only receive half as much for setting the captive free as they would for ruling in favor of his purported owner. All expenses associated with seizing and transporting the captive would be paid by the federal government.

Northern states found the fugitive slave law of 1850 harder to nullify, since it cut state courts out of the process. Still, abolitionists and their "vigilance committees" mounted vigorous resistance to the bounty hunters by force of arms. In 1851, the federal government felt it necessary to make a show of force in response to that resistance. To assist in the recapture of Thomas Sims, a 17-year-old escaped slave working in Boston as a waiter, the feds provided sufficient firepower to ensure that no band of abolitionist vigilantes could free him. When the federal commissioner ruled for Sims's owner, 300 armed federal deputies and soldiers led Sims and his captor from the courthouse to the navy yard, where 250 more federal troops waited to put them on a ship heading South.

Every year, in high school history classes throughout the country, Americans learn a story intended to illustrate the beneficence of the federal government: in 1957, Arkansas governor Orval Faubus vowed to prevent the integration of Little Rock's Central High School; President Eisenhower sent in federal troops to protect black schoolchildren from white Southern mobs. Students might get a more balanced picture of the federal role in race relations if teachers juxtaposed the story of Little Rock's Central High with the story of Thomas Sims.

Libertarian Centralism

The above examples should not be taken to indicate that the states are natural defenders of liberty, organic extensions of the "People" that can be trusted to protect individual rights. Anyone familiar with zoning laws should know better than to embrace such a romantic notion. Instead, this historical survey suggests that the feds are unlikely to be better guardians of individual liberty than the states, and that divided sovereignty can serve as a check against federal oppression.

These examples also undermine the standard account of antebellum federalism, which amounts to public-school history: statist parables designed to make us feel grateful for the presence of our Federal Protector. If the issue were merely historical accuracy, there would be little reason to quibble. But this history is invoked, even by prominent libertarian legal analysts, to justify a particular political program. These scholars, who might be called "libertarian centralists," view the federal government as an indispensable partner in the struggle to protect individual rights. To that end, the libertarian centralists have advanced a number of policy proposals that should give classical liberals pause—among them: Congress should be free to comprehensively redesign state and municipal codes using the enforcement powers of the Fourteenth Amendment; using the same powers, Congress can legislate directly on matters affecting liberty, with statutes such as the Church Arson Protection Act; and the Supreme Court should depart from constitutional text and engage in moral theorizing when exercising the power of judicial review. Each of these proposals represents a rather dramatic increase in federal authority over the states. The idea that such increased authority will be used to protect liberty rather than to abuse it, represents, like a second marriage, the triumph of hope over experience.

For example, Bolick, in June 7, 1995, testimony before the House Small Business Committee's subcommittee on regulation and paperwork, said that "Congress has the power to enforce the 14th Amendment through appropriate legislation. It should use this power to enact an Economic Liberty Act. The provisions are simple: any federal or state law that restrains entry into a business or occupation must be narrowly tailored to a legitimate public health, safety, or public welfare objective." This appears unobjectionable until one contemplates what that plenary power would mean in the hands of welfare statists.

Another example comes from Roger Pilon, director of the Cato Institute's Center for Constitutional Studies. In a June 18, 1996, *Washington Post* op-ed, Pilon wrote, regarding the federal Church Arson Prevention Act, "There is, however, a proper basis for Congress to act in the case at hand. It is the 14th Amendment. . . . [I]f state measures prove inadequate and there is evidence available to Congress that federal intervention is necessary, there is ample authority under the 14th Amendment for Congress to act."

And in a 1988 *Cornell Law Review* article titled "Reconceiving the Ninth Amendment," Boston University law professor Randy Barnett wrote that "Given that the Fourteenth Amendment extends the protection of constitutional rights to acts of state governments, the Ninth Amendment stands ready to respond to a crabbed construction that limits the scope of this protection to the enumerated rights." Again, although it sounds benign, this view is unjustifiably confident that the federal government won't use the power to enforce unenumerated "positive welfare rights" on the states.

Patrick Henry, arguing against ratification of the Constitution, admonished Virginians to "Guard with jealous attention the public liberty. Suspect every one who approaches that jewel. Unfortunately, nothing will preserve it, but downright force: Whenever you give up that force, you are inevitably ruined." The states did not voluntarily "give up" that force in 1861–65; it was wrested from them by federal aggression. Before the Civil War, individuals were protected from centralized coercion by multiple, divided sovereignties, competing in their interpretations of the national charter, and backing their respective interpretations with force. After that war, individuals were confronted with a powerful unitary state, one that justified its aggression—domestic and foreign—with appeals to "liberty."

Libertarian centralists assure us that we can restore true liberty by gaining influence over that state and making its institutions work for us. The history of American federalism suggests a different solution. If there is a libertarian future, it lies in dividing sovereignty—in nullification and secession: opposing Power with Liberty at every turn; hammering every fault line in an attempt to crack the edifice; dividing and diminishing Power, in the hope that individuals will be better able to overcome it or, failing that, escape it. Any other route is a diversion, and a potentially dangerous one at that. □

Welcome to Canada

by Monte Solberg

People who are newcomers or visitors to Canada sometimes have trouble understanding how our government works so I have prepared the following short primer.

Taxes are the money forcibly taken from almost every man, woman, and child in Canada by the people in government. These taxes consume about half the average taxpayer's income. The people in government keep a large portion of these taxes for themselves.

Some of the remainder is partially given back to the taxpayer as a kind of allowance. In many ways it's just like the allowance you used to get from your mother when you were a child. The biggest difference is that this mother pays your allowance from the money she has stolen from your piggy bank. As a matter of fact, she also takes her pin money from your piggy bank. Don't ever let your piggy bank run short or mother government will become very angry and abusive. I hope your real mother isn't like mother government.

Some of your tax money is given to other people. When it is given to other people the government often calls it an investment. The recipients of these investments are often millionaires. They become millionaires by being connected to people in government and receiving investments from the government. Sometimes your taxes are given to people who have squandered their opportunities. In Canada this is called social justice.

Monte Solberg is a member of the Canadian Parliament and chief finance critic for the Reform Party.

Canadians are happy to pay taxes because this is how we get free health care. It's good that it's free because sometimes sick people are forced to stay in hospital closets or to wait months for treatment. We wouldn't tolerate this if we actually had to pay for our health care, but because it is free Canadians don't mind, and at least it's not American-style health care. In America no one can afford health insurance, and everyone dies on the street.

Government takes the remainder of the money and gives it to other people who are poor. The poor are people who make less money than the people who aren't poor. However, now that government takes half of people's incomes almost everyone is poor. We do it this way because Canadians are more compassionate than Americans are. Being equally poor helps us eliminate our social deficit.

Canadians go along with this system because bureaucrats and politicians are more responsible with the taxpayers' money than the taxpayers are themselves. If taxpayers were allowed to keep more of their money it would only be wasted on food, shelter, and clothing. Bureaucrats and politicians can be trusted because they are altruistic whereas taxpayers are selfish.

Bureaucrats sometimes invest the taxpayers' money in culture to give us a sense of who we are as a country. Canadians pride ourselves on being tolerant, whereas Americans are intolerant. Sometimes we give hundreds of millions of dollars away to special-interest groups. These are called partnerships and they enrich the Canadian mosaic.

Imagine how terrible it would be to live in Canada if it weren't for a government that suckles, guides, and watches over us for our entire lives, no matter where we go or what we do, just like a gigantic, doting, dependent, mildly abusive mother (sure, mom has her faults—but who doesn't?).

I trust this short primer will help visitors to my wonderful country understand the progressive nature of our government. Perhaps some visitors can take home valuable lessons on how to treat one another with real compassion. Hello, America, are you listening? □

THE FREEMAN
Ideas On Liberty

Freedom and Foreign Investment

by James Madison

This year, as the Czech people celebrate the tenth anniversary of the end of communism, the capital city of Prague serves as a shining example of what happens when the free market displaces economic planning.

Each morning on the Charles Bridge in the center of the city, more than a dozen vendors wheel out their carts and set up their tiny mobile shops under the 30 statues of saints that line either side of the historic bridge. Along the narrow cobblestone streets extending in all directions from either end of the bridge there are shops with doors wide open and merchants smiling at passersby. Salespeople stand on busy street corners handing out leaflets announcing all the plays, shows, and attractions that are available throughout the city. Tourists abound, always ready to exchange their currency for any number of these goods and services.

Freedom has not only sparked the creativity and ingenuity of the local entrepreneurs, inspiring them to grab their own little corner of the market, but it has brought investments from large foreign corporations as well. Among the more noticeable of these is McDonald's. Prague is home to several McDonald's restaurants including one in Wenceslas Square. The square was the site of the Velvet Revolution that started on November 17, 1989, and led to the resignation of the communist government on December 3. The revolution was dubbed "Velvet" because of its "soft" nature—no one was killed.

James Madison is a systems analyst at an insurance company in Hartford, Connecticut.

The McDonald's Argument

The presence of McDonald's excited me because I have for years used the global proliferation of McDonald's as my premier tool for debating socialists, statists, and others with a general fear of capitalism. I have always known my McDonald's argument was sound, but my visit to Prague provided the opportunity to verify it firsthand.

I start my McDonald's argument by getting my freedom-fearing friends to agree that McDonald's is the perfect example of capitalism run amok. It is, I argue facetiously, a huge American corporation that crowds out the mom-and-pop restaurants by offering low-quality products and paying low wages. Horrible! They quickly agree.

But wait. Mom and pop are doing fine, as are all the dozens of other restaurant owners in Prague. Less than 200 yards from the Wenceslas McDonald's is a hot-dog stand that sold me the greasiest and best-tasting kielbasa dog I have ever had. Less than 50 yards away is another stand where I bought a chocolate-covered cherry ice-cream bar that puts the McDonald's sundae to shame.

Throughout the city, food of every form and fashion can be found. From my favorite greasy hot-dog stand in Wenceslas Square, to my love Linda's favorite restaurant—a French place named U Malířů where the cheapest bottle of champagne was nearly $100—it is quite clear that McDonald's is not about to monopolize the food market.

As for quality, the concern of my statist friends falls into two categories: taste and health. Taste is clearly a matter of personal choice. The people standing in line for their Big Macs each time we walked by certainly didn't seem to think that they were being taken advantage of.

As for health, McDonald's doesn't seem much worse than the other options. Judging by the pork with cream gravy and dumplings I've had at U Kamenného mostu on the east bank of the Vltava river, the cheesecake and espresso I had at the newly renovated Kavárna Obecní dům, and the occasional kielbasa dog I had when we were on the run, a Big Mac and fries are hardly worse than the fare offered by the small-scale, domestic entrepreneurs.

Low Wages?

If McDonald's is not flooding the market and the food is not all that bad, then surely there is no excuse for low wages. But what would the employees of McDonald's do if the Czech government outlawed the chain in an attempt to save the employees from their supposedly wretched lot?

Perhaps the displaced employees could open stands on the Charles Bridge. While selling crafts on such a beautiful and historic bridge certainly seems better than making hamburgers on an assembly line, it requires a level of artistic skill that the majority of citizens do not possess. Perhaps they could open one of those cute little shops on the winding cobblestone streets. Being a small business owner is surely desirable, but running a successful business can be difficult and, again, most people do not have the skill to undertake such a venture.

Although it would be wonderful if we could produce an abundant supply of high-paying jobs by simply outlawing all jobs deemed inadequate, the economic reality is that for these workers at this point in their lives, this is their best opportunity.

So if the competition is not destroyed, customers are not deceived, and employees are not worse off, where is the evil? At this point, my friends are mute. Their silence now provides the opportunity to turn the discussion in the opposite direction and show that, rather than causing harm, McDonald's (or any large corporation with high division of labor) actually provides a tremendous benefit to competitors, customers, and employees.

Competitors benefit because a McDonald's employee will not stay there forever. After a few years of ordering cheeseburger wrappers and counting money at night, he will learn the basics of inventory and bookkeeping. Seeing his skills, the competition will hire him away; or he will start his own restaurant and compete against his former employer.

Customers benefit not only in the immediate sense of being served today, but even more so because the McDonald's employee who asks, "Would you like fries with that?" several thousand times will in time learn to read and anticipate the reaction of customers; when he lands the job at U Malířů, he will be able to know when to offer the $200 bottle of champagne and when to suggest the $100 bottle.

Employees benefit because they receive increased pay and higher job security by having acquired the skills that are desired by employers and enjoyed by customers. Were it not for the large amount of easily obtained employment offered by large, labor-divided companies, such workers would have a much harder time finding opportunities to develop valuable skills.

Indeed, it would seem that large international corporations are not so horrible after all. They integrate peacefully with the economy of the countries in which they operate and benefit an array of people in a variety of ways. I have always known this, but after visiting Prague, I am more confident in this belief than ever. □

THE FREEMAN
Ideas On Liberty

The Poverty of Regulation

by Michael J. Catanzaro

Ronald Reagan famously asked voters during the 1980 presidential campaign, "Are you better off than you were four years ago?" A similar test can be applied to government regulation: Has it left us safer and healthier than we would have been without it? Just like the voters in 1980, we can answer that question with a clear and emphatic no.

Regulation, or intervention in the marketplace by government, makes us worse off. Regulation routinely imposes harms that even the most intelligent reformer cannot foresee. Interventionists, as Ludwig von Mises argued in *Critique of Interventionism*, are "seriously deluded regarding the extent of the productivity loss caused by government interventions."[1] We need only scan reams of evidence to see why Mises was right.

According to Cato Institute chairman William A. Niskanen, a former member of President Reagan's Council of Economic Advisers, the total cost of federal regulation is on the order of $500 billion a year. And this figure excludes banking regulation and regulation by state and local governments. Niskanen concludes that the total regulatory burden might be as much as a whopping 10 percent of GDP.

Richard Vedder, an economist at the Center for the Study of American Business, finds that federal regulations cause $1.3 trillion in economic output to be lost each year. This is roughly equivalent to the entire economic output of the mid-Atlantic region, which includes Delaware, the District of Columbia, Maryland, New Jersey, New York, and Pennsylvania.[2] It is often wrongly assumed that state and local governments are wiser or more efficient in enforcing regulations. But they are often just as intrusive and destructive as the federal government. The microcosm of state and local bureaucracies can render businesses helpless before a raft of crippling zoning and environmental laws.

Enforced Inefficiency

When faced with federal, state, and local regulations, businesses must respond—to the detriment of workers and consumers. According to Vedder, businesses are forced to use their resources less efficiently. They operate in a less productive, more costly manner. The result is lower wages, higher prices, or both. In any case, the result is a decrease in the standard of living for workers and consumers.

Mises flatly disproved the notion that regulation and other coercive economic measures make us better off. He argued that "intervention necessarily is illogical and unsuitable, as it can never attain what its champions and authors hope to attain."[3] Take the Occupational Safety and Health Administration (OSHA), which Congress established in 1970. OSHA's mandate was to assure for all workers safe and healthful working conditions "by encouraging employers and employ-

Michael Catanzaro is a master's candidate in government at Johns Hopkins University.

ees in their efforts to reduce the number of occupational safety and health hazards at their places of employment."

Yet, unsurprisingly, OSHA's 30-year record has been marred by failure. According to a regulatory analysis performed by the Cato Institute, while OSHA supporters cite evidence attesting to the agency's effectiveness, "the vast majority of studies has found no statistically significant reduction in the rate of workplace fatalities or injuries due to OSHA."[4] Interventionists are hard-pressed to maintain that OSHA meets even the minimum criterion for any government program: Does it have any desirable effect on the problem it is supposed to solve?

Worse, OSHA's failure has been bad for business. A 1995 study by the Employment Policy Foundation found that 19 percent of the productivity slowdown in the 1970s was directly attributable to regulations imposed by OSHA and that nearly half of the slowdown in long-term productivity can be explained by rising government regulatory activity.[5] OSHA's poor track record even forced Vice President Al Gore to admit that the agency "doesn't work well enough." Yet despite its failures, OSHA continues to intimidate businesses with the heavy hand of regulation. And it continues to make us worse off. As with almost any form of persistent government meddling, regulation stifles the very forces that drive growth and, hence, prosperity. It becomes the ever-visible hand that swiftly punishes the pursuit of profit, and in turn, those of us who indirectly benefit from it. According to economist Hans Sennholz, government regulation is harmful "because it hampers man's productive efforts where, from the consumers' viewpoint, they are most useful and most valuable."[6]

Blithe Assumption

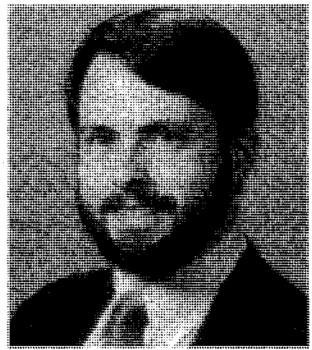
Interventionists proudly champion greater regulation and control over the economy because they blithely assume the market cannot by itself solve seemingly intractable social and economic problems. It is the state, they grandly proclaim, that most productively and efficiently solves what the market most assuredly cannot.

But meddle as they may, interventionists only succeed in making things worse. Health-care reform offers another telling example of this. Interventionists clamor that the ranks of the uninsured continue to swell because the private insurance market won't cover them. Little do they realize that prices in the health-care economy have been driven up precisely because of government interventions such as Medicare and Medicaid.

Why? Health-care interventionism distorts the price mechanism that allows doctors and patients to negotiate the costs of various treatments. More interventionism inevitably results in an increase in health-care costs, which in turn means fewer people who can afford private health insurance. Interventionists then decide that we need more regulation. This is the vicious circle of regulation. As Mises explained, when regulations make problems worse, more regulations are passed to make up for the harm caused. Interventionists typically capitalize on perceived market failures, and then deceive an unsuspecting public into believing in the inadequacy of the market and pressing for more regulation.

This explains the 69,684-page Federal Register. It is rife with rules and restrictions that alter the way entrepreneurs act in the marketplace. Its mandates are costly, redundant, and ultimately destructive of the market forces that create prosperity for everyone. Yet it continues to grow. But as history has amply shown, it is free markets, not government regulation, that make us better off. Would that the interventionists could learn this most simple of lessons. □

1. Ludwig von Mises, *Critique of Interventionism* (Irvington-on-Hudson: Foundation for Economic Education, 1996 [1977]), p. 14.
2. Richard K. Vedder, "Federal Regulation's Impact on the Productivity Slowdown: A Trillion-Dollar Drag," Policy Study No. 131, Center for the Study of American Business, July 1996, p. 16.
3. Mises, p. 33.
4. *Cato Handbook for Congress* (Washington, D.C.: Cato Institute, 1999), p. 356.
5. Wayne B. Gray, "The Cost of Regulation: OSHA, EPA and the Productivity Slowdown," *American Economic Review*, December 1987, pp. 998–1006.
6. Hans F. Sennholz, introduction to *Critique of Interventionism*, p. v.



Decoding the North Korean Enigma

Northeast Asia will never be fully secure until the communist dictatorship of North Korea passes from the scene. After threatening to test a new long-range missile, the North says it is willing to negotiate with "the hostile nations" opposing it. But whether it will actually forgo its test launch is anyone's guess.

That the so-called Democratic People's Republic of Korea (DPRK) is able to create so much unease, even in the capital of the world's sole superpower, demonstrates the foolhardiness of America's continued entanglement in essentially peripheral security matters. In the short run, Washington should attempt to ease the Korean peninsula's transition to a new peaceful order. But the United States should simultaneously begin disengaging from the region's unsettling quarrels.

By any normal measure, the DPRK should be irrelevant. Bankrupt, starving, and bereft of allies, North Korea is becoming the least of nations. Barely 20 countries bother to maintain embassies in Pyongyang, the North's capital.

Arrayed against it is an imposing coalition. The Republic of Korea (ROK) possesses an estimated 30 times the GDP and twice the population of the North. Japan is the world's second-ranking economic power with a limited but potent military. The members of the Association of Southeast Asian Nations (ASEAN) states remain aloof from Korean affairs, but all would back the ROK in any crisis.

Russia was once allied with Pyongyang, but is now shipping weapons to Seoul to pay off its debts. China retains modest political ties with North Korea, but has far greater economic links—trade and investment—with the South.

Yet the North continues to drive events in the region. Why? The DPRK retains two advantages. One is a large army, supplemented by missile development and atomic research programs.

There is, however, little behind this seemingly imposing edifice. The North's military capabilities have fallen sharply as its services literally starve: soldiers don't eat and weapons don't get spare parts. The North's nuclear program is only presumed; a recent search of the suspected underground site at Kumchang-ri turned up nothing. North Korea's missiles are few in number and highly inaccurate. In short, the DPRK has done better convincing the world that it possesses weapons of enormous destructive power than actually acquiring them.

The DPRK's second trump is its willingness to play the game of high brinkmanship. Pyongyang regularly engages in dramatically provocative but apparently irrational conduct, brandishing its military mailed fist. The result is usually feverish excitement abroad. For instance, North Korea's latest missile gambit caused House International Relations Committee Chairman Benjamin Gilman to worry

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

that one "cannot overstate the danger this development could present to our national security."

Alas, that's what the North wants Gilman to think. Although the new weapon probably could hit Alaska, the United States is more than capable of deterring an attack: Pyongyang would disappear in a radioactive cloud. Moreover, the DPRK already possesses a missile, the Taepo Dong-1, capable of hitting both the South and Japan.

The prospective missile test looks to be just one more attempt to unsettle the DPRK's adversaries. Its probable goal is to shake more cash loose from Seoul, Tokyo, and Washington. Largely ignored by the United States and Japan until it hinted at developing a nuclear weapon, in 1994 the DPRK agreed to freeze its program in exchange for shipments of heavy oil and construction of a nuclear reactor. Stalked by famine, Pyongyang has since pushed, with varying success, for food, investment, and trade.

More Benign Conduct

For all of the perversities and incongruities of North Korean behavior, the regime's conduct remains far more benign than in the past. The DPRK has, for instance, halted its nuclear program, admitted aid workers throughout the country, and hosted South Korean and other foreign businessmen.

Handling a regime that is simultaneously belligerent and opaque is not easy. But having recently completed a full review of U.S. policy toward the North, the administration should reconfigure present policy. Washington should separate its strategy into short- and long-term components.

America's overriding goal should be to maintain peace on the peninsula. Although prior predictions of imminent collapse have proved false, North Korea seems destined for the great dustbin of history. The only question is whether Pyongyang falls in peacefully.

To encourage that end, modest concessions—food aid, diplomatic recognition, foreign trade and investment—are well spent. But Washington should attempt to reverse today's dynamic, under which the North misbehaves in the hope of receiving more benefits.

Although the United States and its allies should accept Pyongyang's offer to discuss the planned missile test, they should not provide an explicit quid pro quo. Instead, they should indicate that a number of benefits will be forthcoming if Pyongyang stops needlessly antagonizing its neighbors.

And they should deliver. In succeeding months the United States should drop additional restrictions on trade, offer diplomatic recognition, and cancel future joint ROK-U.S. military exercises, like the ongoing Ulchi Focus Lens maneuvers. South Korea should expand its so-called sunshine policy. Japan should dangle the possibility of expanded diplomatic and economic ties.

The allies should provide such benefits to the DPRK when it behaves, not when it misbehaves. Should it revert to its policy of disruptive belligerence, all three countries should retaliate quickly but quietly.

That is, they should adopt an official attitude of insouciance—who cares what the North does? However, without public fanfare or threats, which would likely make the North more obdurate, the allied states should slow or suspend positive movement on other issues.

The goal should be to squeeze the North, but not too hard. Again, the objective is to push the DPRK toward a more positive stance without creating either a potentially violent implosion or causing it to strike out.

Although the United States is necessarily involved in the near term, over the long term Washington should seek to disentangle itself from Northeast Asia. It should develop a phased withdrawal program for its troops, and terminate the defense treaty when the pullout is complete. □

THE FREEMAN
Ideas On Liberty

A Lesson in Political Management

by George C. Leef

Suppose you have just learned that the house you live in has leaky water pipes. If not attended to, the damage done by the leaks will compound and the value of the house will decline. Would you spend whatever it took to fix the problem? Or would you go out and buy an expensive new high-definition TV?

That might sound like a silly question, but that's because you are assuming that you own the house. Of course, you would protect its value. The prospect of continuing damage from leaking water would be a strong incentive to repair or replace the pipes. On the other hand, what if the house wasn't your property? The loss in value would not be your loss, and unless the leak threatens your belongings, why bother with it? You might just go out and buy that new TV.

Property rights obviously make a difference. What if there is no real owner with an interest in maintaining the property? That's the case with "public property," which really does not belong to any individual or group. Management of public property depends on the choices of politicians and bureaucrats who stand to gain nothing from making "right" decisions (those that make the best use of it) and to lose nothing from making "wrong" decisions (those that make less than optimal use of it). Political-bureaucratic management predictably leads to neglect of property entrusted to public officials in favor of spending that benefits them more in the currency of politics: influence, power, and prestige.

A recent controversy in North Carolina shows the truth of that theory.

The Campus Crisis

In April 1999 a consultant hired (at great expense) by the board of governors of the University of North Carolina released a report that shocked people. It stated that hundreds of buildings on the 16-campus UNC system were in "deplorable condition." Hundreds of millions of dollars of repair and renovation work was needed "urgently" for dorms, classrooms, laboratories, and libraries. Over a ten-year period, the university system's capital "needs" amounted to $6.9 billion.

Supporters of the university played up the repair and renovation angle, but inspection of the list of proposed spending projects showed that only about half the university's priority "Phase I" spending was to go for repair and renovation of academic buildings. The rest was for land acquisition, various campus enhancements (such as landscaping), non-academic buildings (such as performing-arts centers and athletic facilities), and a large-scale construction program to handle an expected surge in enrollments in the future. The "crisis" in the condition of existing buildings was running interference for a wish list of spending to expand and glorify the university system.

George Leef is director of the Pope Center for Higher Education Policy at the John Locke Foundation and book review editor of The Freeman.

To pay for the great program to make the UNC system "ready for the next millennium," the consultant proposed multibillion-dollar bond issues by both the state government and by the university system itself. If all that borrowing took place, it would double the state's bonded indebtedness (a point never mentioned by the proponents). To keep the public from rejecting this appropriation of resources by the university system, supporters sought to exempt the bonds from the state's referendum requirement by not having them backed by the full faith and credit of the state. Backers in essence said, "Trust us—you've elected us to make decisions on what is best for the state."

Trying to allay fears that this would be too much debt, politicians and university officials came up with economic arguments that would have any well-taught Economics 101 student laughing derisively. The spending, they said, would "stimulate the economy" and thereby keep the state's economy prosperous. Some people were impolite enough to point out that this is an example of Bastiat's lesson of the "seen and unseen"; left in private hands, the money would "stimulate the economy" in other ways.

Backers also argued that higher education "drove the economy," suggesting that if billions weren't spent as they wanted, somehow North Carolina businesses would be unable to find competent workers. That's a false dilemma. We do not have to choose between workers educated in state universities—there is room for doubt that much education takes place there anyway—and workers who are not educated at all. But bad argumentation is the meat and potatoes of politics.

Skeptics, including me, quickly began to take issue with many aspects of the plan. For one thing, would the expected surge in enrollments actually occur? Distance learning via the Internet is starting to change the market for education, and we have no way of knowing how much it will reduce the demand for the traditional on-campus degree chase. Moreover, college graduates are increasingly having to take what have traditionally been "high school" jobs. As people realize that the market for employees with bachelors' degrees (and masters' and doctorates) is oversaturated—particularly where the degree holder lacks the cognitive skills that are in high demand—fewer people will choose to invest in those degrees. And even if there were an increase in the number of students wanting to enroll, why does that mean that the state university system must expand? There are, after all, private colleges and universities that would be happy to enroll more students.

The Vital Question

The most intriguing question, however, is this: Why had this "crisis" arisen at all? The UNC system receives a large amount of money every year for operations and capital improvements. Its budget has grown significantly in real terms over the last decade. It employs many people knowledgeable about building maintenance. Nevertheless, it was facing a building crisis. The consultant wrote that the overall quality of buildings across the system was "poor."

Buildings deteriorate over a long period. It takes years of neglect before they can be called "deplorable." The conclusion seemed inescapable that the political-bureaucratic managers of the system had failed to adequately maintain the property entrusted to them.

I decided to look back at UNC budgets for the last decade to see what tale they told. If maintenance of existing buildings had been neglected, what kinds of expenditures had been more important to the decision-makers? The documents answered just as I had expected. New construction had been proceeding apace. There was, for example, a new "Convocation Center" at Appalachian State that had cost nearly $30 million; almost $8 million for expansion of East Carolina's football stadium; $2.2 million for a "conference center" at UNC-Asheville and $2.8 million for an even nicer one at UNC-Chapel Hill; $3.5 million for an arboretum at North Carolina State; $16 million for a library expansion at UNC-Charlotte; $5.7 million for a new administration building at UNC-Pembroke; $7.9 million for a physical education facility at Fayetteville State. The list goes on and on.

North Carolina was looking squarely at the age-old problem of political-bureaucratic management—the lack of incentive for decision-makers to take good care of the property entrusted to them. No financial loss accrues to university officials because they allow buildings to sink to a "deplorable" state. The budget they are given each year isn't their money, so they choose to spend it on items that have little to do with education but increase the nonpecuniary benefits of their positions. Just as big-city politicians tend to neglect mundane things like bridge maintenance so they can spend more on vote-getting programs, public university administrators and their political allies tend to neglect building maintenance in favor of flashy new campus monuments. Eventually the bills must be paid for all the deferred maintenance, but that cost will, of course, fall on the taxpayers—the same taxpayers who have already paid for all the buildings and expenditures that could have been done without altogether.

Missing from the decision-making of government universities is the profit motive. Here's a good way to understand the profit motive: those subject to it stand to gain from being right and lose from being wrong. Actions that make good use of resources are rewarded with profits; actions that make bad use of resources are penalized with losses. In his recent book, *Market Education,* Andrew Coulson makes the point this way:

> [I]n the private sector, the money educators earn or forfeit is their own; in the public sector, it is not. Just as parents are more careful about the kind of schooling provided to their children when they are themselves footing the bill, so too are teachers and principals more attentive in spending that money when they stand personally to gain or lose by their decisions. In competitive markets, then, educators have a clear financial stake in the success of their schools and that success is measured by the number and loyalty of the patrons who are willing to pay for their services.

The profit motive makes the consumer king and those who wish to succeed must strive always to find the best ways of satisfying him. In the profitless world of government education, however, revenues don't come from satisfied customers and that gives decision-makers a free hand to spend money with their own satisfaction in mind. Waste of resources is the inevitable result.

In fact, in government education (as well as other government domains), the misuse of resources can actually be beneficial to the decision-makers. When their waste and folly lead to real or perceived crises, they can plead for more money from the taxpayer to "solve" them. The manifest failure of our government K-12 systems to educate children leads to ceaseless demands for more money, teachers, administrators, equipment, and buildings. All that money does nothing to improve education, but it does benefit teachers, administrators, and the many hangers-on who feed at that trough. In North Carolina, the self-created "campus crisis" has led to proposals that would pour significantly more money into the system and make it easier for the administrators to finance still greater spending in the future. In politics, nothing succeeds like failure. □

The Force of Economics

by Ninos P. Malek

A long time ago, in a galaxy far, far away . . . there were economists who tried to explain economics in clear terms. Unfortunately, there are only a few in the economics profession who are concerned with making the "dismal science" understandable to the average person. Most "high-powered" economists are more worried about the mathematical elegance. The verbal economist who can actually explain economic events is pushed aside as not being rigorous enough.

What's worse, the average person doesn't care about economics and doesn't understand the power of economic reasoning. What usually comes to mind when hearing the word "economics" is investing, personal finance, or learning how to start a business. However, economics is everywhere whether it's sports, fashion, music, or, yes, the movies! This is a statement that I have repeated several times to my high school economics class (I'm still not sure if they believe me or if they care). My goal as a teacher is to demonstrate to my students, first, that the study of economics is more than just focusing on financial topics and, second, that they have made economic decisions most of their lives.

One decision that most Americans make is to attend a movie or an athletic event. Listening to some people complain about how high movie prices are or that they can't afford to take their family to a 49ers or Sharks game is a bit irritating. Maybe the price is out of the range for some to afford, but the fact is that prices are not too high—the proof of this is that the theater or stadium is sold out. Theaters and professional sports teams would love to charge even more, but they can't because fewer people would attend. And, of course, consumers would love to pay nothing to get entertained, but that won't work either because suppliers would have no incentive to provide the entertainment.

Economic theory dictates that supply and demand determine the prices for goods and services. When demand decreases or supply increases for a product or service, the price, other things being equal, will fall. When demand increases or supply decreases for a product or service, the price will go up—as it should. Any intervention to control prices would be, as the French classical-liberal economist Frederic Bastiat put it, plunder. The problem is that some people think it is their right to take their family to a movie or a hockey game. Consequently, when some are priced out of the market, they protest and call for a legal maximum price, or what economists call a price ceiling. Unfortunately, the result of this ceiling will be a shortage of tickets.

Then there are the people who can afford to pay the ticket price and do purchase it, but still complain about the high price. One of Adam Smith's main insights in *The Wealth of Nations* is that unless both parties in an

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Ninos Malek teaches economics at Valley Christian High School in San Jose, California, and is an economics lecturer at San Jose State University and DeAnza College.

exchange think they will benefit, the transaction will not take place. Therefore, when a person buys a movie or hockey ticket, or anything, it demonstrates that that was the best use of the money compared to all other possible alternatives and, consequently, the benefits of the transaction outweighed the costs. In other words, these people should stop complaining.

A Better Theater

Smith's famous statement, "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest," underlies a crucial concept. When the movie theater spends thousands of dollars on bigger screens and sophisticated sound systems, is it because the owner cares about you? Not necessarily. The theater spends this money because it is competing against other forms of entertainment for your dollar. By providing you with a better viewing experience, it benefits as well.

If prices are indeed too high, why do some people still go to the theater rather than wait for movies to hit the video stores? Some might say it's because they do not want to wait. In economics jargon, they have a high time preference. There's probably an additional reason: the feeling people get when sitting in a packed theater. Some feel a sense of connection with others when something inspiring or sad causes them to cry together. When someone does something without considering the costs or benefits to others, we call any side effect of that action an externality. Now I am almost certain that the people around me in the theater are not screaming, yelling, or crying because they are thinking about my enjoyment, or utility. Nevertheless, I still receive a benefit. (Of course, the screaming child or the talker would be an example of a negative externality.)

I recently encountered the power of economics in the movie that could financially surpass *Titanic* and *Gone with the Wind* (in both nominal and real terms): George Lucas's *Star Wars: Episode One, The Phantom Menace*. It begins by stating that there is turmoil in the Galactic Republic because of the taxation of trade routes. The Trade Federation has stopped all trade with the planet Naboo, creating the conflict for the story. In the real world too, governments cause conflicts by infringing on individual freedom and imposing tariffs, quotas, and trade embargoes.

Money also provided a point about economics in *The Phantom Menace*. Money is anything that is generally accepted in trade of goods and services. In the movie our heroes need to replace a defective part on their spaceship when they land on the planet Tatooine. When Qui-Gon Jinn offers a merchant "Republic Credits" for the part, he's told that these credits are worthless. An alternative to money is barter, so Qui-Gon has the ship checked for something tradable. He comes up empty-handed. This leaves no alternative but a risky bet that offers a high payoff. Yet again a simple principle of economics: it takes a high potential return to get someone to take a big risk.

Some of my students thought I was going overboard with my passion for economics when I told them that I wanted to write this article. I hope they'll see what an enlightening tool economics can be even in their leisure time. □

The apple icon identifies articles that are appropriate for teaching students several major subjects—including economics, history, government, philosophy, and current issues.

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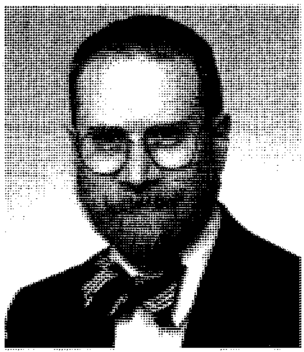


Other People's Business

Social engineers never tire of conjuring up proofs for their own indispensability. These days those who subscribe to the "let me tell you how to live" ethic are disturbed by the explosion in consumption at all levels of society. So they have some proposals. There is nothing new, of course, in the spectacle of affluent intellectuals' sneering at the common people's enjoyment of wealth. It goes back to the very beginning of capitalism and the consumer society, when the upper crust complained that mass production made it difficult to ascertain to which class any particular person belonged. Later Thorstein Veblen condemned "conspicuous consumption." And in *The Affluent Society*, John Kenneth Galbraith launched his career as a public intellectual by grousing that private consumption was crowding out "public investment," which is a euphemism for political consumption, which in turn is a diplomatic way of saying legalized plunder.

Now Cornell University economist Robert Frank is gaining celebrity, and not insignificant royalties, lamenting the culture of consumption, which he has dubbed "luxury fever."

Frank's jeremiad is a variation of the old "keeping up with the Joneses" theme. He worries that the crass bourgeoisie aims to emulate not the Joneses but the Cabots and Lodges. We in the middle class buy fancy things beyond our means not because we need or even really want them, but rather because we are on a desperate treadmill to obtain the increasingly expensive products that the wealthy have. Thus government needs to save us from ourselves and to stop the rich from being a bad influence on us. If they were forced to buy fewer or less-expensive goods, the consumption standards they set would be more manageable.

Frank's theme is also a variation of the "prisoner's dilemma," which purports to prove that in some circumstances what is good for each may not be good for all. A favorite example is a rock concert. If the people in the front row stand, the rest of the audience will be encouraged to stand. In the end, no one can see any better than when everyone was sitting, but now everyone must be on their feet. That one can't dance while sitting is never taken into account by those who see rock concerts as a kind of market failure. (This doesn't happen at the symphony.)

Frank's own example describes a job applicant who spends a thousand dollars for a suit in order to look sharp at his interview. If the applicant's rivals spend less than a grand, he's in good shape. But when they start springing for thousand-dollar suits, the first poor sap has to spend two thousand dollars. Frank compares this process to an arms race.

This has the distinguishing mark of a typical academic economist's example: it bears scant resemblance to the real world. I daresay few job applicants feel they need to outspend their competition on wardrobe.

Sheldon Richman is editor of The Freeman.

Another Tax

But social engineers never need much to hang their hats on. Once he's identified the "problem," Frank is ready with a solution. The government—it's always the government—should enact a graduated consumption tax, which would be applied to each person's consumed income minus a $7,500 standard deduction. This is intended to reduce frivolous consumption and induce saving. It's all in his book *Luxury Fever: Why Money Fails to Satisfy in an Era of Excess.*

Frank sounds more like an over-reaching psychologist than an economist. We consume more and more, he says, because we easily get used to and dissatisfied with what we have. A house that seemed big when we bought it seems small a few years later. We want more—more not just of what we have but more than others have. He touts a survey which found that a majority of those polled would rather make a lower absolute salary that was more than other people earned than a higher absolute salary that was less than others earned.

Frank also laments that people are driven to buy homes they cannot afford in order to send their children to better schools. That is regrettable. It's also regrettable that Frank doesn't see that governments create this problem by running schools and financing them with property taxes. In a free education market, children wouldn't be assigned to schools by bureaucrats on any basis, including residence.

While we can identify reasons that impel people to buy higher-priced homes than they might otherwise buy (the income-tax deduction for mortgage interest is another reason), Frank is on thin ice when he generalizes. We simply do not know why any particular person buys any particular product. When Frank utters a "tsk tsk" and says "there oughta be a law," I'm reminded of the neighborhood gossip who can't mind his own business. Frank is free to make all the baseless moral judgments he wants about others. He should not be free to call the cops, or the taxman.

But let's grant Frank this: surely in a population of 260 million Americans, some people are buying things in unthinking imitation of someone else. Maybe that is in part why a record 1.4 million Americans went bankrupt last year.

Resist Temptation

What do we do about it? A new tax is surely not a good answer. In a free society, people have a natural right to try keeping up with the Joneses if that's what they want to do; and the rich have a right to spend their incomes as they like. If their consumption tempts moderate-income people to spend unwisely, it is a strange notion of justice that calls for the rich to be punished. Shouldn't grown-ups be expected to resist temptations that do not serve their rational interests? Is it the government's role to shield people from themselves?

Frank and anyone else who suffers insomnia over how other people spend their money could put their time to more productive use by promoting individualism. An individualist is someone who thinks for himself. He is ready to learn from others. But he draws his own conclusions and charts his own course. He doesn't keep up with the Joneses or base his self-worth on whether he makes more money than his neighbors. Can you imagine Howard Roark buying a particular car because it's the kind Ted Turner drives?

In the realm of public policy, individualism is best promoted by radically scaling back the power of government. If from the time a person enters "public" school he learns to regard the government as his master, it is small wonder he never learns to think for himself. People who are free to live and make mistakes will be taught individualism by that most potent teacher: reality.

FEE's founder Leonard Read long counseled that setting an example by personal conduct is many times more powerful than giving a lecture. To the extent Frank has identified an actual problem, he can best address it by practicing individualism. That would be better than lobbying the government to tell other people how to live. □

THE FREEMAN (Ideas On Liberty)

China's Flirtation with Keynesian Economics

by Christopher Lingle

China's economy has made enormous progress since modernization began in 1978 under the direction of Deng Xiaoping. However, while no one expects the transition from communism toward market-based economies to be painless, the full truth is much more brutal in that China's economic future may be rather bleak.

After nearly 50 years of experimenting with a failed economic system, China is now flirting with another widely repudiated theory, Keynesian economics. The recent National Peoples' Congress announced plans for a substantially larger budget deficit aimed at stimulating domestic spending to avert an economic slowdown. This attempt to re-inflate China's domestic economy combines numerous interest rate cuts (at least seven since May 1996) and massive public spending on infrastructure that began during 1998.

Attempts to boost overall domestic spending through credit expansion and pump priming are hallmarks of Keynesian policies. It is worth noting that where applied elsewhere in the post-World War II era, these policies eventually contributed to rising misery indexes (unemployment rates plus inflation rates) and rising public-sector debt, and brought "stagflation" into the economic lexicon. In short, although there were some illusory or, at best, temporary benefits, deficit spending and loose monetary policy tended to make matters worse.

Apart from the dubious record of deficit spending, we might inquire whether China's economic illness has been properly diagnosed. While there are warning signs of a dangerous deflationary spiral, the proposed remedies are off base. China's problem with deflation cannot be resolved through Keynesian "reflationary" policies, as they only act as countercyclical measures at best.

China's current price instability is a symptom of other fundamental problems in its domestic economy. To some degree, trying to play in the global economy on its own terms has exposed these faults. But the basic problem is that China faces a glut of manufacturing inventories and insufficient domestic spending. There has been a decline in retail prices since the first quarter of 1999. This is not surprising since China's industrial capacity is estimated to be almost double current demand.

Domestic demand is suffering since workers in state-owned enterprises who have kept their jobs are saving more in light of planned downsizing that must eventually lead to cutting 50 million jobs or more. Although always high, China's marginal saving rate has climbed substantially over the past year to a remarkable 68 percent.

Christopher Lingle is an independent corporate consultant, a visiting professor at Universidad Francisco Marroquín in Guatemala, and author of The Rise and Decline of the Asian Century *(Hong Kong: Asia 2000, 1998). His e-mail address is CRL@po.cwru.edu.*

Declining Exports

Meanwhile, export growth is dwindling. In particular, China has lost ground in some crucial product groups like steel and shipbuilding. Devaluation of the Korean won and Japanese yen has eroded China's comparative advantage in pricing. There are also various signs that foreigners are viewing their presence in China much more critically. In a Japan's Export-Import Bank survey, manufacturing firms with three or more overseas affiliates identified China as the worst on the basis of foreign direct investment performance. Unsurprisingly, statistics offered by China show that investment by Japanese companies declined by 15 percent in 1998, while their total investment declined by 27 percent.

There may be no escape from continued declines in economic growth. Declining exports and incoming foreign investment combined with collapsing domestic consumption is a recipe for a deep downturn. While public-sector budget deficits may delay the process, history proves that governments cannot buy their way out of recession.

In the end, China's economy will face the sharp corrections experienced by other communist countries in transition. Communist economies cannot be reformed without first undergoing a substantial collapse in industrial production. The breakdown may be more or less severe, as can be seen in the different experiences of former Soviet bloc countries. Nonetheless, China's coming collapse is unavoidable owing to imbedded distortions imposed by nearly 50 years of mostly irrational economic policies and political interference. As the internal contradictions of China's "market socialism" unfold, the economy will continue to unravel.

Central planning combined with state ownership of property and the means of production are the principal sources of China's distortions. The worst consequences were temporarily delayed by the impressive growth spurt when some of the worst policies were put aside and personal incentives were permitted to operate.

To a considerable degree, China's experience mirrored the East Asian "miracle" economies in its rapid trajectory. As elsewhere, this high growth phase will wither. Consider the experience of its regional neighbors. As in China, rising costs due to corruption and overspeculation sapped the competitive edge, with domestic economic problems worsened by an overvalued exchange rate. Speculative bubbles led to property developments that far exceed demand, while financial mismanagement contributed to a banking crisis, and so on.

The State Should Retreat

Unfortunately, changing these conditions will not be easy—not least because the economic problems facing Beijing's policymakers are to a considerable degree the outcome of political arrangements. A massive retreat of the state from the Chinese economy is required. Cadres and bureaucrats must have less power.

China's long march to modernizing its key sectors involves many challenges. Transforming a centrally planned economy to a market-based economy is perhaps the most daunting task. This is because the rapid adjustments demanded by, and vigorous competition arising from, globalized markets require supporting institutions that are generally absent in China. Among these are: the rule of law (including independent judges and reliable enforcement mechanisms), modern accounting and financial procedures, public accountability of corporate and political officials, sound money, and a well-integrated national market along with an openness to domestic and international competition.

Leaving earned income in the hands of consumers and investors is a crucial step toward establishing a sustainable basis for economic growth. The key to future growth in the modern global economy is to open up domestic economies to competition while unleashing creative young entrepreneurs who can produce wealth and jobs by starting small and medium-sized enterprises. Printing more money or throwing public funds and credit at the economy will not be able to accomplish this. □

Economics

Politics and Foreign Trade

The case for free trade is overwhelming, both theoretically and empirically. My last two columns developed the theoretical case, which is based on the concepts of opportunity costs and comparative advantage. Even if the people of a country have an absolute advantage in producing everything, they still gain from foreign trade because they cannot have a comparative advantage in producing everything.

Ample empirical evidence backs up the theoretical arguments in favor of free trade. The more that countries permit international trade to direct their productive efforts into their comparative advantages, the more they prosper relative to those that restrict trade. Despite this evidence, almost no country has followed a policy of free trade. With rare, and typically short-lived exceptions, governments reduce economic productivity and their citizens' prosperity by either taxing or imposing quotas on imports. Why? Answering that question is the purpose of this column.

Cooperation vs. Confiscation

Given the advantages of free trade, no government would erect barriers to imports if the political process allowed the same degree of social cooperation as the market process. When trade restrictions are eliminated consumers gain but some workers and investors lose, most temporarily but some permanently. Even those who would lose permanently from eliminating their industry's trade protections would still be better off living in an economy with completely free trade than in one where all domestic industries were protected. Even though individuals may benefit from their industry's protection, they would lose far more as consumers from the protections of everyone else.

Those in an industry subject to intense foreign competition will want government to protect them if they don't have to consider the costs it imposes on others. But protectionism would not occur if an industry had to pay these costs because the burden to consumers is always greater than the benefits to the protected industry.

Unfortunately, when people obtain benefits from government they do not have to pay prices reflecting their costs, as they do for benefits received in the marketplace. The cooperation of the marketplace comes from the market's ability to collect, aggregate, and communicate costs that are widely dispersed over many people so that they are taken into consideration by those responsible for them. In sharp contrast, when the costs from politically provided benefits are dispersed over many people, those costs are likely to be ignored. So government commonly becomes the means by which people can gain private advantage through confiscation rather than through cooperation.

Dwight Lee is Ramsey Professor at the Terry College of Business, University of Georgia, and an adjunct fellow at the Center for the Study of American Business at Washington University in St. Louis.

Weakness of the Many

A trade restriction concentrates benefits on the few in the protected industry at costs that are thinly dispersed over the entire consuming public. With the cost of a trade restriction spread over millions of consumers, few if any will be aware of the little extra they are paying for the protected product. After all, consumers buy hundreds of different products, and a little increase in the price of one product typically has little impact on the well-being of any one of them. Even if a consumer is aware of the extra cost, she will seldom know that it is caused by a trade restriction. And if by some chance she does know the reason for the extra cost, she has little motivation to respond politically. Even if she could eliminate the trade restriction, the effort might cost as much as or more than the restriction. While the total benefit from eliminating the restriction is huge, most of it would go to other consumers whether they took political action or not. But her political action is unlikely to do any good if she acts alone.

Of course, if a large percentage of the consumers act in unison they would surely have a decisive political influence. But because the number of consumers is so large, with each having such a small stake in the outcome, it is almost impossible to organize them for political action. As is often the case, the larger the number of people harmed by a policy, the weaker their political influence.

Power of the Few

On the other hand, because a relative few benefit from a trade restriction, they will be effective in lobbying for it. The benefit to each person will be significant, and each will be aware of both his own gain and the source of that gain. Also, because of the small number of beneficiaries, they are relatively easy to organize for political action. Indeed, they will generally be organized already through industry and occupational associations. So when a trade restriction is being considered, politicians will hear plenty from those favoring the restriction and little if any from those harmed by it. The result is a bias toward providing concentrated benefits and ignoring much larger, but dispersed costs. Therefore, it is often the case that the smaller the number of people benefiting from a policy, the more powerful their political influence in its favor.

With small, organized groups able to capture benefits at the expense of the general public through restrictions on trade (and many other special-interest policies), little social cooperation is achieved through the political process. For that reason, government is a constant threat to the social cooperation that comes from free-market activity.

Considering Some Costs

The costs of trade restrictions are more difficult to identify than indicated above. Consider restrictions on steel imports. Few people buy steel directly. Rather they pay for it indirectly when they buy products made from steel. Also, when an import restriction increases steel prices, employment opportunities are reduced in industries relying on steel as an input. Those who don't get jobs because of a trade restriction will seldom know the reason. It has been estimated that limiting steel imports to 15 percent of the U.S. market would cost American consumers $189,000 a year for each steel job saved, and that for every U.S. steel job saved, over 3.5 U.S. jobs would be destroyed because of higher steel prices.*

If such costs were revealed, rather than concealed, by the political process, we would never reduce our prosperity with trade restrictions. The advantage we all receive from free trade is that it forces industries to consider the full opportunity costs of their productive activity. It's too bad that they aren't required to consider the full cost of their political activity. □

*See Arthur Denzau, "American Steel: Responding to Foreign Competition," Center for the Study of American Business, Washington University, St. Louis, Mo., February 1985.

THE FREEMAN
Ideas On Liberty

The Collectivist Illusion

by Tibor R. Machan

Some fallacies are easy to detect. Consider the fallacy of composition: take a group of human beings and ascribe to it capacities only individuals can have. "Society says," "We decided," "America is violent." Strictly speaking, none of these claims can be true. Society has no mind and mouth with which to say or do anything. Nor are *we* able to decide anything. You, I, and others may decide the same thing. That is the only sense in which we've decided.

Ordinarily when we say such things, it is usually well enough appreciated that we are taking linguistic shortcuts. "America is violent" is supposed to mean only that a significant number of folks in America are willing to deploy violent means to solve problems. Or it refers to the government and not to Americans at all.

Unfortunately, the care necessary to keep this in mind is not always diligently exercised. Karl Marx did not exercise that care when he said humanity is "an organic whole." Strictly speaking, humanity has no convictions, thoughts, memories, imagination, intentions, purposes, or any other attributes of individual human beings.

So what, you say. Why fret?

Changing Standards

The problem is that once you forget that humanity comprises concrete human beings, instead of some big entity, the standards by which we evaluate societies change. After all, it is sometimes necessary to sacrifice a part to save an organic whole. A cancerous organ or gangrenous limb is removed to save the person.

Thus holistic social thinking can have dangerous consequences. Some people's goals, perhaps even their lives, will begin to seem available for sacrifice for the sake of others. Why? Because individuals are not seen as possessing the same rights to life, liberty, and property, but rather are regarded as parts of a whole whose priority is set by public policy.

Why is this kind of thinking even plausible? The reason is that in some contexts groups almost become a single entity. A close-knit acrobatic team, orchestra, or choir nearly exhibits single-mindedness. A jamming jazz ensemble not only works as a single musical unit, but also embarks on the kind of spontaneous innovation that we would usually expect only of individual human beings unencumbered by the necessity of pleasing others. It almost looks as though individuality has disappeared.

Yet it is precisely individuality that makes such cooperation possible. Failure to cooperate is also attributable to individuals, as, for example, when someone fails to understand what is needed to maintain unity. Complex cooperation requires the utmost concentration by the individual participants.

Indeed, there is usually a critical mass

Tibor Machan is a professor in the school of business and economics at Chapman University.

beyond which groups *in pursuit of a single objective* cannot function well without central direction. A jazz group can jam and produce great music. A swing band cannot—too many people. The same is true with teams, choirs, and other large ensembles. The marketplace, which can comprise the largest number of people, succeeds precisely because there is no central direction and each member is free to pursue his own objectives. A free society has no purpose. Rather, it exists because it enables its members to achieve their own purposes, which they do by using spontaneous institutions to coordinate their activities.

Inspiring Harmony

Witnessing the beauty of harmonized activities aimed at a single purpose can be so inspiring that one might wish to see similar cooperation extended globally. When a modern-day Karl Marx envisions humanity acting like an organic whole, he extrapolates from the musical ensemble, convinced that what is possible for the small group could be, indeed ought to be, realized for the entire species.

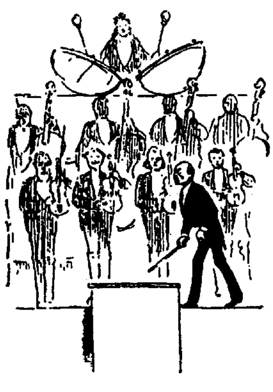
Marx knew that this wasn't possible and never had been. But his vision of its beauty formed a standard of humanity's health and well-being, making it something to be achieved in the future and to be used in judging the present.

The big problem with this vision is that in life any given human being can embrace only so many others, after which the fit will be forced and, indeed, must be coerced. Human beings are essentially individuals geared to moderate social entanglements. Our emotional make-up does not prepare us to be intimate members of a world society, or even of a country, in the sense that we are members of a family. Despite what President Reagan said, America is not a family, nor is Ireland or Iran. Families are sized to permit, with some attention and vigilance, their members to stay close to one another—celebrate birthdays and weddings, attend to the sick, mourn the dead.

If we were the kind of collective beings Marx and other champions of collectivism have imagined us to be, we would have to spread our emotional energies way beyond what they are capable of. We would lose our capacity to love intimately, to care, and to be close. Circles of friends and families are reasonably sized so that one is not always torn between sadness about someone's mishap and joy about someone's good fortune. But if we attempted an intimate relationship with every member of humanity, nothing could be felt toward others because it would be canceled out by opposite feelings every time.

The kind of community that fits human beings can vary a good deal; some people are much more gregarious than others. Thus it must be left to free choice to discover how much intimacy is right and how many communities we can honestly join.

The individual's right to choose freely whether to belong to this, that, or another group is the best moderator of our social capacities. We can overestimate or underestimate what we are capable of in this as in many other regards. But in the long run such things are best left to each of us rather than having visionaries impose an impossible and ultimately destructive social dream. □



CAPITAL LETTERS

Who Wrecked the Trains?

To the Editor:

There is much in Gregory Bresiger's article, "Train Wreck" (*The Freeman*, August 1999), that is factual, but some that is misleading and false.

Yes, at least some railroad leaders after World War II were "lulled" by the strong performance of railroads during the war into "thinking that the good times are back." Yes, most of the railroads' troubles over the years were attributable to (1) wrong-headed government regulation, (2) the tax-financing, subsidization, and government promotion of competitors to the railroads, and (3) the intrusion of labor unions into decision-making that belonged, then as now, in the hands of management. And, yes, government ownership and operation of railroads were prime goals of socialists and communists through much of this century, their relative quiescence today notwithstanding.

But to say, as Mr. Bresiger does, that the troubles of the railroads after the war resulted in "The death of an industry" is manifestly and totally false. Total rail freight volume in 1997 was actually double that of 1944, the peak war year, when railroads carried three-fourths of total traffic in the United States.

True, a very few sizeable railroads, most notably the Rock Island, did "die" and go out of business after the war. Most, however, were acquired by other railroads and continue operating today as part of larger independent systems, thus continuing the same process that has led to the consolidation of railroads throughout history. Still others, mostly smaller railroads, continue as independents even today. Some serve as feeder lines for larger systems, and others perform specialized services, such as for sightseers and train buffs.

Nor is it correct that the "once mighty Pennsylvania . . . was typical of a sick, over-regulated industry." In fact, the Pennsylvania (later Penn Central) was actually atypical within the industry. The troubles that led to its bankruptcy and takeover by the government were directly traceable to the wrong-headed policies of its early management, especially of the railroad's first chairman and CEO Stuart Saunders. Saunders's decision to cave in to union demands as the price for its support of the Penn Central merger was a disaster. The common share price soon after the merger was upward of $80. By the time it was taken over by the government a short while later, the price had plummeted to $2.50.

As for passenger service, the problem "in a word," Mr. Bresiger says, was "politics." Not so. The real problem was, is, and may always be the automobile, which today as for years past handles over 90 percent of total U.S. passenger travel. Only in World War II were railroads a significant factor in the movement of people in the United States, and that was out of necessity.

The proper role for railroads is, always has been, and always will be to move goods. Even in the heyday of passenger service, the movement of people accounted for only slightly more than one-fifth of total railroad revenue. Largely because of the automobile, Amtrak will always be a money loser. Mr. Bresiger's failure to distinguish between the two services, freight and passenger, is at the root of the confusion that pervades his otherwise well-written article.

—CHARLES O. MORGRET
Holmes Beach, Florida

Gregory Bresiger responds:

Mr. Morgret makes a convincing case in criticizing my article. He argues that the poor leadership of the Pennsylvania Railroad in the 1950s hastened its downfall and that the railroad industry is alive and well. I have two points in response. First, the article focused on passenger service. Clearly, private railroads, including the Pennsylvania, were hampered by regulatory policies that prevented them from raising or dropping fares. They were also hamstrung by ICC accounting standards that were confusing. The Pennsylvania was hurt by regulators during its merger with the New York Central, which took about a decade to complete and included several uneconomic requirements. Finally, Mr. Morgret disputes my argument that politics was a factor in the decline of many railroads and blames instead the automobile. But the automobile—through various subsidies and state-built and state-maintained interstate highways—was the preferred transportation mode of politicians after World War II. The federal and state governments favored the railroads' competitors at every turn. Even the best railroad leadership was hurt by these wrong-headed policies.

I agree with Mr. Morgret about freight service, which has been far more profitable than passenger service in the United States and which has been making a comeback. But why? Because rates were partly deregulated in the 1980s. □

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THE FREEMAN
Ideas On Liberty
DECEMBER 1999

Heilbroner's One-Armed Philosophers

"Without the government, the market as a system would not last two minutes."
—ROBERT HEILBRONER[1]

The May-June issue of *Challenge* magazine highlighted Robert Heilbroner, perhaps the best-selling economics author of all time. This year he published the seventh edition of his celebrated work, *The Worldly Philosophers* (Simon & Schuster, 1999), which has now sold over three million copies.

I am not surprised that *The Worldly Philosophers* has gone through multiple editions since 1953. Heilbroner has written a colorful and entertaining masterpiece. And no one has come up with a better title about the lives and ideas of the great economic thinkers.

Challenge also interviewed the 70-year-old professor. One question they failed to ask, however, is, "Why have you doggedly refused to acknowledge the success of twentieth-century free-market schools of economics?"

Heilbroner's Bias

Yes, it's a sad commentary: Robert Heilbroner, the masterful stylist, suffers from one serious defect—a highly prejudicial, unbalanced view of economics. After revising and updating his book seven times, he still never mentions the Chicago school of Milton Friedman and the Austrian school of Ludwig von Mises and F. A. Hayek (although he does have a chapter on Joseph Schumpeter, the *enfant terrible* of the Austrians).

Heilbroner's resolve is a tragic reminder of the one-sided way economics was taught a generation ago: Give Adam Smith his due, and then spend the rest of the time patronizing Keynes, Marx, Veblen, and the socialists. Meanwhile, the Chicago school, the Austrians, the supply-siders, the public-choice school, and other free-market proponents are poured down an Orwellian memory hole.

Heilbroner's bias reminds me of Stalin's rewriting of history when he would have his enemies' pictures erased from official photographs. In Heilbroner's photograph of the "great economic thinkers," he has erased men like J. B. Say, Carl Menger, Eugen Böhm-Bawerk, Knut Wicksell, Irving Fisher, Frank H. Knight, Henry Simons, Mises, Hayek, Friedman, Robert Lucas, and James Buchanan, among others. Heilbroner writes as if the Nobel Prize in economics hadn't existed for the past 25 years!

Mark Skousen (http://www.mskousen.com; mskousen@aol.com) is an economist at Rollins College, Department of Economics, Winter Park, FL 32789, a Forbes *columnist, and editor of* Forecasts & Strategies. *His textbook,* Economic Logic, *is now available from FEE.*

Both Mark Blaug and James Tobin regard Irving Fisher as the greatest American economist. A year ago, *Time* magazine's editor-in-chief, Norman Pearlstine, named Milton Friedman "economist of the century," ahead of Keynes.[2] Daniel Yergin and Joseph Stanislaw wrote in *The Commanding Heights*: "In the postwar years, Keynes's theory of government management of the economy appeared unassailable. But a half century later, it is Keynes who has been toppled and Hayek, the fierce advocate of free markets, who is preeminent."[3] Yet you wouldn't know anything about Fisher, Friedman, or Hayek after reading *The Worldly Philosophers*.

No one is objecting to Heilbroner's right to favor Keynes over Friedman, but to ignore Friedman (whose name does not even appear in the seventh edition) is a travesty.

Why the Sins of Omission?

All editions of *The Worldly Philosophers* have purposely hid the background of the author, and with good reason. His mentors are Marxists Paul Sweezy at Harvard and Adolph Lowe at the New School for Social Research. No wonder he wrote so sympathetically toward Marx.[4] Heilbroner has been a dedicated "democratic socialist" for most of his life and was for many years the Norman Thomas Professor of Economics at the New School. He is perhaps the only economist in the United States who holds a chair named after a socialist political leader. He has long favored a large public sector and Keynesian deficit spending. He hates the term "free market," adding, "Markets aren't free. They depend on government."[5] He prefers the Marxian term "capitalism."

Several years ago, I met Bob Heilbroner in his New York apartment and asked him why he ignored Friedman and Hayek. He felt that Friedman had not advanced economics beyond Adam Smith, and as for Hayek, he said, "I tried reading Hayek but could never follow him." Yet I give Heilbroner high marks for condemning abstract mathematical modeling in economics as generating "rigor, but, alas, also rigor mortis," and for being the only socialist to publicly give credit to Mises and Hayek for correctly anticipating the collapse of Soviet central planning.[6]

Galbraith and Buchholz: More Balanced Views

Heilbroner could learn a lot from his friend John Kenneth Galbraith. Although Galbraith's title isn't as dramatic, *Economics in Perspective* (Houghton Mifflin, 1987) bends over backwards to be fair to free-market economists. Sure, Galbraith gives full space to his favorite writers (Keynes, Veblen, Marx), but he also devotes major portions of his book to Say's law and the French laissez-faire school, the Austrians' critique of socialism, Fisher's quantity theory of money, and Friedman's monetary counterrevolution to Keynesian economics.

Heilbroner's rewriting of history is one reason more and more instructors are turning to more balanced histories of economic thought such as Todd Buchholz's *New Ideas from Dead Economists* (Penguin, 1989 and revised in 1999). Like Heilbroner, Buchholz has chapters on Smith, Marx, Veblen, and Keynes, but then gives equal time to Alfred Marshall and the marginalist revolution and the twentieth-century counterrevolution of Friedman and Buchanan. Buchholz leaves out the Austrians because, he says, he was never taught anything about Mises or Hayek when he attended Harvard. □

1. Interview with Robert Heilbroner, *Challenge*, May-June 1999, p. 62.
2. *Time*, December 7, 1998, p. 35. However, when *Time* published its "The Century's Greatest Minds" special issue, the editors gave top billing to Keynes. Pearlstine acknowledged a disagreement between him and his editors. "This is not the first time that the editors of *Time* have chosen to disagree with me. . . . I still think Friedman is the economist of the century." (Private correspondence, April 20, 1999.)
3. Daniel Yergin and Joseph Stanislaw, *The Commanding Heights* (New York: Simon & Schuster, 1998), pp. 14–15.
4. In the 1961 edition I used in college, Heilbroner wrote that Marx was a "devoted husband and father" (p. 124), but after it was revealed that he had an illegitimate son from his housemaid, Heilbroner dropped the approving reference.
5. *Challenge* interview, p. 61.
6. Robert Heilbroner, "The Triumph of Capitalism," *The New Yorker*, January 23, 1989, and "Reflections After Communism," *The New Yorker*, September 10, 1990.

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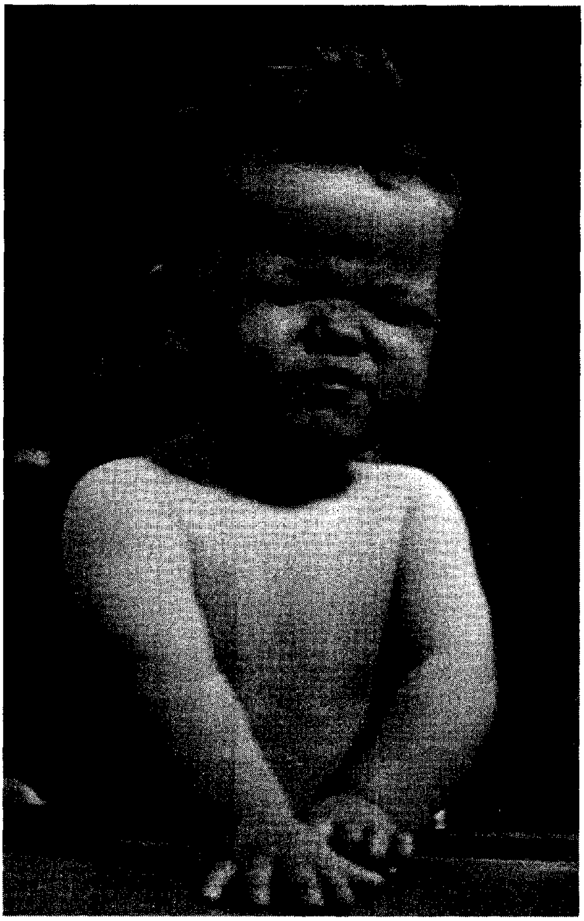

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Routledge • 1998 • 248 pages • $85.00

Reviewed by Andrew I. Cohen

Some social theorists believe that moral, political, and economic order must be imposed according to some central plan. In their view, only constant management can generate and sustain the complex, mutually supportive norms of advanced societies. Another tradition in social thought defends an "open society"—one founded on respect for voluntarism and individual freedom. Thinkers in that tradition believe social order can and should emerge spontaneously.

Lorenzo Infantino, a professor of sociology in Rome, embraces methodological individualism, which understands complicated social phenomena in terms of their simpler components, namely, individual human actions. Infantino presents a wide-ranging survey of central figures in sociology, political economy, and philosophy to compare how individualism and collectivism account for social order.

Two hundred years ago David Hume argued that order does not entail an intelligence that creates it. Admittedly, what Adam Smith calls the "invisible hand," and what F. A. Hayek (following Michael Polanyi) calls a "spontaneous order" may seem planned. It is tempting to misread the complexities of an economy as designed or at least as something design could improve.

Appealing to figures such as Smith, Karl Popper, Ludwig von Mises, and Georg Simmel, Infantino suggests that order must not be imposed. Free actors engage in mutually beneficial exchanges that bureaucrats could not possibly fathom. The reciprocal relationships people voluntarily establish channel self-interest to mutual advantage and promote a prosperous social order.

Social contract thinkers speak of individuals in a "natural condition" who literally construct a social order. Thomas Hobbes, for example, regarded men as having "sprung out of the earth, and suddenly (like mushrooms) come to full maturity, without all kind of engagement to each other." Infantino prefers Smith, Bernard Mandeville, and Popper, all of whom dismissed the idea of a pre-social "pure self." Society is necessary to generate language, moral norms, and an individual's very capacity for self-awareness. Infantino writes, "When man discovers himself, he is already united with others by a social bond; he does not need to create it." Our natural social situation thus militates against social "constructivism."

The norms that emerge in society ought to be privileged, Infantino argues. If norms persist, he writes, "it is because they answer to the needs of the social actors." But one then wonders why government (particularly intrusive government) has emerged and endures. Without appealing to moral values, it is unclear how the norms of liberty and free exchange are better than the norms by and through which government exists and functions. Noting this omission is not necessarily a criticism of Infantino so much as it is a potential problem with any defense of liberal social order.

A significant portion of the text is dedicated to lengthy (albeit useful) citations. It is sometimes unclear, however, how topics among (and even within) chapters cohere in a unified project. Infantino's frequent references to figures and concepts in the social sciences may also seem esoteric to the uninitiated. The general reader may find the book hard going in places.

The book could have drawn stronger links between tyranny and a closed society. Infantino makes some gestures in this direction, but one wishes he had cast a stronger argument to show that constructivism cannot help but produce political and economic malaise. Similarly, the book could have shown more forcefully how spontaneous order and individual freedom go hand in hand. Here, we only see glimpses of the connections.

Lorenzo Infantino has provided a splendid overview of key figures in the social sciences, how they compare on the issues of political order, and the best way to analyze collective entities. Had he fleshed out the links among his various lines of discussion and done more to clarify the comparisons among thinkers for the reader, the book would have been more useful yet. Still, the author is to be congratulated for his work on this vital topic. ☐

Andrew Cohen is assistant professor of philosophy at the University of Oklahoma.

Freedom and Virtue: The Conservative/Libertarian Debate

edited by George W. Carey

Intercollegiate Studies Institute • 1998 • 231 pages • $24.95

Reviewed by Brian Doherty

Libertarians and conservatives seem to want to get along; how else explain this book's existence? It was published by the Intercollegiate Studies Institute, a now-conservative organization founded by libertarian journalist Frank Chodorov as the Intercollegiate Society of Individualists. What happened when Chodorov passed control of his organization to more conservative characters is emblematic of the conservative/libertarian divide that this book explores but fails to bridge: they removed "individualist" from the name, cobbling together a contentless phrase to maintain the initials.

Fear of the unbridled individual is at the root of the conservative/libertarian conflict over freedom and virtue. The conservative fears that people unleashed from the power of the Leviathan state will bring society to rot and ruin; indeed, at least one writer here (Frederick Wilhelmsen) argues that it already has. Libertarians think that, given the corruption of man that conservatives are so prone to emphasize, granting corrupt men power to enforce their vision of virtue is dangerous—and that for various reasons both moral and prudential, violence (the root of all state power) should be used solely to repel or reverse assaults on one's own person or property.

The essays collected here limn some of the difficulties that arise when libertarians and conservatives debate. The debate isn't settled because the combatants don't clarify the two positions or even prove that there is in fact a coherent conservative position. Even the libertarian side seems incoherent, with John Hospers, author of a book called *Libertarianism* and first presidential candidate of the Libertarian Party, having trouble sticking to the basic Millian position that state power oughtn't be used except to prevent harm to others. "Freedom is a great thing," he opines, "but one should not run the danger of destroying oneself in the pursuit of it."

Anthologies raise more issues than a brief review can note; I here concentrate on a couple of themes. The obvious, though unintended, lesson of this book is that there is no coherent conservative position. Some people seem to choose the term for sociological reasons of loose affinity and thus define it to mean whatever they believe. Comparing the views presented here by such supposed conservatives as Richard Weaver and L. Brent Bozell shows that the word means, as Humpty Dumpty said, whatever we want it to mean. Bozell thinks enforcing virtue through violence quite proper; he claims that within the Christian metaphysic he posits as essential to both conservatism and American civilization, "freedom is hardly a blessing; add the ravages of original sin and it is the path to disaster."

Weaver, on the other hand, thinks that "the conservative in his proper character and role is a defender of liberty. He is such because he takes his stand on the real order of things and because he has a very modest estimate of man's ability to change that order through the coercive power of the state. He is prepared to tolerate diversity of life and opinion because he knows that it is right within reason to let each follow the law of its own being." In this, Weaver finds himself embracing the libertarian argument, derived from Scottish enlightenment thinkers and promulgated most thoroughly this century by F. A. Hayek, that man can and does form complex workable orders without government control or management.

One issue that is perhaps even more divisive between libertarians and conservatives comes up frequently: war and peace. Conservatives tout the importance of an activist U.S. world military to fight off Soviet communism, or now that that is dead, what Robert Nisbet here sees as the "aggressive, imperialist totalitarianisms in the world." The only specific examples he gives are China and Cuba. While none of the libertarians collected here talk about foreign policy, the conservatives clearly are irritated that many libertarians refuse to bow to the exigencies of U.S. world imperialism.

This volume is worthwhile for interesting contributions from both sides, such as M. Stanton Evans's intriguing contention that pre-enlightenment traditions contain more support for limited state power than many moderns customarily suppose and Doug Bandow's argument from an evangelical Christian perspective that, contra Bozell, state power has no useful role to play in the enforcement of Christian morality.

But essays like Russell Kirk's, where he condemns libertarians as "metaphysically mad," and obsesses over his notion that libertarians are disproportionately gay and very unpleasant characters besides, show that however much they may find themselves allied in specific instances against state encroachment, the relationship between libertarians and conservatives is apt to remain one of occasional alliance and persistent mistrust. □

Brian Doherty is the Warren Brookes Fellow at the Competitive Enterprise Institute.

World Disorders: Troubled Peace in the Post-Cold War Era

by Stanley Hoffmann

Rowman & Littlefield • 1998 • 279 pages • $29.95

Reviewed by Ivan Eland

Harvard professor Stanley Hoffmann is an unbridled interventionist. Although he decries any American role as the global policeman, he proposes intervening for so many purposes and under so many circumstances that chevrons begin to form on his shoulders.

Hoffmann rejects the argument that the United States should withdraw from entanglements and international commitments. Although he admits that few threats to American vital interests exist—he makes an exception for the Middle East—he declares that a world of diffuse disorder could rapidly become a dangerous place. He argues that societies and economies are too interdependent for the United States to be sure that what happens in small, poor, weak nations will not affect Americans. He maintains that apathy about what happens in "far away countries of which we know nothing" can lead through contagion—and through the message that passivity sends to troublemakers—to "creeping escalation of disorder and beastliness that will, sooner or later, reach the shores of the complacent, the rich, and the indifferent." In short, Hoffmann endorses the domino theory of instability.

He then goes even further, taking issue with those who say that U.S. foreign policy should be based on interests and not values. Hoffmann asserts that morality is a national interest.

Thus Hoffmann advocates intervention in foreign internal crises when the turmoil threatens regional or international security or when human rights violations become so massive that they cannot be ignored. His broad definition of massive human rights violations includes genocide, mass killings short of genocide, ethnic cleansing, brutal and large-scale repression, mass rape, famines, epidemics, massive breakdowns of law and order, and flights of refugees.

Not only does Hoffmann favor unilateral U.S. intervention under those circumstances, but he advocates the formation of an international military force under United Nations auspices—with member nations pledging earmarked forces for use by the Security Council. The international force would conduct limited police operations against minor troublemakers or deter aggression against threatened states that ask for U.N. troop deployments. He laments that no international taxation exists to support such a force. Given the record of the United Nations in peacekeeping missions, the potential for catastrophic bungling in more ambitious military missions makes this proposal scary.

Our author has an activist military agenda but fails to provide priorities for intervention by a nation that has limited funds and military assets. Even the sole remaining superpower has its limits. More important, although Hoffmann understands that interventions can be difficult, he should realize that in many cases they fail (clan warfare continued after the United States left Somalia, and Haiti is sliding back into dictatorship) and that often outsiders cannot deal with intractable problems that have been around for decades or centuries.

Hoffmann identifies and labels three groups in the American foreign policy community: sheriffs, missionaries, and beacons. The sheriffs want to stop the bad guys of the international community at high noon. The missionaries eschew force and advocate foreign aid and public and private programs to export democracy and market capitalism. In contrast to the other two camps, the beacons merely want the United States to be a showcase of liberty and free enterprise for other nations to emulate. It is unfortunate that this book gives short shrift to the beacons and so extols the costly, dangerous alternatives. □

Ivan Eland is director of defense policy studies at the Cato Institute.

The Food & Drink Police—America's Nannies, Busybodies and Petty Tyrants

by James T. Bennett and Thomas J. DiLorenzo

Transaction • 1999 • 161 pages • $24.95

Reviewed by George C. Leef

Threats to the freedom of Americans to make their own choices and run their own lives are proliferating as fast as mushrooms after a heavy summer rain. Some have already grown to huge, Alice-in-Wonderland proportions (like the IRS), while many others are just sprouting. In the latter category is the threat to our freedom to choose what to consume. Prohibition is gone, but prohibitionists lurk among us. This new book from Bennett and DiLorenzo is about them—America's nannies, busybodies, and petty tyrants, as their subtitle says.

We have always had nags and scolds. In a free society, people are entitled to use their liberty in peaceful ways of their choosing and that includes hectoring other people about their choices. Putting up with them, listening if we desire or ignoring them when we would rather be left alone, is one of freedom's tradeoffs. (In fact, there are probably people who regard *us* as nags and scolds, always telling them not to support Social Security, minimum-wage laws, trade restrictions, and so forth.) The trouble begins when they start turning to the coercive power of the state to impose their desires and values on others. Bennett and DiLorenzo introduce us to a host of individuals and organizations that want to tell you what to eat and drink, and have no compunction about employing the power of the state to make you behave.

One of the chief villains of the book is the Center for Science in the Public Interest (CSPI). The authors paid a visit to the Washington office of CSPI, where "Scarecrows scurried here and there, grimly clutching faxes and fact sheets that no doubt proved or at least asserted with the basso voice of pseudo-scientific surety that whatever you are eating at this very moment *will kill you*." That would not bother me (or the authors) except that the CSPI folks are not content just to warn about overindulging in *crème brûlée*. They scowl at virtually everything tastier than a plate of rice and lentils and want to make certain that you don't push that aside in favor of the *crème brûlée*. "The Center's agenda," write the authors, "is harsh neo-Puritanism. Ban, restrict, end, and regulate are common admonitions in CSPI's publications."

Another malefactor is Jeremy Rifkin, a former left-wing activist turned food nanny. Progress of all kinds worries Rifkin, but progress in food leaves him especially queasy. The bioengineering of food to make plants more beneficial to humans is something that we have been doing on a hit-or-miss basis for thousands of years, but now that science has figured out how to deliberately alter the genetic makeup of a plant to add or subtract just the right trait, Rifkin and cohorts go berserk. His weapon of choice is the lawsuit. If someone wants to experiment with, say, genetically altered strawberries that are supposed to be more frost-resistant, he can count on Rifkin to seek an injunction on the grounds that some vague federal statute has not been fully complied with. That tactic has slowed progress in food production that would benefit everyone, but poorer people the most. Busybodies don't care much about the consequences of their actions, however.

Freedom of speech is something the food and drink police care about just about as much as they care for a dish of Häagen-Dazs with hot fudge. Because the Supreme Court has ruled that "commercial speech" falls mostly outside the First Amendment, the nannies are constantly running off to the bureaucrats and courts to strike down advertising or labeling that bothers them. Our neo-prohibitionists and the regulators at the Bureau of Alcohol, Tobacco and Firearms have conspired, for example, to prohibit the sellers of alcoholic beverages from so much as hinting that there is scientific evidence that moderate amounts of alcohol can be good for people. The authors also relate zany battles over the naming of products, such as Crazy Horse Malt Liquor.

The book is written with a great deal of humor and sarcasm, but make no mistake—Bennett and DiLorenzo are deadly serious in alerting Americans to the growing menace of regulation of our eating choices. They write, "There is much more at stake here than how much tax one will pay on one's twinkies, how many beers one may consume at Pizza Hut after a softball game, or the character of Budweiser ads. What is at issue is how much personal responsibility Americans should assume for their own behavior, and consequently, how much personal freedom they will enjoy."

Precisely. Congratulations to the authors for this splendid counterattack against all those busybodies who want to dictate what you eat and drink. □

George Leef is director of the Pope Center for Higher Education Policy at the John Locke Foundation and book review editor of The Freeman.

The Political Economy of the New Deal

by Jim F. Couch and William F. Shughart II

Edward Elgar • 1998 • xvi + 247 pages • $85.00

Reviewed by Andrew P. Morriss

In this work, Professors Jim Couch (University of North Alabama) and William Shughart (University of Mississippi) employ public-choice theory to provide an insightful look at the New Deal. The authors mix examination of historical evidence and econometric analysis of recently rediscovered data on the spending patterns of New Deal programs to argue that the Roosevelt administration used the massive spending for political purposes. Written in a lively and engaging tone, the book also provides a thorough summary of the extensive literatures on the Depression and the New Deal. Economists will welcome its thorough exploration of the data; non-economists will appreciate its clear presentation of both the statistical and nonstatistical material.

The first chapter of the book surveys the academic literature on the causes and impact of the Great Depression and the critiques of the New Deal. Concisely summarizing multiple theories about those causes (business cycle, monetary policy, underconsumption, and a range of others), the authors effectively convey the basics of a complex and voluminous literature. Among the most compelling features of this chapter is a chart portraying the growth of the New Deal programs over time. This fascinating diagram makes clear the vast scale of New Deal spending.

The next three chapters offer similarly well-written and thorough descriptions of the New Deal programs. Although primarily summarizing prior work on the New Deal, the authors add a market-oriented critique to the literature survey. For example, they make a point of noting that the Roosevelt administration's approach in the "first New Deal" (1933–1935) was built around an "anti-market ideology" that "placed much hope in the central government's ability to produce favorable results" and attributed the Depression to the market. Well-chosen examples of New Deal-era political cartoons enliven these chapters. My favorite, titled "The Sower," shows New Dealer Harry Hopkins scattering cash from a sack labeled "WPA" across a map of the South, remarking to Agriculture Secretary Henry Wallace "Shucks Henry, You've never seen a bumper crop! Wait 'til you get a look at this beauty!" In a sense, the remainder of the book is a thorough analysis in support of the message of that cartoon.

Couch and Shughart provide extensive historical evidence to show that New Deal legislation lacked the checks and balances necessary to restrain political use of the programs. For example, they quote Michigan Senator Arthur Vandenberg's comment that the bill establishing the Works Progress Administration (WPA) could be "simplified by merely striking out all the text and substituting two brief sections: Section 1. Congress hereby appropriates $4,880,000,000 to the President of the United States to use as he pleases. Section 2. Anybody who does not like it is fined $1,000. That is approximately the net result of this proposed legislation."

The unique contribution of the book lies in the remaining chapters. Here Couch and Shughart deploy public-choice analysis to understand the spending patterns of the New Deal programs. Relying both on data unearthed in 1969 on New Deal spending across states and additional data the authors discovered in the 1939 *Congressional Record*, Couch and Shughart conclude that "political self-interest was perhaps the most important motive underlying the administration's spending decisions. A state's popular vote for FDR in the 1932 election and its importance to the President's electoral college strategy are consistently [statistically] significant determinants of the amount of federal aid it received."

While the authors build on and challenge earlier empirical work on the New Deal, their analysis is more complete. While space does not permit a complete survey of either the methods or the statistical results here, Couch and Shughart have produced a work that at least ought to shift the burden of persuasion to FDR's defenders.

Although various quibbles are possible with some features of Couch and Shughart's number crunching and their review of prior literature, none is important enough to detract from their overall accomplishment of recasting the New Deal in public-choice terms. From Lyndon Johnson's Great Society to Hillary Rodham Clinton's communing with the ghost of Eleanor Roosevelt, statists have sought to hide in the shadow cast by the "success" of the "Relief, Recovery, and Reform" programs of the New Deal. Revealing the blatantly political nature of those programs is an important step in restoring balance to our political and historical dialogues. □

Andrew Morriss is a contributing editor of The Freeman *and professor of law and associate professor of economics at Case Western Reserve University in Cleveland, Ohio.*

Toward the Renewal of Civilization: Political Order and Culture

edited by T. William Boxx and Gary M. Quinlivan

William B. Eerdmans Publishing • 1998 • 222 pages • $16.00

Reviewed by Fr. Robert A. Sirico

To explore the relationship between politics and culture with an eye toward the "renewal of civilization" is a tall order for one volume. And yet the contributors to this collection do an admirable job of examining many facets of the intersection between political-cultural trends and what most of these authors regard as the decline of civilized standards in arts, letters, behavior, and law, not only in this country but throughout the West. But *Toward the Renewal of Civilization* is no gloom-and-doom tract about the end of the world; indeed, it ends on a wonderfully hopeful note.

This book had special poignancy for me, because I read it after last spring's Littleton, Colorado, high-school shootings. The two young killers had jettisoned civilized norms long before the shooting began, but it appears that adults around the kids were paralyzed with confusion and fear about how to respond. They tried psychiatrists and drugs and a bit of counseling, but for the most part, the parents, teachers, and school administrators were just biding their time, hoping the kids would straighten out naturally.

Why have such events become almost routine? Hilton Kramer argues that they are a consequence of the institutionalized counterculture that began in the sixties. The intellectual error is rooted in the philosophy of Jean Jacques Rousseau, and specifically the belief that received norms, social customs, institutionalized authorities, and traditional standards of accomplishment and morality are merely artifices designed to inhibit the natural development of the human person. The object, then, is to break free from these supposed artificial restraints, which is precisely what the boys in Littleton imagined themselves doing.

The notion of tyranny is different in each respective vision of what constitutes the natural society. In classical liberalism, tyranny is associated with violence, whether perpetuated by private parties or invasive government. To the Rousseauian, tyranny is bound up with societal expectation, as Claes Ryn points out in his brilliantly argued essay. What's more, he writes, "the longing for Rousseauian liberation often expresses an ominous drive for uninhibited power."

For Ryn, the cultural crisis comes down to a misapplication of the capacity of humans to imagine social improvement. Instead of turning this impulse toward the creation of great art and literature, modern man has turned it toward escapism on one hand and a futile attempt to reconstruct society itself on the other. The result, writes William Allen in his essay, has been that radical challenges to liberal democracy have taken hold in the academy and spilled out into society to create a kind of slow-motion French Revolution against the family and other foundational institutions of the genuinely free society. Elizabeth Fox-Genovese concentrates on that point in her eloquent essay.

The hot-button issues of race and sex are not skirted in these pages, for they too have become bound up with a political tug of war in recent years. With rights given out by the regime to groups according to their lobbying power and their ability to form pressure groups based on shared identity, the politics of race and sex has become a game of spoils in which no one can be said to win. The old racism mutates into a new racism with scarcely a thought given to the possibility that human cooperation and social peace are possible only when the state does not interfere with people's freedom of association.

If the book has a weakness it is that the state is not consistently identified as a leading cause of the continued weakening of essential social institutions. The contributors do not make the mistake of viewing the solution to every social problem as resting with political authority, but that is not the same as identifying the state as the culprit.

They rightly see intellectual and spiritual rejuvenation as the likely font of a cultural renewal—which is the only long-term means of combating the moral nihilism at the heart of the Littleton shootings. The book strongly reinforces the central point of classical liberalism: society manages itself better than any rationalistic intellectuals who grab hold of the reins of power ever have or could. □

Fr. Robert A. Sirico is president of the Acton Institute for the Study of Religion and Liberty in Grand Rapids, Michigan.

Transforming the Political Marketplace

What we expect from our politicians goes a long way toward determining what kind of politicians we can expect to find in office. Just as suppliers compete by trying to please their customers, politicians compete by trying to please voters. Just as the features of cars tell us something about the preferences of car buyers, the actions of politicians tell us something about the electorate.

In the marketplace for cars, competition insures that the products mirror consumer tastes. Unfortunately, politicians have created barriers to entry that make political competition less vigorous than it might be. And voters do not bear the consequences of their choices with the same immediacy of car consumers. Still, the politicians who survive in office tell us something about ourselves.

We could, for example, expect our politicians to uphold the Constitution and maximize our ability to lead the lives we choose. After all, elected officials at the federal level swear to "support and defend the Constitution of the United States against all enemies, foreign and domestic."

In contrast, we might expect our politicians to see their job as pleasing their constituents regardless of constitutional constraints. And because constituents are a diverse lot, the politician who wants to stay in office focuses on the most influential constituents.

Frederic Bastiat described the state as "the great fiction by which everyone seeks to live at the expense of everyone else." Everyone may try, but only the politically powerful succeed. When the state is devoted to such efforts, what Bastiat called plunder, a peculiar sort of person succeeds in politics. No, not a thief, but a thief in saint's clothing.

The political marketplace teems with those who sugarcoat redistribution with claims of helping the general public: "We need farm subsidies because the family farm is the backbone of this great nation." A politician who can make that claim with a straight face has a much better chance of being elected than one who says, "I have a lot of friends who are farmers and when elected, I intend to make them rich using your money."

Helping the District

In today's political landscape, however, some politicians dip their hands into the treasury without invoking the legerdemain of the public good. It is not uncommon to read of a member of Congress making the case for his re-election on the grounds that he has successfully steered large amounts of so-called federal dollars into his district.

You would think he might be embarrassed to have taken money from neighboring districts and states merely to enhance, say, the roads of his constituents. But he's actually proud of it. When he is called to task, his supporters have a quick justification: it's his job to help his constituents.

Russell Roberts (roberts@csab.wustl.edu) is the John M. Olin Visiting Professor of Labor Economics and Public Policy at the Center for the Study of American Business at Washington University in St. Louis.

His job? It's his job to use the fiscal process to enrich A at B's expense? I guess that oath of office is just for show. If the Constitution could weep, it would cry us a river.

We once lived in a different world.

We once, at least from time to time, had politicians who understood that the Constitution constrained their ability to spend the people's money. One such man was Grover Cleveland. In his first Inaugural Address, in 1885, he said: "In the discharge of my official duty I shall endeavor to be guided by a just and unstrained construction of the Constitution, a careful observance of the distinction between the powers granted to the Federal Government and those reserved to the States or to the people, and by a cautious appreciation of those functions which by the Constitution and laws have been especially assigned to the executive branch of the Government."

Such language sounds quaint to our ears: a president promising to restrain himself based on higher principle. When push came to shove, Cleveland refused to budge from that principle. In 1887, when a drought hit Texas, a bill arrived on his desk providing funds to buy seeds for struggling Texas farmers. Who could oppose such a worthy cause?

Cleveland vetoed the bill and wrote the House of Representatives that "I can find no warrant for such an appropriation in the Constitution, and I do not believe that the power and the duty of the general government ought to be extended to the relief of individual suffering which is in no manner properly related to the public service or benefit." Cleveland went on to explain to Congress that when the government got into the business of relieving suffering, it discouraged private efforts to fight hardship and hurt our character.

How would the voters of today describe such a veto? Heartless? An example of gridlock? How the world has changed! A reluctance to spend other people's money has become a vice rather than a virtue.

Notice that Cleveland said nothing about the morality of helping the farmers of Texas. He might have felt their cause to be just. But he could not justify federal intervention constitutionally. This narrow perspective reduces the potential for plunder. And one of the purposes of the Constitution is to limit even our honorable desires to alleviate suffering with the public's money. Otherwise, the power of government grows and that of individuals falters.

It is tempting to say that Cleveland's integrity and respect for his oath of office were politically courageous. Perhaps they were. He made plenty of enemies. But he was also popular with the voters. He managed to win the popular vote in three consecutive elections, his two terms book-ending an electoral college defeat. The voters of the late nineteenth century respected the Constitution and honored Grover Cleveland with their support.

If we want politicians who respect the Constitution, those of us who care about it will have to do a better job encouraging our fellow citizens to feel the same way. Then the politicians who will thrive in the political marketplace of the next millennium will be less interested in spending other people's money and more interested in letting us make our own decisions about living life to the fullest.

♦♦♦

FDA Contest

I want to thank all the readers who responded to the contest in my September column asking for your thoughts on a world without the FDA. The contest winners are Karen Kwiatkowski and David Calderwood. Both made a number of interesting points. Karen emphasized how the FDA politicizes the flow of information about the efficacy of drugs while David pointed out how the FDA suppresses information and undermines the nature of the doctor-patient relationship. Karen and David will each receive a $25 gift certificate to use at the FEE bookstore. ☐