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IDEAS ON LIBERTY

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IDEAS ON LIBERTY

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PERSPECTIVE

Economic Research and Economic Education

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

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

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

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

1. Modern technological developments, it is contended, have delivered humanity into a post-scarcity situation. Thus, remaining *economic* problems are a result of inherent contradictions with capitalism, not due to the problem of limited resources and unlimited wants.
2. Following from the post-scarcity situation, monetary expansion can solve problems. Poverty can be eradicated simply by printing new money.

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

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

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

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

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

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

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

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

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

Mises, the philosopher and economic theorist, was complemented in his effort by Henry Hazlitt, the economic journalist. Leonard Read—the entrepreneur of ideas—was able to coordinate the activities of Mises, Hazlitt, and other scholars and writers to translate theory into the modern idiom, thus challenging the prevailing Progressivism of postwar America.

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

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

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

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

—PETER J. BOETTKE
New York University
Guest Editor

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

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IDEAS ON LIBERTY

Understanding Say's Law of Markets

by Steven Horwitz

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

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

W. H. Hutt once referred to Say's Law as "the most fundamental 'economic law' in all economic theory."[1] In its crude and colloquial form, Say's Law is frequently understood as "supply creates its own demand," as if the simple act of supplying some good or service on the market was sufficient to call forth demand for that product. It is certainly true that producers can undertake expenses, such as advertising, to persuade people to purchase a good they have already chosen to supply, but that is not the same thing as saying that an act of supply *necessarily* creates demand for the good in question. This understanding of the law is obviously nonsensical as numerous business and product failures can attest to. If Say's Law were true in this colloquial sense, then we could all get very rich just by producing whatever we wanted.

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

Dr. Horwitz is Eggleston Associate Professor of Economics at St. Lawrence University in Canton, New York.

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

What Say Said

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

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

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

Production Must Come First

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

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

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

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

All Markets Are Money Markets

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

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

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

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The Socialist Roots of Modern Anti-Semitism

by Tyler Cowen

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

—ULRIKE MEINHOF, left-wing German terrorist of the 1970s[1]

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

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

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

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

Dr. Cowen teaches economics at George Mason University in Fairfax, Virginia.

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

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

Anti-Semitism in Nineteenth-Century Germany and Austria

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

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

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

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

Karl Marx continued the anti-Jewish polemics of the socialists. The historical association between Jews, private property, and commerce led to his well-known anti-Semitic diatribes. Marx, who sought to reconstruct society according to his master plan, detested the particularistic nature of Jewish religion and custom. Some of Marx's followers, such as Dühring and Lassalle, used anti-Semitism as a means of introducing anti-capitalist doctrine. They believed that if the public could be convinced to hate Jewish capitalists, the public would eventually come to hate non-Jewish capitalists as well.

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

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

Soviet Anti-Semitism

The actual practice of socialism has not been kind to its religious and ethnic minorities, including Jews. The Soviet government adopted consistently anti-Semitic policies. Lenin was strongly opposed to anti-Semitism, but Soviet policy reversed shortly after his death. Totalitarian states, with their inevitable economic failures, eventually need scapegoats. Economic performance rarely matches the official promises, and the subsequent privations feed social resentment; one person gains only at the expense of another. The necessities of totalitarian government, in time, override whatever nonracist feelings might be held by the leaders, and create strong pressures for political support of racism. Control over the press and rights of speech makes racist feeling relatively easy to whip up.

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

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

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

The contrast with the more capitalistic

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

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

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

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

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

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Income and the Question of Rights

by Roy E. Cordato

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

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

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

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

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

Dr. Cordato is the Lundy Professor at Campbell University in Buies Creek, North Carolina.

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

Corporate Welfare

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

From the perspective of those who feel that people have a fundamental right to income that they have generated, i.e., that the Sixteenth Amendment was rights reducing, the expression "tax subsidy" is an oxymoron. As many conservatives are fond of pointing out, "you can't subsidize someone with his own money." But what if it isn't his own money? What if none of his income, beyond what the government allows him to keep, is his own money? If this were the case, then the concept of a tax subsidy makes complete sense. Indeed, from this perspective, any amount of income that the tax system allows the individual income earner to keep and use for his or her own purposes is a "tax subsidy."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The abandonment of rules and standards in the universities shows up in other ways too—in a popular but dubious focus on "peer teaching," for example. This is an activity in which students who have not yet gained competency in prose are supposed to substitute for the teacher and teach each other what none of them by himself knows, namely, the elements of clear and correct communication.

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

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

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

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

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

THE FREEMAN
IDEAS ON LIBERTY

Mises, Hayek, and the Market Process: An Introduction

by Nevenka Čučković and David L. Prychitko

Why Mises and Hayek?

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

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

Ms. Čučković is research coordinator at the Institute for Development and International Relations in Zagreb, Croatia. Dr. Prychitko is associate professor of economics at SUNY-Oswego.

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

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

Property Rights and the Market Order

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

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

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

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

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

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

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

Hayek clearly discusses the distinction between organization—a fully planned or designed order—and unintended, unplanned, or "spontaneous" order in "Kinds of Order in Society," the third essay in our book. Individual households and enterprises are generally goal-related organizations: their members cooperate to attain a common aim (for example, a family holiday, or university education for the children; higher productivity or increased sales for the firm). What emerges, however, is an integrated *social* division of labor and an overall market process that is at once more complex and informationally efficient than the participants could have ever intentionally engineered: the cooperative and competitive exchange processes and the system of commodity production at once *harness* knowledge from the level of individuals, households, and firms and, through changes in prices, interest rates, rents, incomes, profits, losses, and so on, also *further inform* them of the economic efficiency of their plans. In this way, the spontaneous ordering of the market process goes well beyond the epistemological limitations of individual human minds and plans.

The Knowledge Problem

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

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

Most planning models demonstrate that planners could design a comprehensive and efficient plan if they possessed all the relevant information, including the preferences of millions of consumers and, even more incredibly, the availability and alternative uses of all scarce resources. The "solution," then, is a mere unfolding of the logic of rational action, a task suitable indeed for neoclassical economics. But Hayek, as an Austrian economist, argues that these exercises in pure logic assume away the real economic problems that societies face: how can plans be integrated when people *do not* possess all the relevant information? Lange's model went no further in addressing this question, since it assumed that consumer preferences, production functions, costs of production, and availability of resources are *all* given "data," and the only knowledge that planners lack is that of the corresponding equilibrium prices. (Actually, Hayek's criticism in this chapter can also be interpreted as a criticism of neoclassical economics in general. Whether the model is used, as Lange did, to defend market socialism, or whether it is used, as, say, Milton Friedman does, to defend capitalism, in either case it assumes too much for the planners or for the capitalist enterprises.)

How, then, does capitalism work? Building upon Mises' path-breaking 1920 article, "Die Wirtschaftsrechnung in sozialistischen Gemeinwesen" (translated into English as "Economic Calculation in the Socialist Commonwealth," and omitted here for lack of space[1]), Hayek argued that spontaneously generated market prices inform participants, after the fact, of the economic suitability and consistency of their individual plans. Enterprise organizations use past, present, and, especially, expected future prices to develop their ex ante plans, to make calculative business judgments and guesses about the future. They will learn whether their plans and calculations were worthwhile, however, by the actual unfolding of events that define the market process: *ex post*, the actualized market prices will inform enterprise owners of bottom-line profits or losses.

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

By abolishing the market for means of production, through collectivization and nationalization, and by seeking, essentially, to turn all of society into a single, integrated *organizational* order, socialism must fail. Its complexity and ability to coordinate the millions of individual plans among households and enterprises and other suborganizations in society on the basis of an all-encompassing, comprehensive *ex ante* plan will be limited to the epistemological abilities of the central planning authorities. Lacking a market process and private or separate property in the means of production, and clinging to the goal of *ex ante* plan coordination, even decentralized or self-managed socialist planning schemes (such as Croatian economist Branko Horvat's sophisticated attempt to answer Hayek) are equally vulnerable to the Austrian-School critique.

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

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

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

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

On Economic and Political Freedom

These essays set the stage for Mises' and Hayek's confirmation of classical liberalism: economic freedom is a necessary condition for political freedom, the subject of Part III. Society seems to face a choice: Either we can allow millions of people to use property as they see fit (within a set of constitutional rules, of course) and engender a market-based discovery procedure, or we can abolish ownership and private initiative in favor of an increasingly centralized plan designed by expert authority and employing the latest scientific procedures.

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

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

Chapter ten, on "Why the Worst Get On Top," is taken from Hayek's provocative book *The Road to Serfdom.* Here Hayek seems, on the surface, to affirm Mises' "dictatorship complex" argument. Hayek argues that the interventions and creeping bureaucratization of society create a new kind of competitive selection mechanism—one that *rewards* totalitarian discipline and readiness to disregard society's accepted morals in order to execute more rational plans and policies. The centralized, state-bureaucratic institutions reward precisely those individuals who can place the "community" in the abstract—but especially the institutions of the state itself—at a higher moral level than the millions of concrete individuals whom the democratic state was originally meant to serve; one who can confidently and without moral hesitation consider individuals—including those filling the bureaucracy—as the means to attain the collectivist goals of the state itself. The economic power of individuals (through private ownership of the means of production and labor mobility) becomes increasingly appropriated by the institutions of the state, re-emerging as a tremendous instrument of *political power* that destroys political freedom—freedom of the press, of religion, of emigration, and so on. Those who *despise* such political freedoms are more likely to rise to the top as opposed to those who are indifferent to (let alone those who cherish) such freedoms.

Is Self-Managed Socialism the Answer?

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

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

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

Lessons for Lithuania

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

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

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

—AUDRONIS RAGUOTIS

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

still face an immeasurable degree of complexity when it attempts to formulate a feasible plan of action. Without private ownership of the means of production, and thus a series of prices emerging from a spontaneous market process, the economy has no systemic discovery procedure to evaluate the relative scarcities of goods and services—especially that of the means of production. The planners would find that their task is constrained more by epistemological limitations than by moral principles. That is, although they may believe they possess objective, concrete guidelines regarding political-economic justice (whether traditional—to each according to his needs, from each according to his abilities, or more contemporary rules articulated by Marković and others), the planners will soon face an enormous epistemological wall: they will inevitably lack useful criteria to help them acquire and transmit the detailed and relevant knowledge necessary to comprehensively coordinate and plan the entire economy. The relevant information surely will not be unearthed through the workers' councils.

The planners, in a sincere effort to create a unified and comprehensive plan worthy of its name, will not allow—indeed, they cannot allow—everyone to participate in plan formulation. The organizational logic must be one whereby planning tasks must be delegated to experts—at the level of councils, enterprises, ministries, and the central organs of state power itself. In order to feed the people (let alone clothe, house, educate, safeguard, and enrich the masses) the planning board will find that it cannot place socially important technical problems into the hands of society as a whole. Rather, the planning board, in conjunction with other centralized bureaus of the state, will deem it necessary, if rationalized production, distribution, and consumption processes are ever to commence, to appropriate control over the means of production and pursue the social goals that *it* deems technically possible and economically and socially worthwhile. The knowledge problem inherent in socialist proposals—to the extent that socialism seeks to abolish private ownership by whatever method of planning (centralization, self-management, or market socialism of the Lange variety)—paves the way for the totalitarian problem, the logical tendencies behind Mises' bureaucratization of the world or Hayek's road to serfdom.

So what's left? In chapter eleven—"Economic Freedom and Representative Government"—Hayek sketches what he considers the basic economic and political principles for a free, liberal society. How do we maintain or, in the case of the new regime in Croatia and other parts of Eastern Europe, cultivate, a market-based economy that fights the gradual erosion of political liberty and civil space—the tendencies to drift back toward statism and totalitarianism? Hayek argues that government must adopt a strict constitutionalist approach—a rule of law—that enforces *general* codes of just conduct equally applicable to all citizens. The details on the use of property, and so on, would be left to individual and group initiatives, to cooperative and competitive behavior among people and organizations, as long as they follow the broad rules articulated within the general constitution. (There is nothing prohibiting, for example, the emergence of co-operatives and other self-managed organizations, at least in principle, to compete alongside more traditional privately owned enterprise.)

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

1. See F. A. Hayek, ed., *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism* (London: George Routledge and Sons, Ltd., 1935), pp. 87–130.
2. David L. Prychitko, *Marxism and Workers' Self-Management: The Essential Tension* (New York and London: Greenwood Press, 1991), pp. 45–55, 83–100.

THE FREEMAN
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Breaking Up Antitrust

by Edward J. Lopez

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

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

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

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

The real world also provides plenty of examples that support the claims of antitrust supporters. The kind of behavior that Smith describes does indeed occur. One such case was the notorious fare-fixing telephone conversation initiated by American Airlines chairman Robert Crandall with Braniff president Howard Putnam in 1983.[1]

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

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

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

Mr. Lopez is Charles G. Koch Research Fellow at the Center for Market Processes and H. B. Earhart Doctoral Fellow in economics at George Mason University.

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

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

Antitrust Enforcement: The Ideal Versus the Real

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

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

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

The Antitrust Bureaucracy

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

One study of the Antitrust Division[7] found that the strengthening of the anti-merger laws (the 1950 Cellar-Kefauver amendment), and especially the early cases brought to court, made antitrust expertise more valuable in the private marketplace. There was a clear increase in the demand for these skills so that a young lawyer had a great deal to gain by working in the Antitrust Division. What's more, he or she had even more to gain from the specific experience of arguing cases at trial in the federal courts. Lawyers at the Antitrust Division have every incentive to choose cases that will go to trial, and go to trial quickly, regardless of the efficacy of the action in combating monopoly, or its effect on consumer welfare.

A similar study focuses on the FTC.[8] The study found that the ultimate career objective of most FTC lawyers was a job at a prestigious private law firm. Robert Katzmann writes that some cases "threaten the morale of the staff because they often involve years of tedious investigation before they reach the trial stage."[9] Therefore, the FTC opens "a number of easily prosecuted matters, which may have little value to the consumer . . . in an effort to satisfy the staff's perceived needs."[10] One FTC attorney is quoted in the study as saying, "for me, each complaint is an opportunity, a vehicle which someday could take me into the courtroom. I want to go to trial so badly that there are times when I overstate the possibilities which the particular matter might offer."[11]

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

The Congress

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

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

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

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

The conclusion from examining the incentives created by antitrust laws, and actions taken under them, is that antitrust laws do not serve the public interest as their supporters would claim. Antitrust does not combat the monopoly threat, but rather protects less efficient companies from their competitive rivals, bolsters the political capital of members of Congress, and furthers the careers of Washington bureaucrats. In short, the only thing that antitrust makes more efficient is the cozy triangle of special interests.

Conclusion

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

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

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

1. Howard Putnam taped this conversation. It was entered as evidence in the case brought by the government against American Airlines and Crandall. Quoted from Roger E. Meiners, Al H. Ringleb, and Frances L. Edwards, *The Legal Environment of Business*, 3rd ed., p. 401.
2. Dennis W. Carlton and Jeffrey M. Perloff, *Modern Industrial Organization*, pp. 181–183, and Richard A. Posner, "The Social Cost of Monopoly and Regulation," *Journal of Political Economy*, 83:807–827.
3. Probably most successful monopolization is achieved through government protection.
4. A compelling case has been made along these lines by D. T. Armentano. See *Antitrust and Monopoly* (New York: John Wiley and Sons, 1982) and *Antitrust Policy: The Case for Repeal* (Washington, D.C.: Cato Institute, 1986).
5. This arrangement has been the subject of widespread and extensive criticism, which typically calls for the elimination of the FTC. See Richard S. Higgins, William F. Shughart II, and Robert D. Tollison, "Dual Enforcement of the Antitrust Laws," in Robert J. Mackay, James C. Miller III, and Bruce Yandle, eds., *Public Choice and Regulation: A View from Inside the Federal Trade Commission* (Stanford, Calif.: Hoover Institution Press, 1987).
6. Barry R. Weingast and Mark J. Moran, "Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission," *Journal of Political Economy*, October 1983, 91:765–800.
7. Suzanne Weaver, *The Decision to Prosecute: Organization and Public Policy in the Antitrust Division* (Cambridge: MIT Press, 1977).
8. Robert A. Katzmann, *Regulatory Bureaucracy: The Federal Trade Commission and Antitrust Policy* (Cambridge: MIT Press, 1980).
9. *Ibid.*, p. 83.
10. *Ibid.*
11. *Ibid.*, p. 61.
12. Richard A. Posner, "The Federal Trade Commission," *University of Chicago Law Review*, 37:47–89, 1969. Roger L. Faith, Donald R. Leavens, and Robert D. Tollison, "Antitrust Pork-barrel," *Journal of Law and Economics*, 15:329–342, 1982.
13. Thomas J. DiLorenzo, "The Origins of Antitrust: An Interest-Group Perspective," *International Review of Law and Economics*, 5:73–90, 1985.
14. *Ibid.*, pp. 80–81.
15. Robert B. Ekelund, Michael J. McDonald, and Robert D. Tollison, "Business Restraints and the Clayton Act of 1914: Public- or Private-Interest Legislation?" in Fred S. McChesney and William F. Shughart, *The Causes and Consequences of Antitrust: The Public Choice Perspective* (Chicago: University of Chicago Press, 1994).

THE FREEMAN
IDEAS ON LIBERTY

The Economic Woes of Pro Sports: Greed or Government?

by Raymond J. Keating

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Superstar Athletes Provide Economics Lessons

by K.L. Billingsley

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

All three are former National Football League stars and all three are multimillionaires—not the sort of status that would rank them with, say, a plasterer in Pasadena or a sheet-metal worker in Santa Ana. Yet, as the *San Diego Union-Tribune* recently reported, all three—along with many other athletes—are tapping into workers' compensation in the state of California.

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

Mr. Billingsley is a journalism fellow at the Los Angeles-based Center for the Study of Popular Culture.

N O T E S F R O M

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Tel. (914) 591-7230
Fax (914) 591-8910
E-mail: freeman@westnet.com

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Welfare Reform

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

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

The sweeping federal welfare act of August 22, 1996 is an indication of many more reforms to come. The legislation transfers control of much of the nation's welfare system from the federal government to the states and imposes many new restrictions on aid. It requires workfare for most recipients, imposes strict time limits on benefits, and cuts back on benefits for immigrants. It affects millions of people for whom welfare has become a way of life.

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

The new system of state-run workfare builds on the assumption that the recipients can actually be led to forego the dole and return to the labor market. It completely overlooks and ignores the numerous institutional obstacles which the reformers themselves have erected. Surely, some people are lured to the dole by generous benefits which may approach or even exceed the wages they could earn in the labor market. Assistance payments plus housing allowance, food stamps, and free medical care may exceed the wages an unskilled laborer may earn, which is a powerful incentive for shunning employment. But even if all such inducements were removed, real obstacles to gainful employment would remain.

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

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

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

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

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

Hans Sennholz

Hans F. Sennholz

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

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

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

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

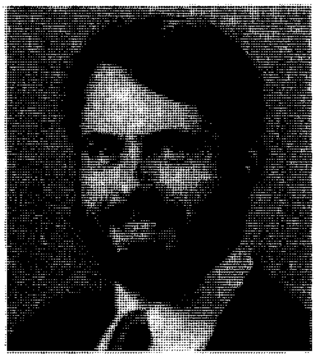
Besides illustrating market forces, athletics shows how a nearly pure meritocracy works. Nobody starts at quarterback for the Dallas Cowboys or guard for the Los Angeles Lakers because his father once played or happens to own the team. If a misguided urban youth can run, pass, kick, and play defense better than those raised in the wealthy suburbs, he will get the job, whatever his race, nationality, or religion. In sports, nepotism is a guarantee of failure, something that government needs to learn. But the attempt of some stars to gain money by other means is also illuminating.

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

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

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

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



Replace the Monopoly, Not the Superintendent

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

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

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

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

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

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

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

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

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

The right form of choice is full privatization. That is, public education should be abolished and the money left with parents, who would have responsibility for their children's education. Such a prospect is, of course, seen as beyond the pale by the educational establishment. Professional educators don't trust parents, even affluent ones. And what about the poor?

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

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

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

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

THE FREEMAN
IDEAS ON LIBERTY

Teen Smoking: The New Prohibition

by D. T. Armentano

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

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

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

It is widely acknowledged (outside of Washington) that the decision to start using tobacco products is influenced primarily by culture, family, and peer pressure, not corporate advertising. So banning brand-name event sponsorships, or limiting cigarette brand logos on race cars and drivers' uniforms, will have no measurable effect on any ten-year-old's decision to light up.

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

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

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

Dr. Armentano is professor emeritus of economics at the University of Hartford.

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

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

But controls are already a way of life in this industry. Laws addressing tobacco sales to minors are on the books in every state and the District of Columbia. Dozens of governmental agencies, including the Department of Health and Human Services, the Federal Trade Commission, and the Bureau of Alcohol, Tobacco and Firearms, already police and regulate the industry. Every state taxes cigarettes and most lump a sales tax on top of the excise tax. Cigarettes are already among the most taxed and regulated products in America.

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

Government and Governance

by Fred E. Foldvary

Policy debates typically center around the role of markets versus the role of governments. But this is a misleading distinction. Human society always has governance. Private organizations such as corporations and clubs have management, rules, and financial administration similar in function to those of government. The difference is that private governance is voluntary, while state-based government is coercively imposed on the people within some jurisdiction. So a central question is not whether the market or the government can best accomplish some task, but whether the governance shall be voluntary or coercive.

Dr. Foldvary is the author of Public Goods and Private Communities: The Market Provision of Social Services *(Edward Elgar, 1994). He teaches economics at California State University, Hayward.*

The Market-Failure Doctrine

Most economists would agree that we don't live in the best of all possible worlds. But the doctrine of market failure found in most economics textbooks fails to distinguish between consensual and coercive governance as correctives. The prevailing theory asserts that while markets might provide private goods efficiently in a competitive economy, markets fail to provide the collective goods that people want. There are two basic reasons offered as to why markets are not sufficient. Markets can easily determine the demand for private goods, but how can we tell how much each individual wants of a collective good? We could ask people how much they are willing to pay, but how do we get a truthful answer? Free riders also are a problem. Once the collective good is provided, folks can use it whether they pay or not, so why pay?

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

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

Voluntary Governance

Economists who study institutions recognize the importance of private governance. For example, Oliver Williamson's work on industrial organization concludes that when assets are specific to certain uses, when opportunism is possible, when transactions recur frequently, and when transactions costs would be large with many small units, governance within an institution is more effective than transactions among firms.

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

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

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

The complexity of real estate relationships, especially for more permanent residency, requires contractual governance with a constitution (master deed and bylaws) and ongoing administration. These associations are voluntary at the constitutional level—when you join, you agree to follow the constitutional rules. Unlike imposed government, the association is a property relationship bound by an explicit contract by legally equal parties.

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

Territory and Rent

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

But while this concept has been recognized, most public-finance economists have not drawn the logical conclusion. The result is not just that the taxation of labor, enterprise, and goods is not economically required, but that rent can also be collected by private, contractual, consensual means, to provide collective goods via the market process. The need to pay rent in order to use territorial goods (either by buying or renting land) further topples the free-rider argument. The need to pay rent implies that there are no free riders for community services.

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

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

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

THE FREEMAN
IDEAS ON LIBERTY

A Sentinel for Auto Emissions

by Daniel B. Klein

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

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

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

Imagine the following system: government randomly scans your car's emission levels using remote sensors and reads your license plate. If your emissions are excessive, you get a postcard. Because the technology is so inexpensive, the government can read your car four or even eight times a year. First you'd get warnings. If you continued to drive in a smogsome fashion, you'd get fines. If you refused to pay the fines, you'd eventually get pulled over and your car would be impounded.

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

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

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

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

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

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

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

THE FREEMAN
IDEAS ON LIBERTY

The Benefits of Outsourcing

by Brian Boland and Walter Block

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

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

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

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

Mr. Boland is a student, and Dr. Block a professor of economics, at the College of the Holy Cross in Worcester, Massachusetts.

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

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

A Sensible Choice

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

Some critics argue that outsourcing causes unemployment. Consider again our example of the pencil factory. Many would condemn outsourcing eraser production to another firm because such action means unemployment for workers on the in-house eraser assembly line. The "exploitative" capitalist has maximized his own profits at the expense of the workforce.

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

Moral and Religious Criticisms

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

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

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

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

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

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

Manipulating the Market

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

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

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

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

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

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

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

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

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

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

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

1. *Laborem Exercens* (Washington, D.C.: Catholic News Service, 1995), p. 19.
2. *Ibid.*, p. 35.
3. Pastoral Letter on Catholic Social Teaching and the U.S. Economy: *Origins*, NC Documentary Service, November 15, 1984, Vol. 14, No. 22/23; "Second Draft of the U.S. Bishops' Pastoral Letter on Catholic Teaching and the U.S. Economy," *Origins*, October 10, 1985.
4. Bill Vlasic, "Bracing for the Big One," *Business Week*, April 1, 1996, pp. 34–35.
5. *Ibid.*

THE FREEMAN
IDEAS ON LIBERTY

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

by Jim Powell

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

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

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

For centuries, people read Cicero because of his beautiful Latin prose. He transformed Latin from a utilitarian language, which served generals, merchants, and lawyers, into a poetic language. The first century A.D. Roman author Quintilian remarked that Cicero was "the name not of a man, but of eloquence itself." As a writer, Thomas Jefferson called Cicero "the first master of the world." Historian Edward Gibbon, who elegantly chronicled Rome's decline, recalled that when reading Cicero "I tasted the beauties of language, I breathed the spirit of freedom, and I imbibed from his precepts and examples the public and private sense of a man."

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

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

Mr. Powell is editor of Laissez Faire Books and a senior fellow at the Cato Institute. He has written for the New York Times, *the* Wall Street Journal, Barron's, American Heritage, *and more than three dozen other publications.*

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

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

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

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

Cicero's Early Years

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

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

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

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

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

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

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

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

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

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

Cicero Enters Politics

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

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

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

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

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

remarkably, without resorting to bribery or violence.

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

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

Choosing Among Evils

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

The least dangerous, he believed, was Cnaeus Pompeius (Pompey), a highly capable military commander, remarkable administrator, and political opportunist. During his early days, he was known as the "boy executioner." Pompey lacked political principles and reportedly changed wives to improve his political prospects. While he skirted constitutional restraints to advance his career, he never tried to overthrow the traditional (unwritten) Roman constitution. He wanted fame rather than political power.

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

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

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

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

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

The First Triumvirate

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

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

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

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

The Rise of Caesar

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

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

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

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

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

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

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

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

Cicero's Personal Woes

While the Roman Republic was collapsing, Cicero's personal life was, too. In 46 B.C., he and his wife, Terentia, were divorced apparently because of financial disputes. He soon remarried a rich young woman named Publilia, but she couldn't get along with his daughter, Tullia, so they divorced about a year later. Then Tullia died in childbirth. "Next to yourself," he wrote Atticus, "I have no better friend than solitude. In it all my converse is with books. It is interrupted by weeping, against which I struggle as much as I can...."

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

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

"The Law of Nature . . ."

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

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

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

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

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

Caesar continued to seek Cicero's goodwill by praising his work. Caesar dedicated his book *De analogia* (*On Analogy*, 54 B.C.) to Cicero, saying "You have gained a triumph to be preferred to that of the greatest generals. For it is a nobler thing to enlarge the boundaries of human intelligence than those of the Roman Empire." The two men had dinner at one of Cicero's villas—Caesar came with his retinue of about 2,000 soldiers. Later Cicero told Atticus: "my guest was not the sort to whom one says, 'Do pray come again when you are back.' Once is enough. We did not talk about serious matters, but a great deal about literature."

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

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

Some influential Romans, however, still cherished republican principles.

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

The Ides of March

Caesar planned to leave Rome for another war, against the Parthians, on March 18, 44 B.C. Brutus and Cassius decided that the assassination must take place on March 15—the Ides of March—during a Senate meeting. It was held in a hall next to the Theatre of Pompey. Apparently Cicero was there, although the conspirators hadn't confided in him because of his age and his tendency to talk.

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

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

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

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

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

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

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

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

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

The Murder of Cicero

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

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

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

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

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

In seventeenth-century England, according to one observer, it was "the common fashion at schooles" to use Cicero's *De Officiis* [*On Duties*] as an ethics text. Philosopher John Locke recommended Cicero's works. Cicero's vision of natural law influenced such thinkers as Locke, Samuel Pufendorf, and *Cato's Letters*' authors John Trenchard and Thomas Gordon who had the most direct intellectual impact on the American Revolution.

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

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

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

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

Economics in One Page

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

—Milton Friedman

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

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

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

In fact, one professor even suggested to me that economics can be reduced to one word: "price." Or maybe, I suggested alternatively, "cost." Everything has a price; everything has a cost.

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

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

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

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

1. Quoted in interview, *Lives of the Laureates*, William Breit and Roger W. Spencer, eds. (Cambridge, Mass.: MIT Press, 1986), p. 91.
2. Arjo Klamer and David Colander, *The Making of an Economist* (Boulder, Colo.: Westview Press, 1990), p. xiv. See also David Colander and Reuven Brenner, *Educating Economists* (Ann Arbor: University of Michigan Press, 1992).

Economics in One Page

by Mark Skousen

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BOOKS

The Social Security Fraud

by Abraham Ellis

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

Reviewed by William H. Peterson

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

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

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

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

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

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

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

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

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

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

Dr. Peterson, an adjunct scholar at the Heritage Foundation, is Lundy Professor Emeritus of Business Philosophy at Campbell University in Buies Creek, North Carolina.

The Home

by Richard McKenzie

Basic Books • 1995 • 228 pages • $23.00

Reviewed by Karol Boudreaux

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

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

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

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

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

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

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

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

This makes the final episode of McKenzie's book all the more discouraging. He returned to The Home in 1994 for an annual homecoming. No longer a residential orphanage, The Home now caters to "severely troubled children" who stay for weeks, not years. The annual cost of caring for each child now averages over $45,000, compared with less than $3,000 (in 1995 dollars) while he was in residence. The staff-to-student ratio today is 1.5 to one. The students no longer work in the fields, or do other chores, because as one administrator said, "we can't afford to pay them." Are these children better off than McKenzie and his fellow students?

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

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

Ending Affirmative Action: The Case for Colorblind Justice

by Terry Eastland

Basic Books • 1996 • 219 pages • $23.00

Reviewed by Steven Yates

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

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

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

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

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

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

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

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

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

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

by Congressman Richard Pombo and Joseph Farah

St. Martin's Press • 1996 • 224 pages • $22.95

Reviewed by Raphael G. Kazmann

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

The authors enumerate the legislation that is already in place and use case histories to describe the deleterious impact on individuals. As a hydrologic engineer with 50 years of experience in the development of water resources, I was particularly interested in the Corps of Engineers and its connection with "wetlands." Ever since the virtual demise of the dam-building program in the 1980s, the Corps has been looking for another mission. This turns out to be "protection" of wetlands—even though there is no authoritative definition of what a wetland is. According to the General Accounting Office, changes in wetland definition have significantly expanded the area of land under the jurisdiction of the Corps, possibly doubling it to perhaps as much as 200 million acres, 40 percent of which is privately owned.

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

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

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

Professor Kazmann lives in Baton Rouge, Louisiana.

Against the Tide: An Intellectual History of Free Trade

by Douglas A. Irwin

Princeton University Press • 1996 • 275 pages • $30.00

Reviewed by Robert Batemarco

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

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

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

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

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

Dr. Batemarco is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.