THE FREEMAN

IDEAS ON LIBERTY

VOLUME 57, NO 5 JUNE 2007

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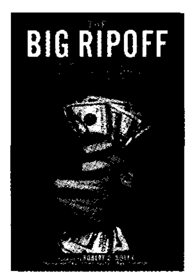

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From the President

Hans F. Sennholz: Champion of Freedom and Austrian Economics

BY RICHARD M. EBELING

For more than half a century Austrian-school economist Hans F. Sennholz demonstrated that learning about the free market was not an exercise in the "dismal science." An extremely popular public speaker and immensely prolific writer, Hans educated and persuaded thousands of people about the virtues of the free society and the benefits of economic liberty. His passing on June 23, 2007, at age 85 leaves a great void in the cause of freedom.

I vividly remember the first time I met Hans. It was in 1972 at a FEE regional seminar in Napa Valley, California, when I was 22. He already was one of the best-known expositors of Austrian economics and had been the chairman of the economics department at Grove City College in Pennsylvania since 1956. I had been reading his articles in *The Freeman* since I was a teenager in the mid-1960s and had learned many of the core principles of Austrian and free-market economics from his lucid expositions.

Hans Sennholz lecturing at a FEE seminar.

Rising to speak at that seminar, Hans was soon hunched over the podium, a finger pointed at the audience, in what I discovered was his characteristic pose. He proceeded to explain the "absurdities" of government intervention, socialism, and inflation. In a thick but easily understood German accent—that always had great effect on the crowd—he preached hell-fire and brimstone about how free markets and limited government were the only paths away from economic and political perdition.

In the evening he sat around with a group of the attendees and told us about his early life. Hans had been born on February 3, 1922, in the Rhineland area. He had been drafted into the German Luftwaffe in World War II and was shot down while serving in North Africa. He ended up in a POW camp outside of Austin, Texas. I asked him what it was like to be a prisoner of war. He replied that those were among the best years of his life. The camp cook had been a chef in a Berlin restaurant before the war, and all the meals were "wonderful." It turned out that he had some relatives who had immigrated to America in the 1920s and who happened to live in the area. They vouched for him so he could enroll at the University of Texas at Austin. He was escorted by a military policeman, who would stand behind him at attention in the classroom.

In 1946 Hans was repatriated to Germany. He attended the University of Marburg and graduated with an economics degree in 1948. In 1949 he was awarded a doctorate in political science from the University of Cologne. While browsing through the library at the University of Marburg he came across the German-language editions of *The Theory of Money and Credit* and *Socialism* by Ludwig von Mises and was deeply impressed by their insight and scholarship.

Since both books had been originally published decades earlier, Hans assumed that Mises must be dead. After briefly working as a lawyer in Cologne, Hans

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returned to the United States to pursue a career in business and enrolled at New York University to work on another degree. Looking through the university catalog, he discovered, to his great surprise, that Mises was in fact alive and teaching at NYU. Hans signed up for one of Mises's classes and soon decided to earn a degree under him. In 1955 Hans graduated with a Ph.D. in economics. His dissertation was published the same year under the title, *How Can Europe Survive?*

While studying at NYU, Hans found out about the Foundation for Economic Education through Mises, who was regularly lecturing at FEE seminars. Soon several of the Foundation's staff members were playing match-maker and "fixing him up" with Leonard Read's secretary, Mary Homan. They were married the year Hans graduated from NYU. Their marriage lasted 52 years.

Hans taught economics at Grove City College for 36 years, from 1956 to 1992. As chairman of the department he was able to move the economics program in a solidly free-market and Austrian direction. More than two generations of young men and women went through his classes and came away with a unique appreciation of the workings of the market economy and the dangers of all forms of political and economic collectivism.

He was an exceptionally prolific writer, publishing well over 1,000 articles over the years. He early on began contributing to *The Freeman*, with his first article appearing in November 1956 on "The Myth of Capitalist Colonialism." Among his many articles were "Welfare States at War," "You Cannot Get Even," and "The Great Depression." Many of his *Freeman* articles later appeared as chapters in his books: *Age of Inflation* (1979), *Money and Freedom* (1985), *The Politics of Unemployment* (1987), and *Debts and Deficits* (1987).

Hans also served on the FEE Board of Trustees (1969–1991) and, after his retirement from Grove City, as the president of FEE (1992–1997). During his tenure FEE expanded its publications and continued its long tradition of summer seminars at the Foundation. He also continued Leonard Read's tradition of missives and reports to FEE friends through *Notes from FEE*. A large selection of these essays was collected in *Reflection and Remembrance* (1997). His last book appeared in 2004 under the title *Sowing the Wind: Essays and Articles on Popular Economic Policies that Make Matters Worse*. (It was reviewed in the September 2005 *Freeman*.)

Fearless Defender

During the 1950s, '60s, and '70s, free-market ideas were constantly under attack from Marxists, moderate socialists, welfare statists, and Keynesians. Free enterprise had far fewer friends than today, and not many academics were willing to make the uncompromising case for economic freedom. Hans Sennholz was one of them. When Austrian economics seemed faced with extinction, Hans explained and defended the Austrian theories of value and price; markets and competition; and money, inflation, and the business cycle.

During those years the professional economics journals were closed to almost anyone holding those views. So, instead, Hans used more popular outlets to help keep alive the ideas of the Austrian school and the classical-liberal ideal. Especially in the pages of *The Freeman*, Hans Sennholz aroused the enthusiasm of a new generation of students to develop and spread those ideas.

The freedom movement owes Hans Sennholz a great debt of gratitude. He will be sorely missed by all those who had the privilege to know and learn from him.

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone: (914) 591-7230; E-mail: freeman@fee.org
www.fee.org

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The Foundation for Economic Education (FEE) is a non-political, non-profit educational champion of individual liberty, private property, the free market, and constitutionally limited government.

The Freeman is published monthly, except for combined January-February and July-August issues. To receive a sample copy, or to have *The Freeman* come regularly to your door, call 800-960-4333, or e-mail bhoffman@fee.org.

The Freeman is available on microfilm from University Microfilm International, 300 North Zeeb Road, Ann Arbor, MI 48106.

Perspective

Imports, Exports, and Nonsense

The Commerce Department (whose idea was that?) said recently that 2006 was another record year for the U.S. "trade deficit." The value of imports beat the value of exports by $764 billion. That makes five record years in a row. China's trade surplus with us hit $233 billion.

Ordinarily, I would ignore this nonstory because, as Adam Smith wisely said, "Nothing . . . can be more absurd than this whole doctrine of the balance of trade." And how many times must it be pointed out that the current-account deficit is a mirror image of the capital-account surplus? (Accounting 101: if everything is counted, everything is in balance.)

But in thinking about the announcement and the Smith quote, I've come away with a new appreciation of what the old Scotsman was saying. Concern about imports and exports really is ridiculous.

What is an export? What is an import? These words are defined in reference to political boundaries of only one kind: *national* boundaries. If there were no such boundaries, there would be no exports or imports. But political boundaries are just *that*. They are not economic boundaries. To the extent that they can, people go about their business as though those boundaries weren't there. People cross the Canadian-American and Mexican-American borders to transact business every day. If they give them a thought it is only because governments put up barriers patrolled by armed guards who make them wait in line. People learn early in life that they can gain immensely from trade, and with that understanding comes the insight that it doesn't much matter on which side of a Rand-McNally line your trading partner lives.

So the very concepts *imports* and *exports* are founded on an arbitrary construct that has little practical consequence for people's economic activities. Back in the 1980s, when neomercantilists feared Japan's economic success at selling us stuff (seems a little crazy now, no?), I used to ask what would happen to the trade deficit if Japan were made the 51st state. Obviously, the deficit would have disappeared because we don't reckon trade imbalances between states. Why not?

In reality, then, there *are* no imports and exports. There is only what I make and what everyone else makes. Few people would want to live just on what they themselves could make. Frédéric Bastiat pointed out that each of us daily uses products we couldn't make in isolation in a thousand years. Talk about solitary, poor, nasty, brutish, and short! "What makes this phenomenon stranger still is that the same thing holds true for all men," Bastiat wrote. "Every one of the members of society has consumed a million times more than he could have produced; yet no one has robbed anyone else."

This is just another way of saying that the case for free trade is conceded the moment someone eschews self-sufficiency. After that, we're just haggling over the size of the trade area. But if free trade (read: division of labor) is good, then the bigger the free-trade area the better. Globalization should be the worldwide removal of all barriers to the exchange of goods and services—rather than trade managed through state capitalism and multinational bureaucracies. Unilateral, unconditional free trade—a.k.a. individual liberty—is the smartest policy.

★ ★ ★

People claim to dislike dense and "unguided" urban and coastal development, but do they stop to think what powers government would have to have to prevent it entirely? Moreover, do they realize how government encourages what they say they don't like? Timothy Terrell has been thinking about it.

Ludwig von Mises famously showed that state socialism must fail because the tools of economic calculation—market prices—are forbidden. But what about calculation in a mixed economy where government buffers corporations from the winds of free competition? Kevin Carson sees signs of planned chaos.

If freedom is indispensable to creativity and innovation, why do so few employers allow it on the job? In this first of a two-part classic reprint, C. L. Dickinson critiques the traditional boss-worker relationship and argues for libertarianism in the workplace.

Former FEE president Hans F. Sennholz died recently. In his memory we reprise three of his articles.

Critics of the freedom philosophy make four common mistakes based on their misunderstanding of markets and government. George Leef shows where these critics go wrong.

In the columns department this issue, Richard Ebeling remembers Hans Sennholz. Donald Boudreaux discusses three articles that influenced his view of the market process. Burton Folsom contrasts the thinking of two presidents—Wilson and Coolidge—on the meaning of the Declaration of Independence and the Constitution. Walter Williams reminds us that America is not—or wasn't supposed to be—a democracy. And Jude Blanchette, reading the claim that we have enough globalization, ripostes, "It Just Ain't So!"

Books coming under the microscope explore Nazi socialism, the corporate state, income inequality, and the Sarbanes-Oxley Act.

—*Sheldon Richman*
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We Have Enough Globalization? It Just Ain't So!

BY JUDE BLANCHETTE

The debate over free trade is, and has been for over 200 years, quite contentious. In reading over the historical debates, it often seems as if no ground has been made by the advocates of a global, borderless economy. Indeed, this is what makes reading Adam Smith, John Bright, and Frédéric Bastiat essential even today—their arguments seem to have lost none of their relevancy.

But if the ideological battle is still in its early stages, the scope and depth of free trade has zoomed ahead. As much as libertarians may complain about the rise of supra-organizations like the WTO and bilateral trade agreements supervised by government and corporate interests, it's hard to argue with the data: the world is perhaps witnessing the freest movement of goods and people in history. It is worth taking stock of this fact before we go back to haranguing the Lou Dobbses of the world.

The problem, however, with reaching a new level of anything positive is the tendency to get complacent and admire the view.

Dani Rodrik, professor of international political economy at Harvard, seems to think that we've reached the End of Free Trade History. In an op-ed penned last March for the *Financial Times*, he argued: "[N]o country's growth prospects are significantly constrained today by the lack of openness of the international economy. Even if [the] Doha [round of trade talks] fails, poor countries will have enough access to rich country markets to achieve what countries like China, Vietnam, and India have been able to do. Closed markets may have been a fundamental problem during the 1950s and 1960s—in the early days of the current wave of globalization; it is hard to believe that they still are."

> Have we had so much global integration that we can kick back, consolidate the growth, and live fat and happy from here until eternity? While we may one day reach a point when all the world can buy goods from whomever it wishes, the young 21st century is far from that ideal.

Can this be so? Have we had so much global integration that we can kick back, consolidate the growth, and live fat and happy from here until eternity? While we may one day reach a point when all the world can buy goods from whomever it wishes, the young 21st century is far from that ideal.

The first, and most obvious, rebuttal is that it's no great feat to reach the income levels of India, China, and Vietnam. China, the country from which I write, is incredibly poor. While the view out the window of my Shanghai apartment is glitz and glamour, a short trip out of the city and into the Chinese countryside would persuade anyone to postpone popping the champagne. According to the most recent data, China's per capita GDP is $7,600, while in the United States it's around $43,000.

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India fares much worse, despite the best efforts of Tom Friedman to position the country as the greatest economic competitor to the United States. While to many the entire country is epitomized by the call centers of Bangalore, India is astoundingly poor. Its GDP has not yet reached $1 trillion, even with the second largest population in the world. What countries like India and China have achieved is remarkable, but they could still use a heavy dose of trade-led development.

Next, it's hard to grasp exactly what Rodrik means when he asserts that developing nations have as much access to the global economy as they need. Enough for what? the reader is tempted to ask. Even the wealthiest societies on the planet could benefit from a rapid and complete opening up of trade. As the division of labor expands and individuals are allowed to further specialize, society benefits from the increased production and efficiency. The more individuals that are brought within this fold, the greater the benefits to all of society. Within the United States, billions of dollars are lost to stupid and wasteful protectionist programs (the much-maligned agriculture subsidies being but one such example). And if the country stands to gain significantly from opening up even further, imagine the benefits that could accrue to less-developed nations.

While many may feel that to criticize the WTO is to provide succor to the protectionists, the truth is that by not giving the WTO the hairy eyeball, the true goal of free trade is obscured or even lost.

Part of the problem (or more accurately, part of the misunderstanding) stems from the habit of social scientists to view independent political units as the most important variable. But free trade is important to individuals, not nations. Thus while comparative advantage is usually discussed in reference to Country X producing widgets and Country Y producing ridgets, it's more to the point to say that *individuals* specialize in producing certain goods. (As Kierkegaard seemed to suggest, society is an abstraction without hands.)

Take one group of individuals who would greatly benefit from increased access to the world's economy: poor Third World farmers. According to Kym Anderson and Ernesto Valenzuela of the World Bank, "[D]eveloping country farmers . . . account for 43 percent of global employment, 64 percent of global agricultural value added, and a similarly large share of global poverty as measured by earnings of less than $1 a day." The scandal of rich-country agricultural protectionism is now notorious, with all sides of the political spectrum seemingly in agreement that the barriers to trade must come down. Anderson and Valenzuela estimate that an end to protectionism (that is, full liberalization) would provide an incredible boost to the output of developing countries.

What He Got Right

While I've focused mainly on what Rodrik got wrong in his piece, it's worth mentioning what he got right. His main thrust was that the cheerleaders of globalization, those who unquestioningly support the current modus operandi of globalization, will ultimately undermine free trade. Here Rodrik may be right, but for the wrong reasons. Rich nations, he argues, should be allowed wiggle room in trade agreements to boost their welfare state (or as he calls it, their social contract). The trade-at-all-cost element blocks this meaningful reform, he argues. But the real reason the current cheerleaders of globalization threaten free trade is that they so often fail to point out how rigged the system is. While many may feel that to criticize the WTO is to provide succor to the protectionists, the truth is that by not giving the WTO the hairy eyeball, the true goal of free trade is obscured or even lost.

Given the obvious exclusion from the global trading order that so many from the developing world face, Rodrik should know better than to argue that they're players in the world economy. For myriad reasons, governments across the globe keep their subjects from interacting fully with individuals beyond their political borders. This is a human-rights abuse in the true sense of the term.

Sprawl versus Coastal Beauty

BY TIMOTHY D. TERRELL

"It's a bad idea to turn the whole future of a region over only to people with money to make."

So says a local college professor, John Lane, in a recent editorial in one of our community newspapers. The article described Lane's trip with students down a coastal highway covering three Atlantic states and bewailed the "neglected landscapes" along the route.

"Neglected," in the context of his article, means that land use has been left to market forces rather than being regulated by a group of central planners. "For two days," the professor observed, "we'd . . . passed miles and miles of shabby strip malls, big-box development blocks and back-to-back burbs. As we clicked off bulging coastal county after coastal county it felt as if the whole South had sold out to the asphalt contractors and the burger merchants."

By comparison, there are a few development-free spaces along the coast where development has been banned—government-owned nature preserves of one sort or another. These, Lane said, were "safe from the ugly changes brought about by millions still rushing to the coast," while the rest suffered from government inaction. Most of the coastal counties were "places where people trust only the invisible hand of the market to sort out what should develop and what should not."

An earlier stop in Charlottesville, Virginia, gave Lane a reason to celebrate: the view from Monticello is protected by "good county planning." The local host to the student group pointed out that the protection took "bringing in the real experts—lots of planners."

Lane's preferences and mine probably overlap to a large extent. I enjoy uncrowded beaches, the view of rolling pastureland or mature forests, unpolluted mountain streams and tannin-laden coastal rivers. I do not want to see strip malls and burger joints, unless, of course, I want to buy what they offer for sale. While I may not see prospective development as what Lane on another occasion called an "approaching real estate apocalypse," I understand the wish to see a part of nature untouched by humans.

Most Americans seem to have similar desires. That is why coastal resorts which maintain undeveloped enclaves, relatively low-density housing, and beach restrictions (like Kiawah Island southwest of Charleston) command such high prices. Most of us have to be satisfied with a glimpse of nature's amenities, a small rectangle of crowded public-access beach, and a high-density high-rise or condo surrounded by a parking lot instead of marshes.

The preference for less or lower-density development can be attained in several ways. One way is to persuade people not to visit or live in these areas. This would reduce all the things that people both contribute to and despise—traffic, crowded beaches, strip malls, gaudy neon surf shops, and concrete high-rises. If preferences truly change, then those who still enjoy those things could do so with fewer impediments.

Another approach would be for those who prefer undeveloped land to purchase it and resist the various developers' offers to buy. This method is preferred by groups such as the Nature Conservancy, which acquires land by gift or purchase to retain in an undeveloped or less-developed state. This is expensive, especially where the demand for alternative uses is great.

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Or the government could prevent people from exercising their preferences by restricting development in a number of ways. To an extent this has already been done, both with complete bans (as with national seashores) and partial restrictions. This approach is no less expensive than private purchases of undeveloped land. The cost, however, is less visible, for it is passed on in various ways to taxpayers and consumers of coastal amenities. Inevitably, these restrictions reduce the availability of housing, access to natural attractions, and shops. With the same demand and reduced supply, the price of living on or visiting the coast increases. If land becomes more restricted, beaches will turn into the domain of the wealthy—more so than they now are.

This logical outcome of development restrictions would probably distress some egalitarians. So to preserve recreational accessibility for the masses, the government could ration access. But how much, and what sort of access should be granted, and who should pay for the facilities used? This is the source of substantial debate in the national parks, national forests, and other preserves. As long as there is an artificially low entry price to allow affordable access, there is bound to be a continuing shortage of the most desirable facilities. Government-owned recreational areas are often crowded, and the snowmobilers clash with those in search of quiet observation of nature.

Ironically, much of the sprawl—coastal and otherwise—that annoys so many Americans is encouraged by a suppression of the invisible hand rather than too much of it.

Sprawl—Courtesy of Government

Ironically, much of the sprawl—coastal and otherwise—that annoys so many Americans is encouraged by a suppression of the invisible hand rather than too much of it. The roads to the beach or the suburbs are typically funded entirely by taxes, encouraging more millions to rush to the coast. The water- and sewer-line expansions are government-provided. Other utilities often make use of government-owned property or the power of eminent domain to route their lines. Some coastal property (notoriously in Connecticut, the source of the infamous *Kelo vs. City of New London* case) is seized by government-created development corporations that have been granted eminent-domain powers. Property-tax assessments on longtime coastal residents may rise with neighboring property values, inducing some to sell out to escape their new cash-flow problems. Some tax dollars are used to market coastal development to potential vacationers inland. Federal flood insurance and government-funded beach maintenance effectively subsidize beachfront property, typically at the expense of people who live nowhere near the beach. All these factors, and more, artificially reduce the cost of sprawl, and contribute to the visual landscape so many find unsatisfying.

Those owners who wish to use their land profitably, but in a way that preserves wildlife habitat, may find the government standing in their way. The Endangered Species Act (ESA), for example, creates incentives to destroy habitat rather than create it. In Pender County, North Carolina, a coastal county through which Professor Lane's student tour passed, Benjamin Cone managed 7,200 acres primarily for wildlife. He planted food crops for wild turkey and encouraged quail and deer as well. As a byproduct, Cone's management also encouraged red-cockaded woodpeckers, an endangered species. Their presence was noted in the 1970s, but Cone did not see a problem with their presence. He continued to clear cut about 50 acres every five to ten years, and allowed the expansion of the woodpecker colonies, according to Richard L. Stroup.

In 1991 Cone wanted to sell some timber from his land. However, the Fish and Wildlife Service told him that no timber could be harvested for a half-mile radius around each woodpecker colony. This amounted to over 1,560 acres, costing Cone about $1.4 million. He was still required to pay taxes based on the land's previous value. With the woodpecker now a substantial financial liability, Cone began massive clear cutting of the remaining acreage, harvesting at about ten times the previous rate, starting with the older trees that would be the best habitat for woodpeckers. He informed a neighboring property owner of his newfound problem, and the neighbor promptly clear cut as well. With the incentives created by the ESA, wildlife habitat was reduced. Alternative uses of land, including development, look more attractive when wildlife becomes a liability.

Freedom versus Coercion

Trusting the invisible hand of the market will often mean that land is developed in ways that are contrary to my preferences. What I see in suburbia and along coastlines is frequently unappealing. Though government contributes to sprawl, more free-market policies would not result in an environment entirely to my satisfaction.

My response can be to defer to the preferences others have for burger joints, strip malls, and car dealerships. Or I can purchase and preserve land, with funds obtained through gifts or voluntary transactions instead of coercion. Finally, I could attempt to control the property of others by using the government's power to tax and regulate.

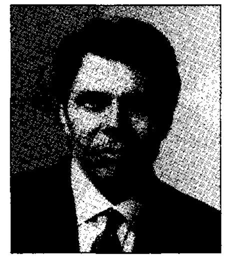
> Democratically elected officials are chronically shortsighted, and their regulatory appointees are chronically ill-informed.

Since most people will refuse me the power to dispose of natural resources as I see fit (and rightly so, given my limitations), I would need to work through our political system if I want control. This would not, however, eliminate the essence of my activity: I and my political allies would be taking what belongs to someone else. Seizing control through a democratic process does not sanctify it, though democracy perhaps slightly reduces the number of people who can be exploited compared to a dictatorship. Democratically elected officials are chronically shortsighted, and their regulatory appointees are chronically ill-informed. Benefits that appear before the next election are inflated in the politician's calculation, while costs (including costs to the environment) that occur after the next election are of less import. It's a bad idea to turn the future of a region over to people with elections to win.

Agency regulators and other "expert" planners, however well-motivated they might be, have no profit-loss information that would inform them about the preferences of individuals. In 1920 and afterward, Ludwig von Mises pointed out the problems central planners face when trying to make calculations of cost and benefit. Voting, as Public Choice economists have shown, does not produce sufficient information for efficient decisions. And too frequently the regulators are "captured" by special-interest groups, so that regulation is constructed to benefit the few at the expense of the many. No matter what the intent behind the rules, it usually creates unintended consequences that run counter even to the stated goals of the regulation. The ESA makes that clear.

It is unfair to blame markets for all that we dislike about sprawl. The pattern of development in suburbs and coastal areas is substantially different from what we would see in a truly free market. With chunks of government-owned property along the coastline, subsidized transportation and development, and liabilities attached to privately owned wildlife habitat, we are seeing the product of largely socialized development. And what we know about government should indicate that greater government control is unlikely to improve our social and environmental conditions. Responses more consistent with human freedom involve persuasion, conservation based on private property, and tolerance for the preferences of others.

Hayek, Coase, and Buchanan on the Market Process



BY DONALD J. BOUDREAUX

Compared to most other economists, my George Mason University colleagues and I put more emphasis on books than articles. Tyler Cowen, one of my most accomplished colleagues, often describes GMU Economics as a "book department."

This affection for books doesn't mean that we ignore articles. Indeed, articles—and especially articles in academic journals—remain the chief venue for even GMU economists to publish their research.

I reflected recently on many of the articles that I've read in my career as an economist. Certainly a much higher percentage of articles than books are unmemorable. They are read and soon forgotten. (This disadvantage, of course, is offset somewhat by the fact that far less time is required to read an article than a book.) But my readings of a few articles do stand out in my memory as watershed intellectual experiences.

Above all, the article that has influenced me most—the article whose lessons are woven most fully into the fabric of my intellect—is F. A. Hayek's classic 1945 article "The Use of Knowledge in Society." This pulsar of economic insights was first published in the most prestigious of all economics journals, the *American Economic Review*; it has since been reprinted countless times.

Hayek explained in this article that market prices guide millions upon millions of individual property owners (including workers) to use their resources in ways that benefit others. This achievement of prices is, to use Hayek's term, "marvelous." How can it be that each one of millions of individuals knows how to act so that his actions are coordinated with the actions of all the rest *and* coordinated in way to produce widespread prosperity? Clearly, we don't hold a giant, globe-spanning conference call each day and consciously plan out our economic activities for the next 24 hours.

Instead, each of us gets a good deal of continuing guidance simply by looking at the current pattern of prices. For example, consider vineyard owners in California. After the movie *Sideways* became a big hit, consumers wanted less merlot and more pinot noir. (A main character in the movie was a wine devotee with an outspoken disdain for merlot and a special affection for pinot noir.) Supermarkets and wine retailers soon found that they had unexpected unsold inventories of merlot while they were running out of pinot noir. These wine sellers lowered the prices they charged for merlot and raised the prices charged for pinot noir. This fall in the price of merlot, especially relative to the price of pinot noir, signaled vineyard owners to plant fewer merlot grapes and more pinot noir grapes. In this way—through prices adjusting to the facts of the market—producers learn what they should do to better meet consumer demands.

Another important article in my intellectual development is Ronald Coase's 1946 essay "The Marginal Cost Controversy." Published in the journal *Economica*, this article is a brilliant warning against the lure of taking textbook assumptions and conclusions too literally.

Marginal cost is the cost of supplying one additional unit of output—say, one more pound of apples or one more automobile. In most cases, marginal costs rise as firms increase the amounts they supply to consumers. But textbooks identify certain goods and services as ones whose supplies can be increased at zero cost. These textbooks also insist that economic efficiency requires that, in these circumstances, firms increase their supplies and charge consumers nothing for the additional output. Obviously, no private firm will do such a thing if its customers are willing to pay something for the extra output. So, many economists concluded, economic efficiency requires government intervention—say, to force the price down to zero or for government itself to supply such goods and services.

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The classic example of such a good is a bridge spanning a river. Once the bridge is built—and assuming that traffic on the bridge isn't congested—the cost of letting an additional car cross the bridge is practically zero. But the private owner of the bridge will nevertheless charge positive prices to each vehicle seeking to use the bridge. Economists blinded by textbook simplicity took this fact as evidence that private ownership of bridges is inefficient unless these owners are prevented by government from charging for use of their bridges during nonpeak times.

Coase effectively shouted, "That's absurd!" He rejected the convention of evaluating the appropriateness of prices based on the assumption that bridges already exist. Coase—having studied under Hayek at the London School of Economics—realized that the prices which bridge owners charge, even when their bridges aren't congested, are the best source of information about the value of bridges. If textbook-economics advice were followed and all existing bridges forced to charge a zero price for their use during times of no traffic congestion, then there would be no price signals to tell entrepreneurs the value to consumers of having additional bridges built.

Society does not exist in order to achieve some pre-determined outcome.

Coase's article does not only vividly drive home the vital role that prices play in the market process. And it does not only explain the importance of always remembering that the market is indeed a *process*. In addition it shows how misguided even professional opinion can become and how this opinion can be successfully challenged by wise economists who aren't afraid to question conventional doctrines. Coase challenged one of mainstream economics' most cherished propositions—namely, that prices above marginal cost necessarily are inefficient and should, if possible, be corrected by government. And in doing so he made us all better economists.

Spontaneous Order

The final article I'll describe is hardly an article at all. It's a letter to the editor of the old, wonderful publication *Literature of Liberty*. After philosopher Norman Barry published a splendid article surveying the theory of spontaneous order, James Buchanan, in 1982, wrote a letter in response. The title of his letter speaks volumes: "Order Defined in the Process of Its Emergence." And in only 536 words, Buchanan identified and conveyed clearly one of the deepest insights in the social sciences. This insight is that the social order we see around us is organic in every sense. The best summary I've read of Buchanan's point is provided by Don Luskin:

> Markets do not exist as means to achieve some desirable pre-determined end any more than people do. They exist for their own sake and on their own terms. If it so happens that the pattern of results they produce mimics some result that you consider to be desirable, then, well, so what? If they didn't, you couldn't enforce the result you consider desirable anyway—because markets, ultimately, both deliver what is possible and determine what is possible by doing the delivering.

Society does not exist in order to achieve some predetermined outcome. A free society is a genuine discovery process, defining its contours, its abilities, and its limitations as it develops. Wider understanding of this truth would go a long way toward tempering the dangerous enthusiasm that many persons have for directing society from on high.

Economic Calculation in the Corporate Commonwealth

BY KEVIN A. CARSON

The general lines of Ludwig von Mises's rational-calculation argument are well known. A market in factors of production is necessary for pricing production inputs so that a planner may allocate them rationally. The problem has nothing to do either with the volume of data or with agency problems. The question, rather, as Peter Klein put it, is "[h]ow does the principal know *what* to tell the agent to do?"

This calculation argument can be applied not only to a state-planned economy, but also to the internal planning of the large corporation under interventionism, or state capitalism. (By state capitalism, I refer to the means by which, as Murray Rothbard said, "our corporate state uses the coercive taxing power either to accumulate corporate capital or to lower corporate costs," in addition to cartelizing markets through regulations, enforcing artificial property rights like "intellectual property," and otherwise protecting privilege against competition.)

> Rothbard argued that the further removed the internal transfer pricing of a corporation became from real market prices, the more internal allocation of resources was characterized by calculational chaos.

Rothbard developed the economic calculation argument in just this way. He argued that the further removed the internal transfer pricing of a corporation became from real market prices, the more internal allocation of resources was characterized by calculational chaos.

Mises's calculation argument can be applied to the large corporation—both under state capitalism and to some extent in the free market—in another way not considered by Rothbard. The basic cause of calculational chaos, as Mises understood it, was the separation of entrepreneurial from technical knowledge and the attempt to make production decisions based on technical considerations alone, without regard to such entrepreneurial considerations as factor pricing. But the principle also works the other way: production decisions based solely on input and product prices, without regard to the details of production (the typical MBA practice of considering only finance and marketing, while treating the production process as a black box), also result in calculational chaos.

The chief focus of this article, however, is Mises's calculation argument in the light of distributed information. F. A. Hayek, in "The Uses of Knowledge in Society," raised a new problem: not the generation or source of data, but the sheer volume of data to be processed. In so doing, he is commonly understood to have opened a second front in Mises's war against state planning. But in fact his argument was almost as damaging to Mises as to the collectivists.

Mises minimized the importance of distributed information in his own criticisms of state planning. He denied any correlation between bureaucratization and

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large size in themselves. Bureaucracy as such was a particular rules-based approach to policy-making, in contrast to the profit-driven behavior of the entrepreneur. The private firm, therefore, was by definition exempt from the problem of bureaucracy.

In so arguing, he ignored the information and coordination problems inherent in large size. The large corporation necessarily distributes the knowledge relevant to informed entrepreneurial decisions among many departments and sub-departments until the cost of aggregating that knowledge outweighs the benefits of doing so.

Try as he might, Mises could not exempt the capitalist corporation from the problem of bureaucracy. One cannot define bureaucracy out of existence, or overcome the problem of distributed knowledge, simply by using the word "entrepreneur." Mises tried to make the bureaucratic or non-bureaucratic character of an organization a simple matter of its organizational goals rather than its functioning. The motivation of the corporate employee, from the CEO down to the production worker, by definition, will be profit-seeking; his will is in harmony with that of the stockholder because he belongs to the stockholder's organization.

By defining organizational goals as "profit-seeking," Mises—like the neoclassicals—treated the internal workings of the organization as a black box.

By defining organizational goals as "profit-seeking," Mises—like the neoclassicals—treated the internal workings of the organization as a black box. In treating the internal policies of the capitalist corporation as inherently profit-driven, Mises simultaneously treated the entrepreneur as an indivisible actor whose will and perception permeate the entire organization. Mises's entrepreneur was a brooding omnipresence, guiding the actions of every employee from CEO to janitor.

He viewed the separation of ownership from control, and the knowledge and agency problems resulting from it, as largely nonexistent. The invention of double-entry bookkeeping, which made possible the separate calculation of profit and loss in each division of an enterprise, has "reliev[ed] the entrepreneur of involvement in too much detail," Mises writes in *Human Action*. The only thing necessary to transform every single employee of a corporation, from CEO on down, into a perfect instrument of his will was the ability to monitor the balance sheet of any division or office and fire the functionary responsible for red ink. Mises continues:

> It is the system of double-entry bookkeeping that makes the functioning of the managerial system possible. Thanks to it, the entrepreneur is in a position to separate the calculation of each part of his total enterprise in such a way that he can determine the role it plays within his whole enterprise. . . . Within this system of business calculation each section of a firm represents an integral entity, a hypothetical independent business, as it were. It is assumed that this section "owns" a definite part of the whole capital employed in the enterprise, that it buys from other sections and sells to them, that it has its own expenses and its own revenues, that its dealings result either in a profit or in a loss which is imputed to its own conduct of affairs as distinguished from the result of the other sections. Thus the entrepreneur can assign to each section's management a great deal of independence. The only directive he gives to a man whom he entrusts with the management of a circumscribed job is to make as much profit as possible. An examination of the accounts shows how successful or unsuccessful the managers were in executing this directive. Every manager and submanager is responsible for the working of his section or subsection. . . . His own interests impel him toward the utmost care and exertion in the conduct of his section's affairs. If he incurs losses, he will be replaced by a man whom the entrepreneur expects to be more successful, or the whole section will be discontinued.

Capital Markets as Control Mechanism

Mises also identified outside capital markets as a control mechanism limiting managerial discretion. Of the popular conception of stockholders as passive rentiers in the face of managerial control, he wrote:

> This doctrine disregards entirely the role that the capital and money market, the stock and bond exchange, which a pertinent idiom simply calls the "market," plays in the direction of corporate business. . . . In fact, the changes in the prices of . . . stock and of corporate bonds are the means applied by the capitalists for the supreme control of the flow of capital. The price structure as determined by the speculations on the capital and money markets and on the big commodity exchanges not only decides how much capital is available for the conduct of each corporation's business; it creates a state of affairs to which the managers must adjust their operations in detail.

One can hardly imagine the most hubristic of state socialist central planners taking a more optimistic view of the utopian potential of numbers-crunching.

Peter Klein argued that this foreshadowed Henry Manne's treatment of the mechanism by which entrepreneurs maintain control of corporate management. So long as there is a market for control of corporations, the discretion of management will be limited by the threat of hostile takeover. Although management possesses a fair degree of administrative autonomy, any significant deviation from profit-maximization will lower stock prices and bring the corporation into danger of outside takeover.

The question, though, is whether those making investment decisions—whether senior management allocating capital among divisions of a corporation or outside finance capitalists—even possess the information needed to assess the internal workings of firms and make appropriate decisions.

How far the real-world, state capitalist allocation of finance differs from Mises's picture is suggested by Robert Jackall's account in *Moral Mazes* of the internal workings of a corporation (especially the notorious practices of "starving," or "milking," an organization in order to inflate its apparent short-term profit). Whether an apparent profit is sustainable, or an illusory side effect of eating the seed corn, is often a judgment best made by those directly involved in production. The purely money calculations of those at the top do not suffice for a valid assessment of such questions.

One big problem with Mises's model of entrepreneurial central planning by double-entry bookkeeping is this: it is often the irrational constraints imposed from above that *result* in red ink at lower levels. But those at the top of the hierarchy refuse to acknowledge the double bind they put their subordinates in. "Plausible deniability," the downward flow of responsibility and upward flow of credit, and the practice of shooting the messenger for bad news, are what lubricate the wheels of any large organization.

How does the large-scale investor distinguish losses caused by senior management's gaming of the system in its own interest at the expense of the productivity of the organization from losses occurring as normal effects of the business cycle?

As for outside investors, participants in the capital markets are even further removed than management from the data needed to evaluate the efficiency of factor use within the "black box." In practice, hostile takeovers tend to gravitate toward firms with low debt loads and apparently low short-term profit margins. The corporate raiders are more likely to smell blood when there is the possibility of loading up an acquisition with new debt and stripping it of assets for short-term returns. The best way to avoid a hostile takeover, on the other hand, is to load an organization with debt and inflate the short-term returns by milking.

Another problem, from the perspective of those at the top, is determining the *significance* of red or black ink. How does the large-scale investor distinguish losses caused by senior management's gaming of the system in its own interest at the expense of the productivity of the organization from losses occurring as normal effects of the business cycle? Mises of all people, who rejected the neoclassicals' econometric approach precisely because the variables were too complex to control for, should have anticipated such difficulties.

Management's "gaming" might well be a purely defensive response to structural incentives, a way of deflecting pressure from those above whose only concern is to maximize apparent profits without regard to how short-term savings might result in long-term loss. The practices of "starving" and "milking" organizations that Jackall made so much of—deferring needed maintenance costs, letting plant and equipment run down, and the like, in order to inflate the quarterly balance sheet—resulted from just such pressure, as irrational as the pressures Soviet enterprise managers faced from Gosplan.

Shared Culture

The problem is complicated when the same organizational culture—determined by the needs of the managerial system itself—is shared by all the corporations in a state-induced oligopoly industry, so that the same pattern of red ink appears industry-wide. It's complicated still further when the general atmosphere of state capitalism enables the corporations in a cartelized industry to operate in the black despite excessive size and dysfunctional internal culture. It becomes impossible to make a valid assessment of why the corporation is profitable at all: does the black ink result from efficiency or from some degree of protection against the competitive penalty for inefficiency? If the decisions of MBA types to engage in asset-stripping and milking, in the interest of short-term profitability, result in long-term harm to the health of the enterprise, they are more apt to be reinforced than censured by investors and higher-ups. After all, they acted according to the conventional wisdom in the *Big MBA Handbook*, so it couldn't have been *that* that caused them to go in the tank. Must've been sunspots or something.

In fact, the financial community sometimes censures transgressions against the norms of corporate culture even when they are quite successful by conventional measures. Costco's stock fell in value, despite the company's having outperformed Wal-Mart in profit, in response to adverse publicity in the business community about its above-average wages. Deutsche Bank analyst Bill Dreher snidely remarked, "At Costco, it's better to be an employee or a customer than a shareholder." Nevertheless, in the world of faith-based investment, Wal-Mart "remains the darling of the Street, which, like Wal-Mart and many other companies, believes that shareholders are best served if employers do all they can to hold down costs, including the cost of labor" (*Business Week Online* April 12, 2004).

On the other hand, management may be handsomely rewarded for running a corporation into the ground, so long as it is perceived to be doing everything right according to the norms of corporate culture. In a *New York Times* story that Digg aptly titled "Home Depot CEO Gets $210M Severance for Sucking at Job," it was reported that departing Home Depot CEO Robert Nardelli received an enormous severance package despite abysmal performance. It's a good thing he didn't raise employee wages too high, though, or he'd be eating in a soup kitchen.

As you might expect, the usual suspects stepped in to defend Nardelli's honor. An Allan Murray article at the *Wall Street Journal* noted that he had "more than doubled . . . earnings."

But Tom Blumer of BizzyBlog, whose sources for obvious reasons prefer to remain anonymous, pointed out some inconvenient facts about how Nardelli achieved those increased earnings:

- His consolidation of purchasing and many other functions to Atlanta from several regions caused buyers to lose touch with their vendors . . . .
- Firing knowledgeable and experienced people in favor of uninformed newbies and part-timers greatly reduced payroll and benefits costs, but has eventually driven customers away, and given the company a richly-deserved reputation for mediocre service . . . .
- Nardelli and his minions played every accounting, acquisition, and quick-fix angle they could to keep the numbers looking good, while letting the business deteriorate.

In a follow-up comment directed to me personally, Blumer provided this additional bit of information:

> I have since learned that Nardelli, in the last

months before he walked, took the entire purchasing function out of Atlanta and moved it to . . . India—Of all the things to pick for foreign outsourcing.

I am told that "out of touch" doesn't even begin to describe how bad it is now between HD stores and Purchasing, and between HD Purchasing and suppliers.

Not only is there a language dialect barrier, but the purchasing people in India don't know the "language" of American hardware—or even what half the stuff the stores and suppliers are describing even is.

I am told that an incredible amount of time, money, and energy is being wasted—all in the name of what was in all likelihood a bonus-driven goal for cutting headcount and making G&A [general and administrative] expenses look low ("look" low because the expenses have been pushed down to the stores and suppliers).

More than one observer has remarked on the similarity, in their distorting effects, of the incentives within the Soviet state-planning system and the Western corporate economy.

More than one observer has remarked on the similarity, in their distorting effects, of the incentives within the Soviet state-planning system and the Western corporate economy. We already noted the systemic pressure to create the illusion of short-term profit by undermining long-term productivity.

Consider Hayek's prediction of the uneven development, irrationality, and misallocation of resources within a planned economy ("Socialist Calculation II: The State of the Debate"):

> There is no reason to expect that production would stop, or that the authorities would find difficulty in using all the available resources somehow, or even that output would be permanently lower than it had been before planning started . . . . [We should expect] the excessive development of some lines of production at the expense of others and the use of methods which are inappropriate under the circumstances. We should expect to find overdevelopment of some industries at a cost which was not justified by the importance of their increased output and see unchecked the ambition of the engineer to apply the latest development elsewhere, without considering whether they were economically suited in the situation. In many cases the use of the latest methods of production, which could not have been applied without central planning, would then be a symptom of a misuse of resources rather than a proof of success.

As an example he cited "the excellence, from a technological point of view, of some parts of the Russian industrial equipment, which often strikes the casual observer and which is commonly regarded as evidence of success."

To anyone observing the uneven development of the corporate economy under state capitalism, this should inspire a sense of déjà vu. Entire categories of goods and production methods have been developed at enormous expense, either within military industry or by state-subsidized R&D in the civilian economy, without regard to cost. Subsidies to capital accumulation, R&D, and technical education radically distort the forms taken by production. (On these points see David Noble's works, *Forces of Production* and *America by Design*.) Blockbuster factories and economic centralization become artificially profitable, thanks to the Interstate Highway system and other means of externalizing distribution costs.

Pervasive Irrationality

It also describes quite well the environment of pervasive irrationality *within* the large corporation: management featherbedding and self-dealing; "cost-cutting" measures that decimate productive resources while leaving management's petty empires intact; and the tendency to extend bureaucratic domain while cutting maintenance and support for existing obligations. Management's allocation of resources no doubt creates use value of a sort—but with no reliable way to assess opportunity cost or determine whether the benefit was worth it.

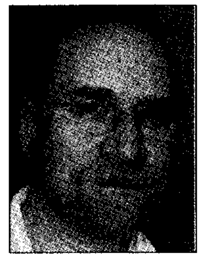
A good example is a hospital, part of a corporate chain, that I've had occasion to observe first-hand. Management justifies repeated downsizings of nurses and technicians as "cost-cutting" measures despite increased costs from errors, falls, and MRSA (Methicillin-resistant *Staphylococcus aureus*) infections that exceed the alleged savings. Of course the "cost-cutting" justification for downsizing direct caregivers doesn't extend to the patronage network of staff RNs attached to the Nursing Office. Meanwhile, management pours money into ill-considered capital projects (like remodeling jobs that actually make wards *less* functional, or the extremely expensive new ACE unit that never opened because it was so badly designed); an expensive surgical robot, purchased mainly for prestige value, does nothing that couldn't be accomplished by scrubbing in an extra nurse. But the management team is hardly likely to face any negative consequences, when the region's three other large hospitals are run exactly the same way.

> Entire categories of goods and production methods have been developed at enormous expense, either within military industry or by state-subsidized R&D in the civilian economy, without regard to cost.

Such pathologies, obviously, are not the result of the free market. That is not to say, of course, that bigness as such would not produce inefficiency costs in some firms that might exist under laissez faire. The calculation problem (in the broad sense that includes Hayekian information problems) may or may not exist to some extent in the private corporation in a free market. But the boundary between market and hierarchy would be set by the point at which the benefits of size cease to outweigh the costs of such calculation problems. The inefficiencies of large size and hierarchy may be a matter of degree, but, as Ronald Coase said, the market would determine whether the inefficiencies are worth it.

The problem is that the state, by artificially reducing the costs of large size and restraining the competitive ill effects of calculation problems, promotes larger size than would be the case in a free market—and with it calculation problems to a pathological extent. The state promotes inefficiencies of large size and hierarchy past the point at which they cease to be worth it, from a standpoint of net social efficiency, because those receiving the benefits of large size are not the same parties who pay the costs of inefficiency.

The solution is to eliminate the state policies that have created the situation, and allow the market to punish inefficiency. To get there, though, some libertarians need to reexamine their unquestioned sympathies for big business as an "oppressed minority" and remember that they're supposed to be defending *free markets*—not the winners under the current statist economy.



Lost Articles

BY SHELDON RICHMAN

The Constitution says that to be elected to the U.S. Senate, a person has to be 30 or older, a citizen for at least nine years, and a resident of the state from which the candidate is elected.

Alas, it says nothing about knowing American history.

Good thing for Sen. Lindsey Graham (R-S.C.). He'd have to find honest work.

Interviewed after last January's State of the Union address, Graham was asked about the situation in Iraq. Trying to put the difficulties in perspective, he said the United States did not get its constitution until 1789.

Buzz! Wrong answer, Sen. Graham. But as a consolation prize you get to take home a copy of Merrill Jensen's book *The New Nation: A History of the United States During the Confederation, 1781-1789.* We'll also throw in a copy of Herbert Storing's *What the Anti-Federalists Were For.* And thanks for playing our game.

Seriously, I realize that children learn virtually nothing about the eight years before 1789 during which the United States existed under the Articles of Confederation. But shouldn't someone who holds himself qualified to be a U.S. senator know that what we call "the Constitution" was really America's *second* constitution?

The Articles were adopted by the Second Continental Congress on November 15, 1777, and took effect after ratification on March 1, 1781. That was seven months before Cornwallis surrendered at Yorktown on October 19, 1781, and two and a half years before the Treaty of Paris was signed on September 3, 1783.

They remained in effect until "the Constitution" displaced them in 1789. The process by which the Articles were scrapped—rather than amended—in favor of an entirely new blueprint was dubious. As the Anti-federalist "Federal Farmer" (most likely Melancton Smith of New York) wrote in October 8, 1787, had the people known that a new constitution creating a strong central government was to be written, "no state would have appointed members to the convention."

Eight years is a significant period for a nascent country to endure after breaking away from an empire. Sen. Graham's remarks were meant to suggest that what took place in the United States during that time was similar to what's taking place now in Iraq. But that is ridiculous. The 13 states did not embroil themselves in civil war or sectarian violence—neither internally nor with one another. Quite the contrary.

How was life under the Articles of Confederation? As Merrill Jensen writes, "Americans fought against and freed themselves from . . . coercive and increasingly centralized power. . . . They did not create such a government when the Articles of Confederation were written, although there were Americans who wished to do so. . . . Thus the American Revolution made possible the democratization of American society by the destruction of the coercive authority of Great Britain and the establishment of actual local self-government within the separate states under the Articles of Confederation."

Under the Articles, Congress had no power to tax or to erect trade barriers. If it needed revenue it had to petition the states. There was no separate executive branch.

People in the new states, Jensen writes, were full of optimism about the possibilities ahead. Criminal codes were made more humane, with the death penalty removed for all crimes but murder and, in some cases, treason. Property qualifications for voting were abolished over time. Charities and mutual-aid societies were formed, along with library, scientific, and medical associations. Schools were founded. The union of church and state was increasingly opposed.

Of course there was slavery, which contradicted the philosophy espoused in the Declaration of Independence. But "[w]ithin a few years after 1775, either in constitutions or in legislation, the new states acted

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against slavery. Within a decade all the states except Georgia and South Carolina had passed some form of legislation to stop the slave trade," Jensen writes. New England states and Pennsylvania took steps toward abolition, and anti-slavery societies flourished.

What about the economies of the states? We can infer much from the fact that those who wanted to overthrow the Articles for a new constitution warned of *coming* economic turmoil if the central government were not fortified. Hence turmoil was a prediction *not* a description. Although individuals (white males) were free to a hitherto unknown extent, the states were no models of laissez faire.

Rent-seeking (political entrepreneurship) was rampant in the states, as it has been in every real-world system. Subsidies, loans, trade restrictions, and land giveaways were common. In this largely agrarian society, Jensen writes, "the dominant note was sounded by American merchants and business men who lived mostly in the seaport towns. . . . Their power was born of place, position, and fortune. They were located at or near the seats of government and they were in direct contact with legislatures and government officers. They influenced and often dominated the local newspapers which voiced the ideas and interests of commerce and identified them with the good of the whole people, the state, and the nation."

Thus contrary to Sen. Graham, pre-1789 America had a constitution, almost no central government, prosperity, and peace. Not too shabby.

Merchants and manufacturers disagreed on *what kind* of government intervention should exist, but not on *whether* it should exist. That's because they had different competitors. Merchants liked imports but wanted barriers to foreign (especially British) shipping, while manufacturers wanted barriers to foreign goods and didn't care about shipping. Part of the impetus to a strong central government was business's desire for a uniform national economic policy, since individual states, acting alone, could hurt themselves by having more stringent restrictions than their neighbors and one state could capture the lion's share of trade by competitively lowering its barriers. In other words, the consolidation of 1789 was part regulatory cartel.

Regional Differences

There were also regional differences. Most manufacturing was in the North, so protectionist sentiment was concentrated there. The South had little manufacturing and wanted access to cheap foreign goods. Thus high protective tariffs found little support. Northerners who coveted the southern market realized that only a nationwide trade policy would serve their interests. On the other hand, southern farmers wanted as many shipping options as possible and had little interest in restrictions on foreign carriers.

State economies suffered booms and busts—and a depression in 1784–85—thanks to paper money, government banking policies, and other intervention. But the crises were not extraordinary. As Jensen summarizes, "There is nothing in the knowable facts to support the ancient myth of idle ships, stagnant commerce, and bankrupt merchants in the new nation. As long ago as 1912, Edward Channing demonstrated with adequate evidence that despite the commercial depression, American commerce expanded rapidly after 1783, and that by 1790 the United States had far outstripped the colonies of a few short years before."

Despite the heavy intervention, the states still had virtually an unprecedented degree of economic freedom. A person could easily get a plot of land and take care of his family by farming. There was no distant overbearing central bureaucracy to worry about. Contact with government was minimal. Imagine what the economic growth and the justice of income patterns would have been had the states practiced laissez faire!

Thus contrary to Sen. Graham, pre-1789 America had a constitution, almost no central government, prosperity, and peace. Not too shabby.

The reasons for junking the Articles of Confederation for the Constitution are worthy of study but too big a topic for this column. Suffice it to say, as Jensen did, that "the founding fathers who wrote the Constitution of 1787 were quite a different set of men from those who signed the Declaration of Independence in 1776."

Free Men for Better Job Performance

PART I

BY C. L. DICKINSON

American industry and its managements have been the world's leaders in management techniques and in productive efficiency. However, there are signs that this leadership may be slipping. Most companies are experiencing Parkinsonism in a mild if not severe form. Decentralization and other techniques have neglected the consideration of individual employees and their ownership and control of the faculties for which they were employed. Government-protected restrictions imposed by organized labor seem to be pricing some U.S. industries out of world markets. The influence of vast government purchases, accompanied by more and more reams of paperwork and hours of unraveling red tape—these and other factors have had their effect on management and on industrial efficiency. Executives complain that they experience difficulty in getting managers and supervisors who will assume responsibility for making decisions. The "organization man" has become a symbol of the company politician who never makes a mistake because he always agrees with the right people "higher up."

Down on the production floor, the worker is the "hired hand." He looks, not to himself or to the employer for his job and the size of his pay check, but to the union. How can this dangerous trend be reversed?

The Property Idea

Property is a man's control of his life and all else of value that he has justly acquired. Anything unjustly acquired is possession but not property.

Ownership is the recognition of property.

The ownership by a free man of his life and his talents and other productive faculties permits him to invest these properties in his job.

This concept of property in the mental, spiritual, and physical qualities of man is not new. James Madison had this to say about property in a *National Gazette* essay in 1792.

> This term in its particular application means "that dominion which one man claims and exercises over the external things of the world, in exclusion of every other individual."
>
> In its larger and juster meaning, it embraces every thing to which a man may attach a value and have a right; and *which leaves to every one else the like advantage.*
>
> In the former sense, a man's land, or merchandize, or money is called his property.
>
> In the latter sense, a man has property in his opinions and the free communication of them.
>
> He has a property of peculiar value in his religious opinions, and in the profession and practice dictated by them.
>
> He has property very dear to him in the safety and liberty of his person.
>
> He has an equal property in the free use of his faculties and free choice of the objects on which to employ them.
>
> In a word, as a man is said to have a right to his property he may be equally said to have a property in his rights.
>
> Where an excess of power prevails, property of no sort is duly respected. No man is safe in his opinions, his person, his faculties or his possessions.[1]

C. L. Dickinson was the vice president for business affairs at the Institute for Humane Studies with a background in business management and academia. *This essay was first published in 1966. This is the first of two installments.*

When Madison was writing his essays, it took nine out of every ten citizens of the new republic to grow food enough for themselves and one other. At that time nearly every man had to be independent to survive, and most men worked alone and for themselves.

The Inside Contract System and Individual Enterprise

The Industrial Revolution led men off the farms and guided them to factories. For nearly all of the nineteenth century, even as the factory system grew, owners and managers practiced a system of "inside contracting" in which ". . . the management of a firm provided floor space and machinery, supplied raw materials and working capital, and arranged for the sale of the finished product. The gap between raw materials and finished produce was filled . . . by contractors to whom the production was delegated."[2] Individual enterprise under the contract system allowed each person to control the use of his property in performing his job. It meant, as Madison said, that the worker had "property in the free use of his faculties and free choice of the objects on which to employ them."

With the development of extending lines of transportation and communications, manufacturing and marketing changed from the horse-and-buggy perimeter to regional, nation-wide, and world-wide distribution. Management no longer consisted of the owners of factories and tools, raw materials, and capital. Former factory contractors became foremen and production superintendents. Business management was developing into a profession. The production employee who, as a party to the inside contract system had been an intimate part of the company production plans, now became a laborer for wages. "The factory required more planning and supervision than the smaller and simpler handicraft units. The function of work division became more important and complex. The relationship between the employer and the worker became more impersonal, and the problem of the motivation became more difficult. The worker in the evolving factories no longer felt that he was an organic part of the enterprise."[3]

Scientific Management

The situation was ripe for incubating the seeds of scientific management. Frederick W. Taylor, the American pioneer in scientific management, and many others who made important contributions to its development, including Henry L. Gantt, Morris L. Cooke, and Frank and Lillian Gilbreth, gave birth to the science of industrial engineering and the profession of management consulting.[4] They developed the techniques for time and motion studies. They led the way to the formulation of the major propositions of Organization and Management Theory.

These propositions hold that administrative efficiency is increased as:

1. Authority is a formal, one-way relation from organization superiors to organization subordinates;
2. Supervision is close and constant;
3. For practical job-relevant purposes the individual is considered a physiological organism who is socially isolated; and
4. Specialization and routinization are increased.[5]

There is ample evidence that business generally has moved in the direction of authoritarian control of management and production by accepting the major propositions of Organization and Management Theory quoted above.

The general acceptance of these authoritarian propositions has not resulted in an increase in administrative efficiency. There has been a consistently rising trend in productivity per worker, to be sure, but this reflects for the most part the transfer of savings into better tools and other production facilities. "Many managers would agree that the effectiveness of their organizations would be at least doubled if they could discover how to tap the unrealized potential present in their human resources."[6] Parkinson's Laws, "Work expands so as to fill the time for its completion" and "Expenditures rise to meet income," affect all organizations.[7] These "laws" seem to operate wherever humans get together in formal organizations whether in business for profit, government, or nonprofit agencies.

Business managers are concerned with the problem. It is a rare organization that does not periodically call upon the services of a management consultant to make a survey and provide management with recommendations for cutting overhead.

The usual procedure is for a team of consultants to make a thorough survey of the particular operations that appear to be less profitable or less efficient than the standard for the entire organization. Work flows are studied. Output is measured and compared with "scientifically" established standards. Eventually a report is issued and suggestions for improvements are made in the form of recommendations to top management.

The report is reviewed, usually by a committee. The members of the committee may themselves by affected, if and when the recommendations are accepted and implemented, particularly if they call for a reduction in staff. Frequently the report is "approved in principle," the recommendations with certain modifications are accepted, and reductions in staff, it is agreed, will be made by "normal attrition" of those who retire or resign. By the time the consultant's recommendations are acted upon and the last position is vacated, the entire staff probably has increased ten percent. This expansion is explained by the increase in business or, in the case of government, by the increase in the "demand" for services or, in the case of universities, by the increase in funds for teaching and research.

Is it possible for management to control this ever-expanding bureaucracy? Professor Parkinson seems to think not.

Group Behavior

The consultant's recommendations are often mysteriously brought to naught by the employees, usually by group action too subtle for management to control. The small group psychologists find that the behavior of the group affected by the changes can result in success or failure to accomplish the desired objective. Thus, recommendations of management specialists for changes in organizations or procedures are often ineffective.

> The group plays an important part in shaping the behavior of subordinates from vice presidents to factory and office workers. The penalties that may be imposed by the group for failure to conform to its norms may significantly influence a subordinate's response to organizational responsibilities. A subordinate may refuse to obey an order because he fears the penalties of the group more than penalties that may be imposed by the superior.[8]

On the other hand, as Robert Golembiewski points out, "The positive role of the small group in achieving organization purposes also demands attention. A high output norm, for example, would serve such a purpose. . . . A norm supporting high output is often more potent than the most stringent of attempts to coerce effort through formal techniques, for the norm is of the group's own making; it is not imposed upon them. The difference is a profound one—the difference between being told to do and being anxious to do."[9] Is it possible for managers to create this potent incentive?

Business managers are familiar with the behavior patterns of individual employees and of small employee groups. The company Christmas party, the department picnic, the recognition of employee anniversaries, the company magazine—all these and more are primarily aimed at improving the relationships between the company and its employees. Do these activities improve productivity and company profits? Do they create the "anxious to do" climate? My own experience, covering about thirty years of management in various situations, leads me to believe that most company employee benefit programs exert negligible effects on productivity and generally become an expected part of the annual wage.

Could it be that the individual has been submerged, to be replaced by the group? Could it be, if this is so, that a re-examination of the elements of liberty may provide the clue to responsive and responsible individual *and* group action? Liberty, the quality or state of being free, is defined in Webster's Third New International Dictionary, as "a condition of legal non-restraint of natural powers." It is the condition that leads to man's greatest accomplishments.

Liberty and Property

Liberty and property are inseparable. The urge to protect and enhance that which one owns is the essence of liberty and progress.

Most of us tend to become less vigorous in safeguarding our property or attending to its improvement when we look to fortune for the promotion of our interests. Swings in the business and economic cycles seem always to find the majority reaching for the speculative handle which will take them ever upward with little effort. All too soon the cycle turns, and with the turning comes the sudden shock. All too often, it has taken a reversal in fortune to strengthen the economic structure. As William J. Palmer, Judge of the Superior Court of California (retired) puts the matter, "Cycles of higher and lower activity and their accompanying psychological cycles are not only inevitable in any sound economy, but, within limits, are beneficial. It is during periods of reduced activity that the best thinking, house cleaning, planning, and self disciplining are done in the economic structure. Such periods are pruning times; roots are strengthened and driven into new soil; and following every recession and depression the economic organism of a free society burgeons with renewed vigor and variety."[10]

Those of us old enough to have worked our way through the depression years of 1929–34 have firsthand knowledge of the accuracy of Judge Palmer's observation. Unfortunately a depression is one way to improve management efficiency only for those managements able to survive. The struggle to survive is a potent force. Expenditures considered normal, or even essential, when income is high suddenly become extravagances to be eliminated when income falls. Productivity tends to increase when wages and salaries level off or decline or, at best, fail to maintain the customary annual percentage increase. If management can act to improve efficiency under these conditions, why can't it always do so? Why must we pay the price of depression to improve management and increase efficiency?

What universal values are there that impel men to do their utmost? To the extent management can discover these values, perhaps it can organize in ways best suited to utilize them for the benefit of employees, owners, customers and clients.

Ownership and Incentive

One of the most important of these values is *ownership*. An economy built on slavery cannot compete with an economy built on universal freedom. If the freedom to produce and consume, to buy and sell, to bargain and change jobs prevails, those who have an understanding of ownership as the essence of freedom will out-produce those who do not. The enterprisers will make things cheaper than those who prefer the security of the guaranteed wage, the safety of decision-making by committee action, and the symbols of bureaucratic status.

Management can increase efficiency by adopting the principles of ownership in the performance of all jobs including the subordinate ones. If ownership is an incentive to greater productivity, it seems worthwhile to explore ways to organize business in order to utilize the ownership incentive *without infringing on the property rights of the organization's investors and major risk takers.*

By establishing the concept that performance of jobs requires the application of the property of the job holders, subject to appropriate conditions incorporated in the "lease" or employment agreement by the grantor, it is possible to create a climate conducive to expanding individual effort.

Two conditions are essential to the establishment of meaningful ownership: (1) a complete and accurate description of the property owned, and (2) control.

The first condition is met for real estate by describing metes and bounds and such improvements as are contained therein; for other physical possessions it is met by whatever distinguishing characteristics are apparent; and for the performance of jobs it is met by defining the objectives, the relationships with others, and the duties and responsibilities of each individual employee.

The second and most important condition, control, is the right to "possess and use to the exclusion of others."* Restrictions, that reduce this control, obviously reduce the extent of the property right, by reducing the freedom to possess and use exclusively. Control is reduced by mortgage restrictions or government-imposed restrictions on real estate. Conditional sales restrictions on anything bought on credit, and management, government, or organized employee restrictions on jobs or job performance—all reduce or eliminate part or all of the control that is the essence of ownership.

*The California Civil Code, section 654, "The ownership of a thing is the right of one or more persons to possess and use it to the exclusion of others."

The actions of labor leaders publicly defying court orders and the property rights of union and non-union workers, as well as others, establish these labor leaders as the controllers of possessions† for which they have no just or moral right. In the Spring of 1966 the New York City bus and train drivers and other employees obviously did not own and control their "faculties and the free choice of the objects on which to employ them," or even their "opinions and the free communication of them." This is one example of many that have conditioned a nation of free men to relinquish the *control* of their faculties, their jobs, and their other properties to union leaders, to the government leaders, and yes, in too many instances, to the business leaders.

There are now more than 70 million Americans who work for wages and salaries. Most of them are employed by private or corporate businesses. Is it possible for managers to find ways to overcome the slave philosophy that has led so many managers and employees to look to government or the union or to the patronage of the company for their security?

Liberty, the condition of legal non-restraint of natural powers, is essential. *Work can be organized to utilize the great power of liberty and property for effective business administration and maximum individual productivity.*

Management—Agent of the Owners

Management's chief function is the organization of capital, physical energy, and brain power in ways to obtain the best results with the least expenditure. Management‡ is the agent of the owners. The owners delegate rights to control their property to the board of directors which establishes the general policies for the development and operation of the owners' property—capital—in accordance with the terms of the grant under their corporate charter and by-laws. In effect, the owners have granted, revocably, property rights to a group they elect to manage their property.

The board of directors employs the top management people, in many cases with a contract which provides a legally enforceable property right in the management positions. Administrative management divides the work into manageable pieces and forms the company organization structure.

The typical organization chart is a map of the functions that steer the course to the organization's objectives. Tracing the delegation on a chart is as easy as reading any map. Just as maps seldom describe the cities, villages, and points of interest, organization charts seldom describe the duties and responsibilities of the jobs placed in an orderly array of squares and connecting lines. The application of the concept of combining the property of owners with the mental and physical faculties of managers and production workers makes it possible to establish an owner-tenant relationship. This is the necessary first step in assigning each tenant employee his lease on part of the owners' property. The next step is a word description of the lease (the employment contract or agreement). Here it is important to visualize the business operation, not only as bricks and mortar, machines, capital, and people, but more importantly as integrated functions.

The owners' capital is as surely invested in these functions as in the bank account and other tangible assets. The owners delegate the responsibility and commensurate authority to the directors, who re-delegate to one or more administrative officers ". . . for the effective and profitable operation and growth of the corporation; for the general direction of all business, operations or other affairs of the corporation as a whole; and for advising and making recommendations to the Board of Directors with respect to these activities."[11] The owners also authorize these officers to delegate (sub-lease) portions of their responsibilities with proportionate authority for their fulfillment but they may not delegate or diminish their own accountability for results. These delegations of responsibilities and authority may be delineated in job descriptions.

Tenants or Hired Hands

If these descriptions also include monetary arrangements, they become similar to other forms of owner-tenant lease arrangements. Many very successful lease arrangements provide for a mutually agreeable distribution of the proceeds, resulting from the combining of owner and tenant property contributions. A farm lease

†See author's definitions of property and ownership on the first page.

‡In this sense, management means administrative control as delegated by the owners.

may include a division of production in lieu of cash rent in payment for the owner's and tenant's contributions to the farm operation. All leases result from voluntary agreements between willing owners and willing renters, when each party to the contract is satisfied that his own interests are served best.

The typical lease calls for payments by the tenant to the owner. The owner-employee agreement calls for payments by the owner to the tenant employee. Yet another arrangement is found in a broiler-growing contract between the farmer (lessor) and the feed company (lessee). These different methods of distributing income from production do not alter the similar contractual relationships that exist between employer and employee, farmer and tenant, or broiler grower and feed company. The employee combines his property with the property controlled by his employer, as does the tenant with the farmer and the broiler grower with the feed company.

The history of industrialization or automation, or whatever we call the transition wrought by the substitution of mechanical energy for physical energy, is replete with examples of organized efforts of men to find security of job and income tenure. The owner-capitalist-employer is often pictured as being on one side of the table fighting to preserve and enhance his capital at the expense of the helpless workers arrayed against him. Of course, owners should protect and enhance their capital, but in the absence of coercion this cannot be at the expense of the workers. Organized "bargaining" for wages, or, in the case of agricultural producers, for prices, today affects all wages and nearly all agricultural prices. Whether we should distort word meaning by referring to government-enforced prices as "bargaining" is of little concern here. What is important is whether individual employees and farmers are better or worse served, and whether owners of capital and workers are deprived of their property by such organized force.

F. A. Harper finds no evidence that collective force is any more effective in setting general wage levels than is the operation of a competitive market.[12] W. H. Hutt emphasizes the downward movement in the application of resources when restrictions prevent competition from establishing the price level in a market economy.[13]

The total value for combined capital, labor, management, and other resources is determined by consumers. Competition in a free market will establish not only the size of the pie, but also the size of the pieces for consumers, owners, managers, and production workers. Collective bargaining for wages always tends to equalize the rates regardless of the differences in productivity of individual workers in each group for which the rate is set.

The application of the property concept to jobs at all levels will change the way that the production segment of the consumer's dollar is divided. By stimulating greater efficiency it will increase the size of the pie and also increase the amount that the consumer's dollar will buy. The most productive employees will receive the greatest rewards.

Man has property rights in his skills, experience, and character that he should be permitted freely to use within the terms of his contract and without restricting the rights of others.

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A Sennholz Sampler

Editor's Note: Hans Sennholz, a former president and trustee of FEE and long-time chairman of the economics department at Grove City College, died in June at age 85. We honor his memory with three of the many articles he contributed over the years.

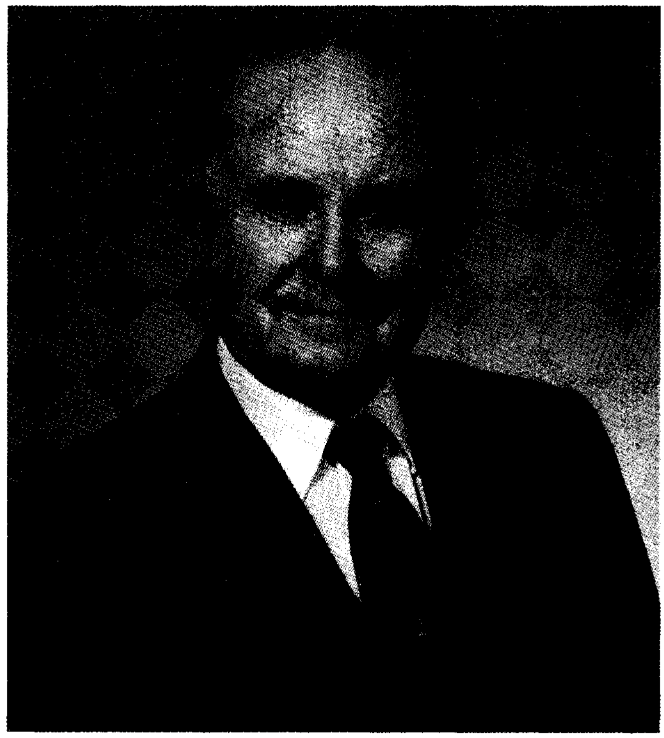
"Jobs and Trade," July 1996

Unemployment is the great puzzle of our time. It perplexes politicians, confuses officials, and even entangles economists. It persists and continues to grow despite all the government programs that mean to reduce it and the tax dollars spent to alleviate it.

Some writers continue to echo the teaching of Karl Marx. For them, capitalism always creates an "industrial reserve army of labor" consisting of the mass of wage-earners who are exploited and then thrown out of their jobs. Most economists are at one with John Maynard Keynes, the economic guru of our time, who viewed unemployment as a symptom of insufficient spending. Politicians continue to cling to the Keynesian view because it supports their spending predilection.

Some old-guard politicians and writers explain unemployment in protectionist terms which are among the oldest and most controversial in economics. Unemployment, they blaze about, is the price we pay for our participation in a global economy with millions of unemployed and under-employed people who are willing to work for 25 cents an hour. "Free trade" is "unfair trade" for Americans who are condemned to the indignities and hardships of unemployment.

If foreign trade actually were responsible for the corporate layoffs, the phenomenal rise of imports and exports in recent years should have disemployed most Americans. According to U.S. Department of Commerce statistics, U.S. general imports in 1950 amounted to $8.954 billion. By 1960 they had nearly doubled to $15.073 billion. By 1970 they had risen to $40.356 billion. During the 1970s they soared to $244.871 billion, and during the 1980s to $495 billion. This year they may exceed $700 billion. Surely, if imports would



Hans F. Sennholz (1922–2007)

destroy jobs, this 7,800 percent rise in imports since 1950 should have thrown most Americans out of work.

It is difficult to imagine our present working conditions and standards of living if the U.S. government had turned inward and closed its borders in 1950, as the Hoover administration managed to perpetrate in 1930. Even if the disruption of trade and immediate foreign retaliation would not have brought another depression, the crushing burden which radical liberal administrations placed on the economy during the 1960s and 70s would surely have depressed the economy and drastically lowered American levels of living. Similarly, if there had been no foreign investments, the staggering budget deficits of the 1980s and '90s would have drained the capital market and paralyzed the economy.

Employment always is a phenomenon of productivity and cost. In a market economy, in booms and depressions, there is an unlimited demand for labor that makes productive contributions. Labor that costs more than it is expected to produce, whether it is unskilled or armed with triple degrees, is devoid of any demand. In the eyes of potential employers, it is utterly "unproductive." This applies to actors and administrators, systems analysts, software programmers, automatic engineers, and aeronautical scientists. If young Ph.D.s in mathematics are unable to find employment, employers believe them to be rather "unproductive" considering their cost and productivity.

Much university-educated labor remains unemployed because it is not in touch with the labor market. It is government-directed and taxpayer-financed. Graduating from mammoth state universities and guided by Pell grants, Work-Study grants, Stafford loans, Perkins loans, and numerous other federal and state support programs, many graduates are ill-equipped for useful employment. In nearly all fields of economic activity employers provide most of the productivity training. But they are reluctant to offer it if the expenses of the trainee are prohibitive and the final results of the training are not expected to cover the outlays.

Businessmen continually adjust to changes in demand, supply, transportation, technology, cost of labor and capital, government levies and obstacles, domestic and international competition. Every member of the market order is under pressure to adjust in order to stay productive. Of course, a person is free to ignore the pressures; the typist may continue to pound the typewriter. But she cannot justly insist that she be subsidized by fellow workers and employers. The same is true of a university-trained aeronautical engineer who has learned to build great military planes. In times of war and preparations for war he is in great demand. In peace he will have to learn peaceful pursuits. He does not have the natural right to live off the labors of others.

International competition is as beneficial as domestic competition; it forces sellers to outdo one another by offering better and cheaper goods and services and forces buyers to outdo one another by offering higher prices. Protective tariffs and other trade restrictions effect the very opposite; they permit the protected producers to offer inferior products at higher prices. They cause production to shift from places in which the natural conditions of production are more favorable to places in which they are less favorable. They force labor to move from export industries paying high wages to the protected industries that generally pay lower wages. In short, trade restrictions hamper production and thus lower the standards of living.

The competitive position of an enterprise in domestic as well as international markets is determined by its total costs of which labor costs merely are one of many components. In capital-intensive industries, such as the pharmaceutical, chemical, aeronautical, steel, tool-and-die industries, the cost of capital tends to determine competitiveness; in labor-intensive industries the total cost of labor is decisive. There are no labor-intensive American industries that compete with foreign labor. Our service industries which render valuable labor services need not fear foreign competition; they are protected by onerous immigration restrictions.

Free trade is fair trade; those who deny it to others do not deserve it for themselves.

* * *

"You Cannot Get Even," June 1978

Government affects individual incomes by virtually every decision it makes. Agricultural programs, veterans' benefits, health and labor and welfare expenditures, housing and community development, federal expenditures on education, social insurance, Medicare and Medicaid programs, and last but not least, numerous regulations and controls affect the economic conditions of every citizen. In fact, modern government has become a universal transfer agency that utilizes the political process for distributing vast measures of economic income and wealth. It preys on millions of victims in order to allocate valuable goods and services to its beneficiaries. With the latter, transfer programs are so popular that few public officials and politicians dare oppose them.

The motive powers that drive the transfer order are as varied as human design itself. Surely, the true motives are often concealed, and a hollow pretext is pompously placed in the front for show. And yet, man is more accountable for his motives than for anything else. A good motive may exculpate a poor action, but a bad motive vitiates even the finest action. Conscience is merely our own judgment of the right and wrong of our action, and therefore can never be a safe guide unless it is enlightened by a thorough understanding of the implications and consequences of our actions. Without an enlightened conscience we may do evil thoroughly and heartily.

An important spring of action for the transfer society is the desire by most people to *get even* in the redistribution struggle. "I have been victimized in the past by taxation, inflation, regulation, or other devices," so the argument goes, "therefore I am entitled to partake in this particular benefit." Or the time sequence may be reversed: "I'll be victimized later in life," pleads the college student, "and therefore I want state aid and subsidy now."

This argument is probably the most powerful pacifier of conscience. It dulls our perception and discernment of what is evil and makes us slow to shun it. After all, we are merely getting back "what is rightfully our own." With a curious twist of specious deduction the modern welfare state, which continually seizes and redistributes private property by force, is defended by the friends of individual liberty and private property. "Man is entitled to the fruits of his labor," they argue, "we are merely getting back that which is rightfully and morally our own." They borrow the arguments for the private property order to sustain the political transfer order.

Surely getting back that which is rightfully and morally our own is a principle that is rooted in our inalienable right to our lives. It is a property right that springs from our human rights and from the right to life itself. It is the right to restoration of the fruits of our efforts and labors of which we are deprived by deceit, force, or any other immoral practice. It is a specific right to recovery or compensation from those who are wronging us or have injured us in the past.

This right to restoration does not beget the right to commit the very immoral act from which we seek restoration, to imitate others in acting immorally, or to seek revenge against the trespassers or innocent bystanders. But this is precisely what the "get-even" advisers urge us to do.

In an unfortunate automobile accident we are hurt or injured, or our vehicle may be damaged, because of the negligence of another driver. This gives us the right to demand restoration and compensation from the guilty party. But it does not give us the right to seize another car parked in the neighborhood, or return to the road and injure another driver. Or, our home is burglarized and we suffer deplorable losses in personal wealth and memorabilia. This does not bestow upon us the right to do likewise to others. But the "get-even" advocates are drawing this very conclusion.

He who is desirous of "getting even" in the politics of redistribution longs to join the army of beneficiaries who are presently preying on their victims. They would like to get their "money back" from whomever they can find and victimize now. Like the victim of a burglary who becomes a burglar himself, they are searching for other victims. But in contrast to the new burglar who may be aware of the immorality of his actions, the "get-even" advocate openly defends his motives while he is pursuing his political craft.

We cannot get even with those individuals who deprived us of our property in the past. They may have long departed this life or may have fallen among the victims themselves. We cannot get even with them by enlisting in the standing army of redistributors. We merely perpetuate the evil by joining their forces. So we must stand immune to the temptations of evil, regardless of what others are doing to us. The redistribution must stop with us.

The redistributive society has victimized many millions of people through confiscatory taxation, inflation, and regulation. Government, acting as the political agency for coercive transfer, seized income and wealth from the more productive members and then redistributed the spoils to its beneficiaries. Although many millions of victims and beneficiaries were involved, which often obscures the morality of the issue, the forced transfer took place between certain individuals. It is true, the beneficiaries, who used political force to obtain the benefits, cannot easily be recognized in the mass process of transfer. But even if we could identify them, and establish a personal right to restoration, our property has been consumed long ago. A vast army of beneficiaries, together with their legions of government officials and civil servants, consumed or otherwise squandered our substance. There is nothing to retrieve from the beneficiaries who probably are poorer than ever before, having grown weak and dependent on the transfer process.

When seen in this light, the get-even argument is nothing more than a declaration of intention to join the redistribution forces. It may be born from the primitive urge for revenge against government, state or society. But it is individuals who form a government, make a state and constitute a society. By taking revenge against some of them for the injuries suffered from the hands of others, I am merely reinforcing the evil.

Revenge is a common passion that enslaves man's mind and clouds his vision. To the savage it is a noble aspiration that makes him even with his enemies. In a civilized society that is seeking peace and harmony it is a destructive force which law seeks to suppress. But when the law itself becomes an instrument of transfer, the primitive urge for revenge may burst forth as a demand for more redistribution. It becomes a primary force that gives rise to new demands or, at least, reinforces the popular demands for economic transfer. The common passion for revenge, no matter how well concealed, undoubtedly is an important motive power of social policy that leads a free society to its own destruction.

No wealth in the world and no political distribution of this wealth can purchase the peace and harmony so essential to human existence. Peace and harmony can be found only in moral elevation that reaches into every aspect of human life. A free society is the offspring of morality that guides the actions and policies of its members. To effect a rebirth of such a society is to revive the moral principles that gave it birth in the beginning. It is individual rebirth and rededication to the inexorable principles of morality that are the power and the might. The example of great individuals is useful to lead us on the way, for nothing is more contagious for greatness than the power of a great example.

To spearhead a rebirth of our free society let us rededicate ourselves to a new covenant of redemption, which is a simple restatement of public morality. In the setting of our age of economic redistribution and social conflict it may be stated as follows:

- No matter how the transfer state may victimize me, I shall seek no transfer payments, or accept any.
- I shall seek no government grants, loans or other redistributive favors, or accept any.
- I shall seek no government orders on behalf of redistribution, or accept any.
- I shall seek no employment, or accept any, in the government apparatus of redistribution.
- I shall seek no favors, or accept any, from the regulatory agencies of government.
- I shall seek no protection from tariff barriers or any other institutional restrictions of trade and commerce.
- I shall seek no services from, or lend support to collective institutions that are creatures of redistribution.
- I shall seek no support from, or give support to associations that advocate or practice coercion and restraint.

We do not know whether our great republic will survive this century. If it can be saved, great men of conviction must lead the way—men who with religious fervor and unbounded courage resist all transfer temptations. The heroes of liberty are no less remarkable for what they suffer than for what they achieve.

* * *

"Beware of Despair," July 1994

Many lovers of freedom love to despair. They complain of regulation, regimentation, taxation, inflation, confiscation, expropriation, bureaucratization, and politicization. They cry out against legislators, regulators, tax collectors, judges, and bureaucrats who annoy and anger them every day. Some look askance at all manifestations of government.

Yet no man who is mindful of the past should take a morose or despondent view of the present. The past surely was no better than the present; the past days were not what they should have been. In our own century, man's inhumanity to man reached unprecedented magnitudes in brutality and barbarity, in bloody wars between the great Western nations, the massacre of countless millions of innocent people in the Soviet Union, Germany, China, and many other places. No present calamity, whether political, social, or economic, can be compared with those evils.

Social and economic policies in the United States are no worse today than they were in the past. When compared with the 1930s and 1960s they may even be more circumspect. During both the 1930s and 1960s the country suffered major breakthroughs of political and economic radicalism which paved the way for an economic command system. . . .

The fears of the pessimists in our midst are natural and logical. If we project the trend of the last sixty-five years into the future, we will in time arrive at a political command system, at first at democratic socialism of the British variety and later at a Soviet brand. The road on which Presidents Hoover and Roosevelt first embarked leads straight to authoritarian socialism.

Fortunately, history never moves in a straight line. The trends of policy change as the ideas which guide man are ever changing. Ideas are the factors that shape policies and guide Presidents in a way they lead all other individuals. In most parts of the world the trend of policy has already changed fundamentally and is visible as a movement toward "privatization." A free-market counterrevolution is rising in all corners of the world; the old order of political economy is retreating everywhere. The revolution of ideas has swept away the Communist system, discredited all forms of socialism, and is bringing hope to many poor countries. All over the world governments are being downsized, public enterprises are privatized, and taxes are lowered. The houses which Marx and Keynes built are being razed and replaced by houses designed by Adam Smith and Ludwig von Mises.

The light of economic freedom is shining brighter now than at any time in this century. Even old-guard socialists readily concede that the market order is more productive than the command order; socialistic parties all over the world are introducing market reforms. Communist China, the last stronghold of Communism, has launched a vigorous market order.

The United States may very well be the last country to reform and depoliticize the economy. A giant does not readily learn from a puny neighbor; a superpower does not cheerfully emulate a country without power; a victor does not gladly follow in the steps of the vanquished. Yet the size of a country and its military might do not annul economic law; disregard and disobedience of economic law in time stifle military might and weaken a country. . . .

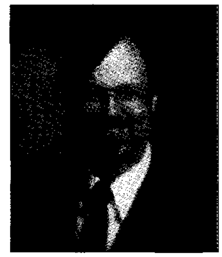
It is difficult to convince a pessimist that the future belongs to people who are free. He spends all his time worrying about tomorrow's misfortunes which may never come. He peers into the future wearing dark glasses and sees only darkness. Despondent and forlorn, he is bogged down with discontent and unhappiness, calling himself a "realist" and being proud of it. But even realists need the promise of success in order to be active and energetic. Few people readily give their time and strength to a hopeless cause even if it should be noble and desirable. Without the hope of success and ultimate victory the pessimist can muster little support for the cause he may represent. His fears are likely to become self-fulfilling.

Virtue and justice may not be enough to achieve victory for a noble cause. It takes effort and leadership which builds on reason, judgment, and hope. A habitual pessimist is incapable of leading the way.

We know where we are, but we do not know where we will be in the future. God does not suffer man to have knowledge of things to come. Yet we always look to the future; our ideal, whatever it may be, lies further on. Henry Wadsworth Longfellow, the nineteenth-century American poet, who wrote some of the most popular poems in American literature, responded to all forms of pessimism when he wrote: "Look not mournfully to the past—it comes not back again; wisely improve the present—it is thine; go forth to meet the shadowy future without fear, and with a manly heart."

Our Economic Past

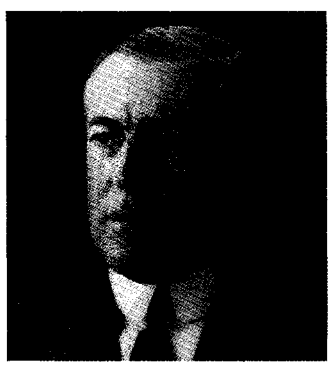
Two Presidents, Two Philosophies, and Two Different Outcomes



BY BURTON W. FOLSOM, JR.

Richard Weaver's observation that "ideas have consequences" is especially valid when we study the growth of government in America. If we compare the attitudes of Woodrow Wilson and Calvin Coolidge on the Constitution and the Declaration of Independence we can see how their views on government intervention were a logical outcome of their conceptions of these documents.

The Declaration of Independence reflected a generation of thinking on the subject of natural rights—"that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty, and the pursuit of happiness." The Constitution later separated the powers of government to protect life, liberty, and property from future encroachments by potential tyrants.



Woodrow Wilson

Woodrow Wilson had only limited use for the Founders and the Declaration. "If you want to understand the real Declaration of Independence," Wilson urged, "do not read the preface." Government did not exist merely to protect rights. Instead, Wilson argued that the Declaration "expressly leaves to each generation of men the determination of what they will do with their lives. . . . In brief, political liberty is the right of those who are governed to adjust the government to their own needs and interests." "We are not," Wilson insisted, "bound to adhere to the doctrines held by the signers of the Declaration of Independence."

The limited government enshrined in both the Declaration and the Constitution may have been an advance for the Founders, Wilson conceded, but society had evolved since then. The modern state of the early 1900s was "beneficent" and "indispensable." Separation of powers hindered modern governments from promoting progress. "[T]he only fruit of dividing power," Wilson asserted, "was to make it irresponsible."

A better "constitutional government," Wilson urged, was one "whose powers have been adapted to the interests of its people." A strong executive was needed, he believed, to translate the interests of the people into public policy. The president was the opinion leader, the "spokesman for the real sentiment and purpose of the country." And what the country needed was "a man who will be and who will seem to the country in some sort of an embodiment of the character and purpose it wishes its government to have—a man who understood his own day and the needs of his country."

In the White House, Wilson intended to be a strong president working with a "living Constitution." He promoted the expanding of "beneficent" government into new areas. In his second year as president he concluded that shipping rates were too high, and he blessed his secretary of treasury's plan to regulate overseas shipping rates and the companies doing the shipping. Later he promoted a plan to make loans to farmers at federally subsidized rates. Then he pushed through Congress a bill fixing an eight-hour day for railroad workers.

Article 1, Section 8, of the Constitution gives no power to the federal government to regulate the prices of trade, the hours of work, or to make special loans to farmers or any other group. But Wilson said he was operating with a "living Constitution" and that increased government in these cases reflected appropriately the greater will of the people. Likewise, when Wilson helped centralize banking with the Federal Reserve system and when he further restricted trade by promoting the Clayton Antitrust Act, he believed that this work for the general good outweighed any loyalties to the

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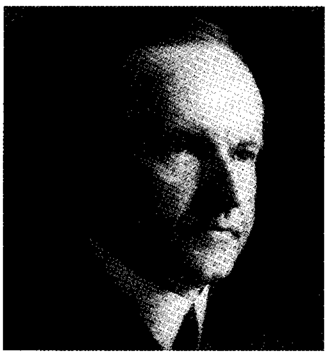
rigid construction set up by the Founders in the original Constitution.

Not all Americans agreed with Wilson's evolving Constitution. The Adamson Act, which required the eight-hour day for railroad workers, was challenged and went to the Supreme Court. It was sustained by a 5–4 majority, but Justice William Day was appalled at the constitutional violations in the bill. "Such legislation, it seems to me," Day said, "amounts to the taking of the property of one and giving it to another in violation of the spirit of fair play and equal right which the Constitution intended to secure in the due process clause to all coming within its protection."

Such growth of government came with a cost, but Wilson was ready with the progressive income tax to pay for his new programs. World War I clearly influenced Wilson's use of the tax and his centralization of power—he promoted an increase in the top tax rate from 7 to 15 percent in 1916; then, during the war, Wilson secured an increase to a 77 percent marginal rate on the country's largest incomes.



Calvin Coolidge

Where Wilson supported an evolving Constitution that gave him authority to increase the power of government and centralize power, President Calvin Coolidge, who was on the ticket that succeeded Wilson, believed that the Declaration and the Constitution should be accepted as the Founders wrote them.

In July 1926, on the sesquicentennial of the signing of the Declaration, Coolidge gave a speech reaffirming the need for limited government. "It is not so much then for the purpose of undertaking to proclaim new theories and principles that this annual celebration is maintained, but rather to reaffirm and reestablish those old theories and principles which time and the unerring logic of events have demonstrated to be sound."

Coolidge added that "there is a finality" about the Declaration. "If all men are created equal, that is final. If they are endowed with inalienable rights, that is final. If governments derive their just powers from the consent of the governed, that is final. No advance, no progress can be made beyond these propositions. If anyone wishes to deny their truth or their soundness, the only direction in which he can proceed historically is not forward, but backward toward the time when there was no equality, no rights of the individual, no rule of the people. Those who wish to proceed in that direction can not lay claim to progress. They are reactionary."

Coolidge's attitude as president reflected his belief in the ideas of the Declaration. He was not always consistent—for example, he signed the Fordney-McCumber Tariff in 1922, which slapped high and uneven taxes on some needed imports. But his efforts were largely in the direction of reducing the size of government to increase liberty. For example, Coolidge cut the size of government and was the last president to have budget surpluses every year of his presidency. Also, when the Harding-Coolidge administration came into office in 1921, the tax rate on top incomes was 73 percent; when Coolidge left the presidency eight years later it was 25 percent. The rates on the lowest incomes were also slashed.

Attacked Special Interests

Furthermore, Coolidge often attacked special interests. He vetoed a bill to give a special cash bonus to veterans; and, through President Harding, he was part of the administration that shut down a government-operated steel plant set up by Wilson, which had lost money each year of its operation.

Not once but twice Coolidge courageously vetoed the McNary-Haugen farm bill, which was popular with farmers, because it promised federal price supports for them. "I do not believe," Coolidge wrote, "that upon serious consideration the farmers of America would tolerate the precedent of a body of men chosen solely by one industry who, acting in the name of the government, shall arrange for contracts which determine prices, secure the buying and selling of commodities, the levying of taxes on that industry, and pay losses on foreign dumping of any surplus."

When presidents are faithful to America's founding documents, limited government has a chance to flourish. But when presidents emote over a "living" Declaration and Constitution, then the growth of government is upon us.

The Four Mistakes of Nonlibertarians

BY GEORGE C. LEEF

In *Libertarianism: For and Against* (Rowman & Littlefield, 2005), two philosophers debate the merits of libertarianism. Arguing in favor is Professor Tibor Machan, a contributing editor to *The Freeman*. His opponent is Professor Craig Duncan, who attempts a refutation of libertarianism and seeks to persuade readers that they should embrace "democratic liberalism."

It is always welcome to find a debate over a serious topic, and whether we would be better off with government limited to libertarian "night watchman" functions or with whatever government emerges under "democratic liberalism" is to my mind as serious as philosophical questions get. I found the debate in the book enlightening, especially for the insight it gives us into the mind of the nonlibertarian.

Like many Americans, Duncan commits four errors that are common among non-libertarians both of the "left" and the "right."

The first mistake in this set is to overestimate the problems of a free society. To nonlibertarians, the thought of a truly free society is frightening. They imagine that a few wealthy individuals would crush the rest with their enormous economic power, abuse the environment, establish monopolies, underpay workers, discriminate against people in unpopular groups, ruin the morality of the people, and much more. Nonlibertarians don't think their own freedom should be curtailed, but believe that in the absence of laws to make others behave properly, the nation would become a Hobbesian horror.

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Closely related to that mistake is the underestimation of the ability of free people to solve problems. Poverty, pollution, discrimination—those and many other problems—will fester and grow in a free society because the poor, oppressed people can accomplish nothing against them. To suggest that voluntarism can work usually gets the nonlibertarian's eyes rolling, accompanied by a dismissive shake of the head. We just *can't* rely on voluntary action to take care of society's problems.

Nonlibertarians don't just misjudge the free society; they also misjudge government. The first of their errors here is to overestimate the capacity for laws and coercive programs to actually solve socioeconomic problems. Many nonlibertarians believe, for example, that poverty *will be alleviated* if only the state spends enough money on a welfare "safety net." Many others believe drug addiction *will go away* if only the state tries hard enough to enforce the laws against drugs. And if poverty and drug addiction persists after decades of government efforts against them, the explanation is never that government is the wrong instrument to use, but that insufficient money has been appropriated, corrupt or uncaring people have been in charge, or that something else has undermined the efficacy of the programs.

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Four Mistakes a Nonlibertarian Makes

OVERESTIMATES **Problems of a free society**	**OVERESTIMATES** **Capacity of laws to solve problems**
UNDERESTIMATES **Ability of free people to solve problems**	**UNDERESTIMATES** **Harm done by laws and policies**

The second of the errors regarding government is to underestimate the harm done by laws and policies designed to help people. Let someone propose a new government program to solve a socioeconomic problem and rarely will you hear a nonlibertarian utter a sentence beginning, "But if we do that, the following harmful consequences will ensue. . . ." So if someone advocates price controls to keep a necessity, say medical care, "affordable," do not expect a nonlibertarian to point out that artificially low prices will lead to shortages. In fact, the counterproductivity of government action is usually not merely underestimated but completely ignored.

With that discussion as background, let's turn to Duncan's argument that libertarianism is unacceptable. To understand why he insists on a coercive and far-more-extensive state than libertarian theory prescribes, we must first try to comprehend his belief that the most important function of a political system is to advance "human dignity." While he uses the term repeatedly, he never clearly explains it. There's an imposing ring to the term, but exactly what does Duncan mean?

His favorite phrase, one that seems to capture his sense of what "human dignity" means, is "the ability to shape one's life." Now a libertarian would say, "Sure—leave people alone and they can shape their lives as they think best." But Duncan maintains that the state must take positive steps to enable people to "meaningfully" shape their lives. Mere freedom is not enough. Government must do things for and give things to the mass of people who wouldn't be able to live a "dignified" existence without its assistance. ("Dignity" seems to boil down to a rather misleading synonym for "comfortable.")

In Duncan's view, poorer people can't "shape their lives" unless assisted by the state with money, housing, medical care, and so forth. Furthermore, the government needs to intervene in the labor market to prevent discrimination that would keep members of unpopular groups from finding employment and also to have minimum-wage legislation ensuring that all workers will be paid "decently." A complete list of all the actions required of government by the supposed need to help people lead dignified lives could go on for pages.

If we examine the statist egalitarian measures Duncan advocates, we see the four errors on exhibit. He makes both estimation errors about freedom and both estimation errors about government action. To illustrate, I propose to examine a policy that Duncan insists on and which is widely favored among nonlibertarians—the minimum wage.

The Minimum Wage and the Free Society

According to Duncan, the libertarian policy of non-intervention in the economy is flawed for many reasons, among them that it allows employers to pay workers at rates that aren't adequate for the workers to "shape their lives" and live with "dignity." He writes, "Wages below a decent minimum treat workers more like disposable instruments for others' needs than people with their own lives to live. The current level of $5.15—which totals a mere $10,300 a year for a full-time worker who works fifty weeks per year—is surely too low." (The national minimum wage was just raised to $5.85, and will rise to $7.25 in the summer of 2009.) Duncan doesn't inform us how high the minimum wage needs to go, but he is absolutely certain that it must be raised significantly.

Recall the first type of error in the quadrant, that of overestimating the problems of a free society, and then note Duncan's fevered rhetoric. Employers who pay workers only the minimum wage are said to treat them like "disposable instruments." That makes it sound as though people employed at the minimum wage are rather in the same situation as were prisoners in the Soviet Gulag, where millions of them actually were disposed of—literally worked to death under astoundingly inhumane conditions. Now Duncan isn't saying that the American minimum-wage employee is worked to death, but his "treating them like disposable instruments" talk is calculated to make the reader think that workers are suffering terribly and that their employers are hardly better than slave masters. Is freedom, even when limited in the mixed economy, really so awful as this nonlibertarian depicts it?

> Evidence for the efficacy of voluntary programs to relieve poverty abounds.

Duncan's eagerness to attack the morality of those who employ workers without ensuring that they are paid enough to "shape their lives" is the first point we should examine. Their actions certainly don't indicate that they regard low-paid workers as "disposable" since they want them to continue working for them and frequently grant pay increases to induce them to stay rather than look for other employment. No employer can force anyone to work or prevent an employee from quitting. When an employer contracts with an individual for labor, he is not mistreating the individual simply because the rate of pay is lower than Duncan would accept.

Next, let's ask how serious the supposed problem of minimum-wage employment is. Undoubtedly it would be hard to support yourself, much less a family, on only the earnings from a minimum-wage job, but very few people do. The typical minimum-wage worker is a teenager living with his parents, earning some spending money. Many others are older people with other sources of household income besides the minimum-wage job. People like that can "shape their lives" tolerably well. It is only a small fraction of those who work at the minimum wage who fit Duncan's image of struggling, suffering people. But there are some, and that brings us to the next mistake Duncan makes.

Nonlibertarians underestimate the ability of free people to deal with problems. If some people struggle and suffer because they can't earn enough money, why not assist them through voluntary means? Duncan, however, does not want to hear about voluntarism, airily dismissing the idea that there could ever be enough funds and donations to solve the poverty problem. Why? Because, he points out, many individuals and businesses take advantage of tax "loopholes" to minimize their taxes. This is a non sequitur. The deduction for charitable giving is one of the main "loopholes" Americans take advantage of. Duncan never explains how he concludes that private charity could never be sufficient from the premise that people and businesses prefer to keep as much of their income as they legally can. There's simply no logical connection. The fact that people would rather put their money toward purposes of their own choosing rather than see it go to the vast array of government expenditures—most of which have nothing to do with the alleviation of poverty—tells us nothing about the extent of their desire to help others in need.

A libertarian polity would have far lower government expenditures and would therefore impose far less drag on the economy. More resources would be available for production; more jobs would be created and prices would fall. As a result, there would be less poverty. Furthermore, private charitable groups would expand to replace inefficient government programs and agencies, and consequently there would be more effective assistance to the poor than currently. Actually, it is the mega-state that ensures there will never be enough resources to alleviate poverty.

Evidence for the efficacy of voluntary programs to relieve poverty abounds. Long before there were government welfare programs or any income tax to avoid, America had a vibrant network of charities to assist the poor and self-help mutual-aid societies. Anti-libertarians who pooh-pooh voluntarism would do well to read David Beito's book *From Mutual Aid to the Welfare State.* With the revolution in communications and information of the last decade, it is now easier than ever to identify and assist individuals who truly are struggling in life. Contrary to Duncan's beliefs, voluntary action would be much more effective than the blunt, clumsy policies of minimum-wage laws or welfare entitlements.

Mistakes Regarding Government

Looking at Duncan's case for the minimum wage and increasing its current level, we also see the predictable mistakes that nonlibertarians make regarding government action.

First, he overestimates the capacity of government to solve the supposed problem of poverty among low-wage workers. Although Duncan doesn't say exactly how much higher the minimum wage needs to go to guarantee all workers enough income to "shape their lives," let's assume that if we doubled it, that would be sufficient. Make it illegal for an employer to pay any worker less than $11.70 per hour and poverty goes away for those workers who used to earn between the current minimum and the new amount. Right?

One reason why nonlibertarians ignore the harm done by government intervention is that the harm usually is felt by other people.

Not so fast. Employers tend to make adjustments when the cost of any factor of production goes up, and the cost of labor is no different. Putting aside the likelihood that some workers would be terminated—we will get to that in our fourth error—employers have ways of offsetting the mandated increase in the cost of labor, which would affect all workers who had been making less than the minimum previously. Break time might be reduced. Previously "free" benefits such as uniforms might be charged against pay. Unless the minimum-wage advocates are prepared to also legislate away managerial freedom (as some are), workers won't benefit as much as expected from their vicarious generosity.

Furthermore, since most workers who start at minimum wage earn pay increases within a short time, all that the mandatory wage increase does is to accelerate somewhat the time at which they start earning more. While the minimum-wage advocate may think that by increasing it, he "lifts people out of poverty," the truth is that most workers lift themselves out of poverty. Government action accomplishes much less than people like Duncan believe.

Now we come to the final quadrant of the matrix of mistakes, namely, the tendency of nonlibertarians to underestimate the harm done by government action. If they don't underestimate it, they ignore it entirely.

With regard to the minimum wage, economists have long understood that if government sets a price floor below which no transaction may legally be entered into, the result will be a surplus of the item. There won't be enough demand to buy up the supply. In the labor market, the word for that is unemployment. Therefore, most people who have studied labor markets conclude that raising the minimum wage will lead to some job losses among current workers and a reduction in job opportunities for people who will be trying to enter the labor market in the future. Raising the minimum wage benefits workers who keep their jobs—predictably, those regarded as the most productive and promising employees—but at the expense of the workers who are laid off immediately and all future workers who will find fewer opportunities available to them. Fewer *legal* opportunities, anyway. People who are priced out of legal employment will often resort to illegal employment.

Duncan is aware of that criticism, but he dismisses it. He does so by pointing to a 1995 study by economists David Card and Alan Krueger, which found no disemployment effect in the fast-food industry when New Jersey raised its minimum wage. That's enough for Duncan to brush away the argument that this interference with the price system is harmful. His conscience is clear.

It shouldn't be. The Card-Krueger study certainly does not disprove that raising the price of labor reduces the demand for labor. All it shows is that the authors did not find a short-run increase in unemployment in a small slice of the labor market at a time when the economy was growing robustly. It is logically impossible to get from the findings of that study to Duncan's conclusion that increasing the cost of hiring low-skilled workers will have no effect on their employment prospects.

As an aside, one reason why nonlibertarians ignore the harm done by government intervention is that the harm usually is felt by other people. If Duncan were thinking of taking some medicine but his wife pointed out that a dozen clinical studies show that the medication often has serious side effects in men his age, would he dismiss all that evidence just because he read that one doctor somewhere said he didn't think it hurt his patients? I doubt it. People tend to behave more cautiously when they stand to bear a personal cost from being wrong. When it comes to grand social experiments, people who are well-off aren't so cautious about the harmful effects their experiments will have on others.

Besides creating higher unemployment among low-skilled workers, the minimum wage has another bad consequence, namely that it encourages people to look to politics to get what they want. Duncan thinks he sees a brighter future for the poor through legislation that supposedly helps them, but many other people will also use politics to get things they want, things that may undo whatever benefit Duncan expects from the political actions he favors. Business firms will try to obtain competition-stifling laws that drive up prices or subsidies that come at taxpayer expense and divert resources from more productive uses. Professional groups will seek government favors, especially licensing laws that keep down the number of practitioners in their field, thus increasing the cost of services. (The legal profession plays that game beautifully, with the result that many poor people cannot afford legal assistance when they need it.) Regulations promoted by environmental organizations will drive up the cost of housing, gasoline, and many other items everyone needs. The liberal democracy to which Duncan and others like him look for the passage of minimum-wage laws, welfare programs, and so on inevitably grows into a Leviathan that will do just about anything except leave people alone. In the effort to help a few people shape their lives, Duncan's political meddling opens the floodgates to limitless government tampering that misshapes everyone's life. Unfortunately, that's a problem he can't see.

Duncan's political meddling opens the floodgates to limitless government tampering that misshapes everyone's life.

Nonlibertarians advocate a vast array of governmental laws and policies that drain away people's liberty. Most of the time the problems they want to eliminate are real, but have their roots not in freedom, but rather in existing laws and policies that benefit a few at the expense of the many. They want to mandate that we behave in certain ways and prohibit us from behaving in others. I submit that whether it's the minimum wage, Social Security, public education, welfare, the war on drugs, or anything else, when you examine their arguments, you always find the four errors I have outlined here. They overestimate the problems of freedom while underestimating the ability of people to deal with the problems that do exist without the use of coercion, and they overestimate the ability of government to solve problems while underestimating the damage that government does when it interferes with the spontaneous social order.

The next time you hear someone say, "We need to have the government do this . . . ," examine his argument carefully. See if you don't find that he has made those four mistakes.

Capital Letters

Government Can't Prevent Global Warming?

Max Borders (January/February 2007) is wrong in saying that government can't do anything to combat global warming. It could reduce the costly requirements to nuclear energy and it could move on the Nevada repository for nuclear waste. The cost of nuclear energy is artificially high due to these two factors. Change them and the market will replace fossil fuel.

—RICHARD HOWARD
bags956@yahoo.com

Max Borders replies:

I think you are dead right about the competitiveness of nuclear. (I'm not sure about nuclear cars, of course, but it would certainly be competitive in energy production.) In any event, I agree. Lifting moratoria on such construction is a good idea, no matter what one thinks about global warming.

But one of the things I tried to argue in the article—which seems relevant here—is that actually mitigating climate change is sort of like a prisoner's dilemma for the nations of the world. That is, everyone has to do it to get mitigation. So even if the United States takes a "leadership" role and frees up nuclear, other countries may have every incentive to stay with fossil fuels—indeed to develop fossil-fuel industries in those countries—particularly given widespread nuclear anti-proliferation policies at the international level.

In short, if the developing world defects on climate change, the earth would keep warming. We would be left with the waterbed effect: Using nuclear energy would be like sitting on the bed—everything else just gets displaced, not reduced.

Who Should Plan Immigration?

It was refreshing to read an article, "At the Intersection of the Minimum Wage and Illegal Immigration" (*The Freeman*, March), that ends with the writer, Howard Baetjer, openly expressing support of an "open border" policy. As a former officer-in-charge in the former Immigration and Naturalization Service, I debated this issue back in the mid-80s with college professors and others during the "Sanctuary Movement." It was one of the most enjoyable periods of my career.

Some of my questions then and now are the following:

1. How many of the six-and-a-half billion people in the world should be able to enter the United States to "live and work peacefully" under an "open borders" policy?
2. Who decides a number limit if literal "open borders" is deemed impractical.
3. What should the limited number be?
4. Should national, or continental, origin of new immigrants be considered in the immigration process? If so, what should be the basis for the balance?
5. Should immigrants from Mexico or Canada who can "walk in" be made equal "somehow" with people from Europe, Asia, Africa, and elsewhere, who cannot "walk in"?
6. Should these new immigrants be "non-preference" immigrants as was the case before 1965? That is, can anyone immigrate to the U.S. regardless of skill or immediate relatives or refugee status or any other limiting "preference" criteria?
7. If it is decided that the United States needs to limit immigration to a billion or two billion or some other number of immigrants in some period of time, what should be done about the subsequent illegal immigration problem that would remain?

—NORMAN HENRY
Colchester, Vermont

Howard Baetjer replies:

Your questions seem to assume that immigration should be centrally planned—that politicians and bureaucrats should decide the numbers of immigrants allowed from different categories and status groups. But in a free society there is no place for central economic planning; not only is it incompatible with liberty, but no central-planning body can begin to know all it needs to know to do it well. What should determine the flows of goods and services and resources across borders is the myriad decisions of everybody involved, each deciding how to use his or her own property to best advantage in voluntary agreement with others. This is true of resources such as timber and manganese and microchips; it is doubly true of what Julian Simon called "the ultimate resource"—human beings and their creative abilities.

With this as prologue, here are answers to your questions:

Question 1: I assume you mean "How many . . . should be *allowed* to enter. . . ?" That determination should be made not centrally by political authority but in distributed fashion by the millions of property owners and employers in the United States. Each should decide for himself or herself about whether to sell or rent an immigrant a place to live, or employ him or her. The interaction of all those decisions should determine the number of immigrants, and not once and for all, but repeatedly to reflect changes in economic conditions and personal preferences.

To illustrate with a simple example of immigration into your hometown of Colchester, Vermont, let us consider immigrants from, say, Mexico (or Boston; it does not matter, and it is significant that it does not matter). As long as there is a bus company that wishes to carry the immigrants from Mexico or Boston to Colchester, and boarding houses there that wish to house the immigrants at a mutually agreeable rent, and employers in Colchester who wish to hire the immigrants, the immigration will and should continue. But if the bus route becomes unprofitable, or space runs out in the boarding houses (or rents become too high), or businesses in Colchester stop hiring at attractive wages, the immigration will diminish and cease.

In such a way migration rates should be determined in a free and humane society. No central political decision is needed or useful.

Questions 2 and 3: In a free society no one deems what is "impractical" for others to do with their own lives and property. No one has the right or the knowledge to do that. Everyone in America should decide for himself or herself how many immigrants, if any, to house or employ, and on what terms. In that way the number—not a limit—would be determined, and in that way it would vary with changing conditions and preferences.

Questions 4, 5, and 6: These three questions all concern bureaucratic categories of central planning. They are not relevant to a free society. Who lives and works where in the world should result spontaneously from the plans of the property owners involved.

Question 7: In a free society no such limit may be centrally planned and imposed; there can thus be no "subsequent illegal immigration" of peaceful people; hence nothing need be done.

In closing let me stress again the fundamental economic insight: Human beings are "the ultimate resource." Hence their immigration is not a "problem" at all; it's a benefit.

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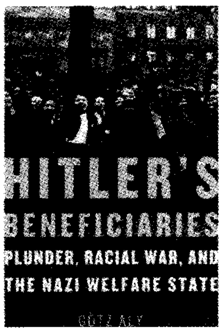
Book Reviews

Hitler's Beneficiaries: Plunder, Racial War, and the Nazi Welfare State

by Goetz Aly
Metropolitan Books • 2007 • 431 pages • $32.50

Reviewed by Richard M. Ebeling



In *Hitler's Beneficiaries*, German historian Goetz Aly "focus[es] on the socialist aspect of National Socialism" so as to better understand "the Nazi regime as a kind of racist-totalitarian welfare state."

Since the 1930s many historians on the left have tried to portray Nazism as an extreme right-wing system meant to preserve and serve the German capitalist order. The use of the word "socialist" in the full name of the Nazi movement—the National Socialist German Workers Party—has been interpreted as a ruse meant to manipulate and deceive the people of Germany.

Aly emphasizes that the ideology and practice of the Nazi regime were in fact deeply socialist. Within Germany, among the German people of "pure Aryan blood," the ideal was an egalitarian social order in which every German would be freed from traditional class barriers so that he might have the opportunity to rise to any level of success in serving the fatherland. The welfare-state policies begun by Bismarck in late nineteenth-century imperial Germany were viewed by the Nazis as a prelude to a complete guarantee of a quality standard of living for all "real" Germans that would be paternalistically provided by the National Socialist state.

The problem was that the promises of the welfare state could not be fulfilled within Germany's 1933 borders. If the German people were to have this material paradise on earth, someone would have to supply the manpower and the resources to provide the means for this massive redistribution of wealth.

Aly points out that before and during World War II, the German "capitalist class" was made to pay its "fair share" for the benefit of the rest of the German people. Taxes were proportionally far higher on the "rich" in Germany than the rest of the population. During the war the government established mandatory overtime pay in all industries and imposed wage increases to keep "the masses" loyal to the regime—all at the expense of German business. At the same time, German industry worked under government-commanded four-year plans from 1936 until the end of the war in 1945.

But it was only after the war started that the machine of redistributive plunder was really set into motion. Every country overrun by the German army not only had to pay the costs of the occupation, but also was systematically looted for the benefit of the German population as a whole.

Aly's book is remarkable because, rare among histories of the period, it explains how the Germans used inflation to loot the occupied countries. After most of France was occupied in June 1940, German soldiers were issued scrip that by mandate had to be accepted by French businesses. Retailers willingly accepted the scrip because the Nazis also mandated French banks to redeem it in francs; the banks in turn could redeem it for francs it at the Bank of France. The only way for the French central bank to meet this obligation was to print more money. With some variation Germany did this in every country it conquered.

German servicemen stationed in occupied Europe were regularly given scrip bonuses at holiday times so they could buy up virtually anything and ship it to family and friends. Thus along with the soldiers, tens of millions of Germans back home benefited from the inflationary plunder of Europe.

On top of this the German government imposed taxes and surcharges on the governments in the occupied countries—their contribution to Germany's establishment of the "new order" for the "benefit" of all the people of Europe. In many cases the redistributive tax burden was larger than the nation's annual prewar budget.

Both within Germany and around the rest of Europe, the great "enemy" that the Nazis were determined to eliminate was the Jews. Before the war the regime had attempted to pressure German Jews to leave the country. After the war began the government was determined to expel all Jews in western and central

Europe to "the East." Finally, the "solution" to the "Jewish problem" was found in the concentration and death camps.

But beginning in 1941 and 1942 the expelling of Jews from Germany and the rest of occupied Europe was accelerated as part of the Nazi welfare state. When Britain began to bomb German cities, first thousands and then tens of thousands of Germans found themselves homeless, with all their belongings destroyed. Municipal governments, with the approval of the Nazi leadership in Berlin, began to confiscate the Jews' houses and apartments, including the contents, to make room for racially pure Germans needing new places to live.

In every occupied country the Nazis initiated similar confiscatory policies with local accomplices with whom they shared looted Jewish property. (Only in Belgium and Denmark did large segments of the population and the bureaucracy resist participating in this plunder of the Jews.) The Nazis first nationalized Jewish property and then distributed it to those deemed worthy among the German or occupied populations.

Hundreds of trainloads of stolen Jewish property were either given away or sold at discounted prices in German cities, large and small, throughout the war. Aly estimates that because of this looted property and the goods sent back to Germany by soldiers, many, if not most, Germans enjoyed a more comfortable standard of living throughout most of the war than the civilian population in Great Britain.

What also fed a large part of this Nazi plunderland was the invasion of the Soviet Union in June 1941. In the East, Hitler wished to show none of the minimal "niceties" with which the people of western Europe were treated. The vast and rich lands of Russia and Ukraine were to become the economic Promised Land in the Nazi dreams of the future. Under the plan at least 20 million Russian peasants would be worked and starved to death in the countryside after a German victory to make room for a huge German resettlement that would provide the living room for the Aryan race. The cities of Moscow and Leningrad were to be razed, their populations left to die.

Besides the official plundering of the Soviet cities and countryside, there was a vast black market at work in the East that left those under German occupation with almost nothing.

The vast majority of German families continued to feast, even under the allied bombings, thanks to the locust-like seizure of anything and everything across occupied Europe. Aly estimates that during the five-and-a-half years of war, the Nazis plundered $2 *trillion* worth of property, goods, and wealth from the peoples of Europe—a large sum by any standard, but truly huge considering the much lower levels of output and income in Europe 70 years ago.

Of course, the German people finally paid dearly for their adventure into international welfare redistribution through war. When Germany finally surrendered in May 1945, millions of Germans had been killed in the conflict, all the major cities of the country were in ruins, capital accumulated over decades was destroyed, and Germany was occupied and divided by the victorious Allies for more than half a century. It was high price for pursuing the ideal of National Socialism.

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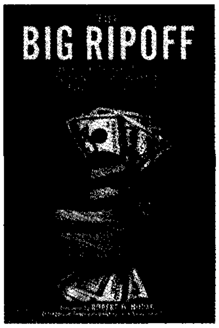
The Big Ripoff: How Big Business and Big Government Steal Your Money

by Timothy P. Carney
Wiley • 2006 • 241 pages • $24.95

Reviewed by Sheldon Richman



Timothy Carney has written a refreshing book. There is no shortage of books critical of big business, but almost without exception their authors are hostile to free markets. Carney is an avowed fan of free markets *and* a critic of big business's collusion with government—collusion that enables businessmen to gain profits they could never obtain under free, open, and unprivileged competition.

The Big Ripoff is a myth smasher. Leftists and rightists alike tend to think that business people favor laissez faire, which is well defined as the political-economic system that lacks any government-sponsored privilege.

But it is a rare business person who wants the government out of the picture. Free competition is nerve-wracking. It respects no vested interests or historical market share. As Frank Sinatra sang, "You're ridin' high in April, shot down in May." Those darn consumers are fickle. So business people (including agribusiness people) have lobbied for regulations, licensing, price floors, price ceilings, codes, inspection, tariffs, import quotas, subsidies, loan guarantees, taxes, tax exemptions, eminent domain, and more. It is easy to assume that no big company would want new taxes and regulations, until one realizes that those things burden smaller and yet-to-be-started companies more heavily. Government impositions are de facto subsidies and barriers to entry.

Big companies have had no trouble getting such things from Congress and the various state legislatures—because another myth is that government tends to be hostile to business. In a mercantile society such as the United States, business people are highly influential. Politicians see them as indispensable to economic stability, jobs for constituents, even labor peace, and hence want to keep them happy. Business has always had political clout in America, both nationally and locally. The period usually regarded as the most hostile to business, the Progressive Era, was nothing of the sort, as historian Gabriel Kolko documented in *The Triumph of Conservatism*. To his credit, Carney appreciates Kolko's research and helps to dispose of the fairy tale that statism in the early twentieth century was the product of Marxism and other foreign left-wing imports. While "progressive" intellectuals saw opportunities for power and prestige in the rise of American-style corporatism, they were riding the coattails of the Morgans, Rockefellers, Carnegies, and others who turned to the state to tame unruly (read: competitive) markets. (This is not to overlook the relatively few true entrepreneurs described by Burton Folsom in *The Myth of the Robber Barons*.)

Things haven't changed much since the Progressive Era. In our time business people are as influential as ever, perhaps more so. And the influence is rarely in the direction of more economic freedom. Carney documents the quest for corporate welfare (which, curiously, gets much less attention from the right wing than that other kind of welfare), regulation, taxes, and environmental—yes, *environmental*—controls.

Do you want to know why Phillip Morris joined the "war on tobacco," why General Motors pushed for clean-air legislation, why Boeing supports the Export-Import Bank, why Archer Daniels Midland likes ethanol, and why the Chamber of Commerce often supports higher taxes? Do you think Enron was a creation of the market and supported general deregulation? Read Carney's book to find out.

The Enron story is valuable because misunderstanding about that company has provided an abundance of ammunition against the deregulation of energy markets. "Most analysts use the term *deregulation* to describe the setting in which Enron thrived, deceived, and then collapsed. But in nearly every corner of the Enron tale, we can find the fingerprints of big government," Carney writes. If Enron's CEO, the late Ken Lay, was what a *New York Times* reporter called him—"an evangelical believ[er] in free markets"—then Britney Spears is up for Mother of the Year.

Would a free-marketeer have called for a government bailout when his company began to collapse? (Fortunately, Lay didn't get it.) While running the company, would he have supported export subsidies, energy regulations and price controls that favored Enron's interests, and the Kyoto Protocol limiting carbon emissions? Obviously not. So why did Lay do it? Because he had no principled objection to using government power—physical force—to advance his company's fortunes (not to mention his own).

Carney's reporting clarifies our understanding of political economy. Regulation and taxation are anti-competitive. Incumbent firms don't like competition, so they like intervention. But competition is good for worker-consumers because their welfare is enhanced by unhampered bidding for their business and services. Thus they constitute the real natural constituency for the free-market movement.

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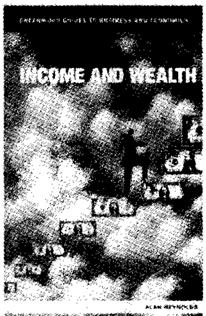
Income and Wealth

by Alan Reynolds
Greenwood Press • 2006 • 223 pages • $55.00

Reviewed by George C. Leef



Writing in the *Wall Street Journal* shortly after the 2006 election, Jim Webb, the victorious U.S. Senate candidate in Virginia, argued that the American economy has become a rigid class system. The rich are getting richer while the poor are getting poorer. Top business executives used to earn about 20 times as much as average workers, but now they're raking in more than 400 times as much, Webb complained. The United States, he said, was "literally a different country" from the one in which he grew up. Webb viewed his election and the Democratic takeover of Congress as proof that people want the government to do something about this horribly unfair situation.

Many other politicians and writers have repeated this economic indictment, which has political "traction" both with the envious poor and the guilt-ridden wealthy. As Alan Reynolds shows in *Income and Wealth*, however, the indictment should be summarily dismissed since it is based on misleading statistics and tendentious rhetoric. H.L. Mencken once wrote that politics is just about frightening people with "an endless series of hobgoblins" to keep them clamoring for politicians to protect them. After reading *Income and Wealth*, it's clear that the campaign to convince Americans that we face disaster unless the government does something about "the income gap" is another of those hobgoblins.

The first point Reynolds, a senior fellow at the Cato Institute, makes is that the current frenzy over inequality has nothing to do with *poverty*. Back in the 1960s and 1970s, "liberals" worried about the poor and there was a national debate on how best to improve the lives of people at the bottom of the income scale. That changed in the early 1990s. "Starting around 1992," Reynolds writes, "inequality began to be *redefined* in such a way that nearly all the attention shifted away from the troubles of the bottom quintile to the high incomes of the increasingly tiny number of people at the top." (He doesn't speculate on the reasons for that shift. My surmise is that the leftists knew they had gotten all the mileage they could out of the plight of the really poor—after all, the government had been running all sorts of antipoverty programs for decades without much success—so they decided to fashion a new "issue" out of the enormous wealth of a few.)

Creating this new issue called for resourcefulness to make people think that dark, momentous changes were occurring in the economy. There have always been some super-rich; the trick was to get people up in arms by suggesting that those people were profiting unconscionably at the expense of the disappearing middle class. Reynolds easily refutes that idea. The middle class isn't disappearing, although quite a few people who used to earn "middle class" incomes now earn significantly more—scarcely a problem.

Furthermore, it's not true that the earnings of middle-income workers have been "stagnant" since the 1970s. That illusion, Reynolds shows, is based largely on the fact that due to tax-law changes in 1986, increasing amounts of investment income common to middle-class people no longer show up in income-tax data—401(k) and college savings plans, for example. Other changes in tax law tend to have the opposite effect on the reported income of the wealthy. If instead of looking at income-tax data, you look at data on consumption spending, the whole "crisis" vanishes.

Another major component of the "income gap" mania is supposedly excessive compensation paid to business executives. Is it really the case that the average CEO now makes more than 400 times as much as the average worker? No. Reynolds handily demolishes the notion that greedy CEOs are robbing workers (or, more plausibly, stockholders) of money that should be theirs.

What's really going on here is an elaborate cover for a host of interventionist policies desired by various special-interest groups. "Nobody who uses income distribution figures as an argument for adopting their pet government policies would advocate different policies even if they could be persuaded their statistics are wrong," Reynolds observes. Those who are against free trade, for example, cite the "shrinking middle class" as an excuse for protectionism. For union advocates, the same myth serves to justify their desire for new pro-union laws.

Not only is there no "income gap" problem, but the remedies offered would be economically harmful. In his concluding chapter, Reynolds makes the case that laissez-faire policies to reduce the size and meddlesomeness of the government will continue the real trend in our economy: the rich get richer and the poor get richer, too. If, however, we adopt the policies of the egalitarians and interest groups, we actually will "improve" the income gap. Everyone would be poorer, but the wealthy would lose proportionally more.

Reynolds has given us an important and timely book, a refutation of the economic equivalent of the global-warming scare.

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The Sarbanes-Oxley Debacle What We've Learned; How to Fix It

by Henry N. Butler and Larry E. Ribstein

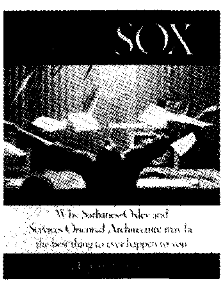
AEI Press • 2006 • 135 pages • $25.00 paperback

The Joy of SOX: Why Sarbanes-Oxley and Service-Oriented Architecture May Be the Best Thing That Ever Happened to You

by Hugh Taylor

Wiley • 2006 • 283 pages • $50.00

Reviewed by Barbara Hunter



These two books cannot really be considered two analyses of the Sarbanes-Oxley Act, which was signed into law in 2002 following several high-profile corporate scandals. The first book examines the law, its effects on the conduct of publicly traded businesses, and its failure to accomplish its purported purposes of preventing fraud and restoring investor confidence. The second simply adopts the thesis that Sarbanes-Oxley is a beneficent and effective law and that all that is required is to learn the best methods for compliance.

The Sarbanes-Oxley Debacle raises an issue rarely so much as mentioned in the voluminous literature on this law: the return on investment resulting from time, money, and talent expended on behalf of the law's many requirements. This is no small matter when considering a law whose annual direct compliance costs on business run into the billions.

The cost figures bandied about in the popular financial press ignore the manner in which the law now influences the minutiae of individual corporate decision-making when the shadow of bureaucratic enforcement hangs over every decision, from internal production methods to mergers and acquisitions. This must inevitably produce a significant opportunity cost that will, to some extent, deter risk-taking in business. Professors Butler and Ribstein make that point very clearly.

Another unique point in this book, and one that has been virtually ignored by other writers, is that no combination of laws and penalties can produce total protection from fraud at every possible level within a company. Thus shareholders may understandably accept the possibility of some level of fraud if, on the one hand, its influence on the company's bottom line is considered insignificant and, on the other hand, the cost (in time and money) of ferreting out every such conceivable instance is exorbitant.

The book further notes that Sarbanes-Oxley circumvents and in effect nullifies existing state laws that may have been more effective than the new law, and federalizes yet another field that historically has been within the purview of the states.

For such a slim volume, *The Sarbanes-Oxley Debacle* manages to include a startling number of significant arguments relating to the deleterious effects of this ill-considered law.

A review of *The Joy of SOX* needs to be tempered by the fact that its author is an officer of one of the ever-growing number of companies dealing in computer programs devoted largely to compliance with the Sarbanes-Oxley Act. In light of this, it may not surprise the reader that Sarbanes-Oxley's negatives, especially its compliance costs, are never mentioned. Even within this perspective, however, its exuberant embrace of the law occasionally borders on the absurd. The author goes so far as to dismiss those who contend that the costs of the law exceed its benefits as "whiners."

Taylor assumes that Sarbanes-Oxley places everyone on the same compliance basis and thus is not a problem. Sadly, experience has demonstrated that the cost of compliance is far from equal; in fact, its burden on small companies, as a percent of sales, is far higher than on large companies. Regulation tilts the playing field.

On occasion, the author's acceptance of the near-axiom that government regulation is beneficial and therefore desirable leads him to use examples that are badly at variance with the truth. In his introduction Taylor writes, "In the last century, American businesses resisted labor organizations and workplace entitlements, only to discover that modern labor practices and diversity programs created long-term loyalty among employees and helped build strong brands." Many businesses, of course, have found just the opposite—that the effects of dictatorial federal labor regulation have been very harmful—and in any event it does not follow that Sarbanes-Oxley is beneficial just because some other federal laws allegedly are.

The structure of the book is a theoretical discussion by the department heads of an imaginary company that, on the one hand, must comply with Sarbanes-Oxley and, on the other hand, must be able to make quick decisions in order to meet customer needs and competitive pressures. The book's pervasive themes are two: "agile compliance" and "compliant agility." It soon becomes evident, however, that compliance comes first and the firm's well-being comes second, as is the case with every regulatory compliance regime.

Those who expect any insight into the effects of Sarbanes-Oxley will find this volume a disappointment, and those who have read *The Sarbanes-Oxley Debacle* will laugh at the idea that this law could be "the best thing that ever happened"—unless you're in the business of selling compliance software.

Barbara Hunter (brhunter@aol.com) is a recently retired businesswoman who encountered the costs of Sarbanes-Oxley directly.

Democracy or Republic?

BY WALTER E. WILLIAMS

How often do we hear the claim that our nation is a democracy? Was a democratic form of government the vision of the Founders? As it turns out, the word democracy appears nowhere in the two most fundamental founding documents of our nation—the Declaration of Independence and the Constitution. Instead of a democracy, the Constitution's Article IV, Section 4, declares "The United States shall guarantee to every State in this Union a Republican Form of Government." Our pledge of allegiance to the flag says not to "the democracy for which it stands," but to "the republic for which it stands." Is the song that emerged during the War of 1861 "The Battle Hymn of the Democracy" or "The Battle Hymn of the Republic"?

So what is the difference between republican and democratic forms of government? John Adams captured the essence of the difference when he said, "You have rights antecedent to all earthly governments; rights that cannot be repealed or restrained by human laws; rights derived from the Great Legislator of the Universe." Nothing in our Constitution suggests that government is a grantor of rights. Instead, government is envisioned as a protector of rights.

In recognition that it is government that poses the gravest threat to our liberties, the framers used negative phrases in reference to Congress throughout the first ten amendments to the Constitution, such as shall not abridge, infringe, deny, disparage, and shall not be violated, nor be denied. In a republican form of government, there is rule of law. All citizens, including government officials, are accountable to the same laws. Government power is limited and decentralized through a system of checks and balances. Government intervenes in civil society to protect its citizens against force and fraud, but does not intervene in the cases of peaceable, voluntary exchange.

Contrast the framers' vision of a republic with that of a democracy. According to Webster's dictionary, a democracy is defined as "government by the people; especially: rule of the majority." In a democracy the majority rules either directly or through its elected representatives. As in a monarchy, the law is whatever the government determines it to be. Laws do not represent reason. They represent power. The restraint is upon the individual instead of government. Unlike the rights envisioned under a republican form of government, rights in a democracy are seen as privileges and permissions that are granted by government and can be rescinded by government.

> Ask yourself how many of your day-to-day choices would you like to have settled through the democratic process of majority rule.

There is considerable evidence that demonstrates the disdain held by our founders for a democracy. James Madison, in Federalist No. 10, said that in a pure democracy, "there is nothing to check the inducement to sacrifice the weaker party or the obnoxious individual." At the 1787 Constitutional Convention, Edmund Randolph said, "that in tracing these evils to their origin every man had found it in the turbulence and follies of democracy." John Adams said, "Remember, democracy never lasts long. It soon wastes, exhausts, and murders itself. There was never a democracy yet that did not commit suicide." Later on, Chief Justice John Marshall observed, "Between a balanced republic and a democracy, the difference is like that between order and chaos." In a word or two, the Founders knew that a

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democracy would lead to the same kind of tyranny the colonies suffered under King George III.

The framers gave us a Constitution that is replete with anti-majority-rule, undemocratic mechanisms. One that has come in for frequent criticism and calls for elimination is the Electoral College. In their wisdom, the framers gave us the Electoral College so that in presidential elections large, heavily populated states could not use their majority to run roughshod over small, sparsely populated states. Amending the Constitution requires a two-thirds vote of both houses of Congress, or two-thirds of state legislatures, to propose an amendment and three-fourths of state legislatures to ratify it. Part of the reason for having a bicameral Congress is that it places another obstacle to majority rule. Fifty-one senators can block the wishes of 435 representatives and 49 senators. The Constitution gives the president a veto to thwart the power of all 535 members of Congress. It takes two-thirds of both houses of Congress to override the president's veto.

There is even a simpler way to expose the tyranny of majority rule. Ask yourself how many of your day-to-day choices would you like to have settled through the democratic process of majority rule. Would you want the kind of car you own to be decided through a democratic process, or would you prefer purchasing any car you please? Would like your choice of where to live, what clothes to purchase, what foods you eat, or what entertainment you enjoy to be decided through a democratic process? I am sure that at the mere suggestion that these choices should be subject to a democratic vote, most of us would deem it a tyrannical attack on our liberties.

It appears that most Americans, as well as their political leaders, believe that Congress should do anything it can muster a majority vote to do.

Most Americans see our liberties as protected by the Constitution's Bill of Rights, but that vision was not fully shared by its framers. In Federalist No. 84, Alexander Hamilton argued, "[B]ills of rights . . . are not only unnecessary in the proposed Constitution, but would even be dangerous. For why declare that things shall not be done [by Congress] which there is no power to do? Why, for instance, should it be said that the liberty of the press shall not be restrained, when no power is given [to Congress] by which restrictions may be imposed?" James Madison agreed: "This is one of the most plausible arguments I have ever heard urged against the admission of a bill of rights into this system . . . [because] by enumerating particular exceptions to the grant of power, it would disparage those rights which were not placed in that enumeration, and it might follow by implication, that those rights which were not singled out, were intended to be assigned into the hands of the general government, and were consequently insecure."

Madison thought this danger could be guarded against by the Ninth Amendment, which declares "The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people." Of course, the Ninth Amendment has little or no meaning in today's courts.

Transformed into a Democracy

Do today's Americans have contempt for the republican values laid out by our Founders, or is it simply a matter of our being unschooled about the differences between a republic and a democracy? It appears that most Americans, as well as their political leaders, believe that Congress should do anything it can muster a majority vote to do. Thus we have been transformed into a democracy. The most dangerous and insidious effect of majority rule is that it confers an aura of legitimacy, decency, and respectability on acts that would otherwise be deemed tyrannical. Liberty and democracy are not synonymous and could actually be opposites.

If we have become a democracy, I guarantee you that the Founders would be deeply disappointed by our betrayal of their vision. They intended, and laid out the ground rules for, a limited republican form of government that saw the protections of personal liberties as its primary function.