THE FREEMAN
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Two Powerful Words

Last year Israel Kirzner, one of the economists I most enjoy, said something during a lecture that was at once simple, true, and deceptively powerful. How powerful I did not appreciate immediately. But in the ensuing months, I have come to see how much was packed into that statement.

Professor Kirzner said that the market economy can be reduced to two words: private property. At first glance that may seem so obvious as to be uninteresting. At second glance it might summon an objection along these lines: No, private property isn't enough. The market also requires individual liberty, the rule of law, limits on government, respect for contracts, and more.

But as I understand the matter (and Professor Kirzner), all those things are subsumed by "private property." A society characterized by private property will necessarily have the other features we typically associate with free markets.

Property, for example, *is* a limitation on government power (one's property of course includes one's person) because it necessarily entails rules governing how people may be treated, whether by other private individuals or state officials. (See Bradley Smith's book review this month.)

Property helps to separate the wheat from the chaff in the matter of civil liberties, such as privacy and freedom of speech. Take the issue of falsely shouting "fire" in a crowded theater. This is traditionally used to demonstrate that freedom cannot be "absolute." But as Murray Rothbard long ago pointed out, it does nothing of the sort. On the contrary, it affirms property and its extension, contract. If a theatergoer shouts fire, he violates the property rights of the theater owner. If the theater owner does the shouting, he violates his contract with the patrons.

Privacy issues, which modern law and the American Civil Liberties Union have so badly muddled, can only be sorted out when the right to privacy is understood as rooted in private property. For example, contrary to the

ACLU, it is not a violation of privacy for an employer to refuse to hire smokers, even if they smoke only at home. It is simply a matter of freedom of association, which is an extension of private property.

If you're ever asked to stand on one leg and sum up the free society in two words, you now know how to do it.

* * *

The great pyramids of Egypt fascinate tourists, real and vicarious, by the millions. Yet few, unfortunately, appreciate the tragedy they represent. Christopher Mayer contemplates what might have been and looks at one of our own modern pyramids.

President Clinton's impeachment crisis has ended. His legacy is now set. Calvin Beisner fittingly revisits another leader whose problem with truth-telling got him into hot water.

Many philosophers have offered definitions of freedom. Perhaps the most pernicious has been "freedom from want." James Bovard looks at the implications of that twisted definition.

Much of the steam of the interventionist environmental movement has been provided by certain horror stories that everyone has heard and everyone believes. What if those stories are grossly exaggerated or untrue? Roger Meiners trains his magnifying glass on the Green Scare.

Anyone who puts his mind to it can be a spokesman for the freedom philosophy. A ready platform exists wherever you are. The Internet is one method, but, as John Landrum explains, the old-fashioned way still affords ample opportunities.

F.A. Hayek, one of the twentieth century's greatest advocates of the free society, was born 100 years ago this month. Richard Ebeling surveys the long and fruitful career of the 1974 Nobel prize winner.

The U.S. government has gone to a lot of trouble redesigning the money to thwart counterfeiters. George Leef says there's a better way to accomplish the objective.

Richard Timberlake continues his series on monetary policy in the fateful 1920s and 1930s. In this installment he looks at the Federal Reserve's gold policy after the Great Depression hit.

The political philosophy at the root of the American Revolution was a novel mixture pestled in the mortar of a remarkable historical moment. Joseph Stromberg leads a tour through the compound.

In the columns department, FEE President Donald Boudreaux celebrates the birthday of his hero, F.A. Hayek. Lawrence Reed lampoons corporate welfare. Doug Bandow reminds us that the era of regulatory government is not over. Dwight Lee writes of the need for costs to be revealed. Mark Skousen concedes he was wrong about Japan and Germany. And Charles Baird looks at the labor policy of the British Bill Clinton. Roger Garrison reflects on Paul Krugman's belief that Hayek and Austrian business cycle theory are insignificant and protests: It Just Ain't So!

We proudly announce that Thomas Szasz will join us six times a year with a new column, The Therapeutic State. For about half a century Tom Szasz has been the chief and at times only opponent of the medicalization of morality, particularly through the alliance of Psychiatry and State. His regular contributions to *The Freeman* will cover an area too often neglected by advocates of freedom. The inaugural column skewers the strangely selective professional skeptics.

In the book department our reviewers pass along their impressions on such topics as neo-socialism, the arts in a market economy, the politicization of nonprofit health organizations, a classic on the "humane economy," higher education, property in American legal thought, and political philosophy.

—SHELDON RICHMAN

by Donald J. Boudreaux

Hayek Turns 100

Economics captivated me from the moment that I first saw on a chalkboard a supply-and-demand graph. That was in January of 1977. I was then an 18-year-old college freshman at Nicholls State University in Thibodaux, Louisiana. I immediately took to pestering my economics professors for suggestions on what to read in economics.

One of my professors, Bill Field, told me about Milton Friedman. I began reading Friedman's *Newsweek* columns and was immediately struck by his logic and passion. (One of these articles, in particular, really resonated with me; I believe that its title is "Free not Fair," in which Friedman argued that government attempts to engineer fairness succeed only in restricting our freedoms.) Soon thereafter I read Milton and Rose Friedman's *Capitalism and Freedom*. Its power floored me.

I was deliriously happy with my newfound intellectual friend, Milton Friedman.

Introduced to Hayek's Works

One afternoon, after reading something or other by Friedman, I wandered in to Bill Field's office—a place, incidentally, where I was always welcome—and announced that Friedman must be the world's greatest living economist.

"Nope. In my opinion Friedman is the world's *second* greatest living economist," Bill replied matter-of-factly.

"Second greatest?" I sputtered. I didn't believe what I'd just heard.

"Who is it?" I asked. "Which living economist can possibly be greater than Friedman?"

The name came. It was the first time I'd ever heard it. "Hayek. F.A. Hayek."

The name meant nothing to me. "Never heard of him," I responded.

"Here," Bill said. "Take this book and read chapter four. It's an article entitled "The Use of Knowledge in Society." You haven't studied economics long enough to grasp it all, but give it a try." Bill lent me his copy of Hayek's 1948 book *Individualism and Economic Order*.

That night I read "The Use of Knowledge in Society," an article that originally appeared in the September 1945 issue of the *American Economic Review*.

Bill was right; I grasped only very little of it. But I did grasp the main point that markets allow everyone to benefit from everyone else's knowledge. This insight was so profound that I knew right then that I had before my eyes the product of a mind so deep and so wise that I could never call myself an economist without knowing the full range of this man's works.

"Do you understand what Hayek says in that article?" Bill asked the next day. He and I then proceeded on the first of what became countless afternoons of reflecting upon Hayek's work. Later, Bill introduced me to the writings of other luminous economists—P. T. Bauer, James Buchanan, Israel Kirzner, Ludwig von Mises (Hayek's teacher), Joseph Schumpeter. I relished their works; I learned from them all. But to this day, Hayek remains for me the premier economist of this century.

Hayek's Revolutionary Ideas

Even in the late 1970s—still active and more than a decade away from his death in 1992—pictures of Hayek revealed a very old man. Here, after all, was a man who once challenged Keynes for the position of most prominent economist of the 1930s. Here was a scholar whose most famous book, *The Road to Serfdom*, was published fourteen years before I was born.

And yet whenever I read his words, I felt understanding being poured lavishly into my mind. These weren't the words of an old man, a man whose time had long ago passed. No, these words conveyed deep and timeless insights into the nature of economics, law, and politics. These were revolutionary words, for to understand Hayek is to understand not only that government cannot improve upon the operation of free markets, but also that government cannot even be relied upon to supply money and law—the very stuff that most economists unthinkingly assume can be supplied *only* by the state. Moreover, Hayek's explanations of government's inherent limitations—and of the market's marvelous ability to peacefully coordinate human activity into a productive powerhouse—are all grounded upon enduring truths rather than upon clever algebra or bumper-sticker maxims.

Finding Hayek was, for me, finding the most superb intellectual guide that I could dream of.

By my junior year I'd already devoured several of Hayek's books and essays. It was then that I tackled what I still regard as his finest work, the three-volume *Law, Legislation and Liberty*. In this work, Hayek most clearly and fully develops his idea of spontaneous order.

In *Law, Legislation and Liberty*, Hayek also explains why common-law methods of law making are far better than legislative methods. To this day, following Hayek's example, I cannot bring myself to use the word "law" to describe legislation. The latter is fundamentally distinct from the former, and, because of Hayek's influence, I believe that our loose habit of calling legislation "law" gives to legislatures an authority that they do not deserve. Legislators are *not* law makers; if accuracy is to be served, far better to call legislators "law breakers" rather than "law makers." Legislation disrupts the common-law rules that embody patterns of expectations built into the law over the years and through long practice. And why do legislatures upend this law? To plunder the politically weak for the benefit of the politically strong.

Hayek wrote enduring treatises in economics and political and legal philosophy. But he also wrote short, laser-like articles focused on dispelling prevailing nonsense. One of Hayek's best-known articles of this kind is his 1961 answer to John Kenneth Galbraith's notion of the "dependence effect." Galbraith argued that in modern society consumer wants are created by advertising. Hence, because these wants are artificial, the market ought not to be applauded for satisfying them.

Hayek skewered Galbraith's argument, pointing out that nearly *all* of our wants—with or without Madison Avenue—are greatly influenced by our cultural environment. There is nothing unique or sinister about Madison Avenue that renders as unworthy of satisfaction the desires that it helps to shape. Indeed, said Hayek, far better to have lots of producers use advertising to compete for consumer patronage than to have government coercing people to spend their incomes according to the fancy of the political elite.

On May 8 I will celebrate—along with all friends of liberty and truth—the centennial of Hayek's birth. First I'll call my old professor, Bill Field, and thank him again for introducing me to Hayek's works. Afterward, I'll re-read "The Use of Knowledge in Society" and reflect on the ocean of knowledge that this one Austrian-born British citizen contributed to the cause of human freedom.

Happy birthday, Professor Hayek. □

Hayek Made No Contribution?

It Just Ain't So!

"[I]f one asks what substantive contributions [F. A. Hayek] made to our understanding of how the world works, one is left at something of a loss. Were it not for his politics, he would be virtually forgotten."

This assessment was offered up late last year in the online magazine *Slate* by Paul Krugman, 1991 winner of the prestigious John Bates Clark Award.

A few weeks before Krugman wrote that, Gene Epstein, economics editor of *Barron's*, profiled this Yale-bred, MIT-based economic theorist. Epstein's article was largely positive and wholly respectful. But in a mildly critical tone, Epstein wondered if Krugman hadn't committed an error of omission. His writings on recessions seemed to suggest that he knew little or nothing about Hayek's theory of the business cycle, a theory built on the cumulative efforts of Carl Menger, Eugen von Böhm-Bawerk, and Ludwig von Mises. Krugman conceded that he wasn't familiar with the Austrian theory.

One is reminded of the notorious episode in which John Maynard Keynes reviewed Mises's *Theory of Money and Credit*, which was published in German. He faulted Mises for failing to offer anything original and then later remarked that when he read German, he understood only what he already knew. If we get our appreciation of Hayek through Krugman, we can credit Hayek for very little. Unlike Keynes, though, Krugman cannot invoke language as an excuse. Hayek did not get the Nobel Prize for his political views; he got it for his work on business-cycle theory. Why would Krugman not be completely familiar with Hayek's contributions? Stay tuned.

Clearly not a follower of Austrian theorizing, Krugman is, if anything, a quick study. On the same occasion in which he denied Hayek any standing as an economic theorist, he launched a vitriolic attack on the Austrians and their "hangover theory" of recessions. "I regard [their theory] as being about as worthy of serious study as the phlogiston theory of fire." Though he failed to identify the *Barron's* article or its author as the spark that set off this firestorm, he was clearly reacting to Epstein.

"Hangover theory" is a term obviously intended to denigrate the Austrian account of the unsustainable boom. Yet it is descriptive of many—if not most—modern business-cycle theories. The idea that booms lead to busts as drinking binges lead to hangovers is at home in both Monetarism and New Classicism. Even our sophomore-level college textbooks feature a stilted version of the hangover theory. In the late 1970s, the analogy between the abuse of monetary tools and the abuse of illegal substances became so well understood in the financial world that the argument by analogy was nearly reversed. A memorable cartoon of the period showed a balding Wall Street banker having a heart-to-heart with his errant teenage son: "Think of it this way, Timmy: Taking drugs is kinda like increasing the money supply. . . . "

The Austrian hangover is unique. The misallocation of resources during the period of artificially cheap credit has the feel of genuine growth, but these good feelings are followed by bad ones. The commitment of too many resources to projects that will yield output only in the remote future has as its counterpart an undue scarcity of resources for producing output in the near and intermediate future. In time the misallocation becomes apparent, after which follows a period of liquidation and reallocation—in a word: a recession.

None of this is to deny that a sharp increase in money demand (or a collapse in the money supply) can seriously retard recovery—as certainly happened in the 1930s. But Krugman would have us believe that monetary disequilibrium is the whole story: People, for some reason, want to hold more money than currently exists. Accordingly, his solution is simply to print the money up and let them hold it.

Krugman's view of recessions is best put in perspective by comparing it with the contrasting views of Keynes and Hayek. These archrivals of the 1930s were in agreement that the increase in money demand, the "scramble for liquidity," was a secondary aspect of the downturn but in disagreement about what the primary problem was. Keynes thought it was investment demand, which in a decentralized economy is prone to collapse. Hayek thought it was malinvestment induced by shortsighted or politically motivated actions of the central bank. [Editor's note: See Richard Ebeling's article, p. 28.] Krugman elevates what both Keynes and Hayek saw as a secondary aspect to the status of the primary problem. And then, creating difficulties for the historian of thought, he attributes the high-money-demand theory of recessions to Keynes himself.

Presumably rejecting all hangover theories, Krugman pronounces the Austrian variety "intellectually incoherent"—largely on the basis of a telling question: "[How can] bad investments in the past require the unemployment of good workers in the present?" Krugman's implicit answer: They can't—and therefore we needn't pay any attention to Hayek. (The question itself is a good one and is likely to find its way onto macro exams at Auburn University.)

Emphazing the time element in the economy's capital structure, a Hayekian would argue that investment involves the employment of resources in a particular sequential pattern. During the downturn, good workers are out of work because the capital they need to work with is in short supply, having been committed to long-term projects now in need of liquidation. Krugman's response ("Well, fine. Junk the bad investments and write off the bad loans.") is all too facile. His advice is well taken, but the market process that implements it is time-consuming. During the junking and capital restructuring the demand for much of the labor force (labor whose capital complement has not yet been recreated) is low. And low demand translates into unemployment—except under the decidedly un-Austrian assumptions of instantaneous wage-rate adjustment and near-infinite labor mobility.

Recognizing that in Austrian theory the unemployment is somehow related to capital restructuring, Krugman poses another question: "Why doesn't the investment boom—which presumably requires a transfer of workers in the opposite direction [from short-term projects to long-term projects]—also generate mass unemployment?" Gottfried Haberler asked the same question in his 1937 book, *Prosperity and Depression*. The answer is that during the cheap-credit boom, there is a net increase in labor demand. And because of the low interest rate, many workers are bid away from jobs in the late stages of production and into jobs in the early stages. During the downturn, however, there is a net reduction in labor demand. As liquidation gets underway, workers are released from the higher stages and (eventually) reabsorbed elsewhere in the economy.

Both of these future exam questions have been answered by drawing on Hayek's contributions. Significantly, both answers involve heavy doses of capital theory, which serves as the underpinning of the Austrian theory of the business cycle. One seemingly permanent effect of the Keynesian Revolution was to tear macroeconomics loose from these underpinnings. Today, capital theory simply has no standing in mainstream macroeconomics. Accordingly, Hayek has no standing in the eyes of Krugman and other modern mainstream macroeconomists. It is a pity.

—Roger W. Garrison
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A Modern Pyramid

by Christopher Mayer

In *Anything That's Peaceful*, first published in 1964, Leonard Read took aim at U.S. efforts to put a man on the moon.[1] He was right on target. His powerful comments have tremendous relevance today in light of the government's aim to build an international space station. The project is expected to cost more than one hundred billion dollars over its lifetime.

In discussing the moon project, Read wrote: "What its ultimate, useful purpose is I cannot imagine. But putting aside personal prejudices against this multibillion dollar project, it is obvious that it would not, at this time, emerge from the free market."

Read also took note of all the specialized labor, machines, time, and money being poured into the project. Those workers supported themselves with money provided by the government. However, that income was not earned in the normal sense. In the market, wages are earned by providing a service or good that others are willing to pay for. Ultimately, wages are money that entrepreneurs advance to workers now in exchange for a greater amount generated later from the sale of the product. Of course, entrepreneurs make mistakes, and it may turn out that the product is sold for less than anticipated. A loss is a signal that an entrepreneur must either redirect his resources to a good more highly valued by consumers or he will continue to suffer losses and be driven from business. His resources would then fall into more capable hands and be more efficiently deployed (or left idle).

Christopher Mayer, a loan officer at a Maryland bank, is studying for his MBA at the University of Maryland.

No Response to Consumers

As Read pointed out, exploring the moon "is not bound into the economy by mutual consent as reflected by willing exchanges in a free market; it is bound into the economy by the exertion of governmental force or coercion." The efforts of NASA are possible because the government forcibly collects taxes from it citizens. Read coined a term to refer to work that would not be supported by the free market: "To the extent that government intervenes in free action to that extent is *unnatural specialization* brought into play." (Emphasis added.)

The harm of unnatural specialization can be seen through Read's example of policing. Most everyone agrees that it is the government's role to keep the peace, to ensure and protect individual freedom and property, and to forcibly restrain fraud, violence, and other similar crimes. However, citizens must be vigilant about government's role even here, lest that worthy goal be corrupted. Employing too many police officers and soldiers places a drain on the economic system. What if everyone were forced to become a police officer or soldier? We can easily see the folly of such a scheme. Too many takers, not enough producers.

Garet Garrett, a wonderful writer with a gift for symbolism, surely must have agreed with Read. He would have called exploring the moon or building an international space station a "pyramid." In his essay "The Anatomy of a Bubble," first published in 1932, Garrett used the imagery of the pyramid to denote a dead asset, an unproductive expenditure of human labor.[2] The pyramids were built through the power of the pharaoh, who wished to build a monument in honor of himself.

Garrett wrote that "it is believed that on the Cheops alone 100,000 men were employed for 20 years. And when it was finished, all Egypt had to show for 600,000,000 days of human labor was a frozen asset. . . . People could not consume what their own labor had produced. That is to say, they could not eat a pyramid, or wear it, or live in it, or make any use of it whatever. Not even Pharaoh could sell it, rent it or liquidate it."

Had they not been forced to build the pyramids, the laborers might have improved Egyptian agriculture, built homes, and made clothing and other goods that their fellows would have enjoyed and willingly paid for. They might have developed and expanded trade. They might have invented innovative products. As Garrett said, they could have insured "Egyptian civilization a longer competitive life." Instead, they made a large pile of bricks.

Once spent, the labor, capital, and time were gone forever. The Egyptians could not unmake the pyramid.

A Pyramid in Space

What's the difference between the Pharaoh's pyramid and our government's intent to build a space station? The money spent on the station can't be unspent. It is gone forever. And what will we have for our efforts? We cannot eat the station, we cannot wear it, live in it, rent it, or likely liquidate it. The station is a modern pyramid.

Advocates of the space station say it will provide important benefits. But the promises are vague, even if chock full of noble-sounding humanitarian goals that seem beyond reproach. They begin with the mission "to enable long-term exploration of space and provide benefits to the people of Earth." They include promises "to accelerate breakthroughs in technology," "to maintain U.S. leadership in space," and "to inspire our children." NASA also claims that "every dollar spent on space programs returns at least $2 in direct and indirect benefits." Nowhere is this claim substantiated. In fact, NASA's Web site (www.nasa.gov) never mentions costs. If every dollar yielded two dollars in benefits, why isn't this a private initiative? That kind of return would attract big-time money, money that would make Bill Gates blush. The reason is that individuals in society have other things they would rather do with the money.

Ludwig von Mises wrote in *Human Action* that "A project *P* is unprofitable when and because consumers prefer the satisfaction expected from the realization of some other projects to the satisfaction expected from the realization of *P*."

As Mises pointed out, many fail to recognize the fact that all action involves tradeoffs. Projects have a cost because factors of production are scarce. The money to subsidize a project must come at the expense of the taxpayer and the sacrifice of other wants.

The concept of a pyramid is a useful symbol for any number of government projects. Because of Garrett's analysis, I will never look on the pyramids with admiration and amazement. I will see only that they are the product of a tyrant and a symbol of the wasted effort emblematic of other public works projects. I'll wonder what the Egyptians would have built in their stead had they been free.

And I'll have similar thoughts every time I read about the space station. □

1. Leonard E. Read, *Anything That's Peaceful* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1998 [1964]).
2. Garrett's essay was reprinted in *Where the Money Grows and Anatomy of a Bubble* (New York: John Wiley & Sons, Inc., 1997).

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"Must I Not Be Believed?"

by E. Calvin Beisner

It was mid-November 1688. King James II of England, heir to his father's and grandfather's beliefs in royal absolutism, was desperate. Nobles and gentry of his kingdom had invited his son-in-law Prince William of Orange to intervene for the preservation of a free parliament and the Protestant religion. James was meeting with a group of bishops of the Church of England. It was his last chance to influence these clerics, and they were the last men who might possibly persuade the English people to support James against William, who with a force of 15,000 men had just landed at Torbay.

All the king asked of the bishops was that they make a public statement that, contrary to William's declaration, they had not taken part in the invitation to William. (In fact, one of them had.) But the bishops refused on the grounds that the declaration alleged to be William's might be a forgery and that even if it were genuine, it was unfair to press them alone to disavow it, since that would raise suspicions that they were uniquely suspect. King James was beside himself. "Must I not be believed?" he asked in frustration. He desperately needed his people to believe that William had no support among the country's leaders.

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One of the bishops suggested that since they already had denied to him privately any involvement in the invitation to William, James could simply report that denial publicly. "No!" cried the king. "If I should publish it, the people would not believe me!"

Credibility Lost

That was precisely the point. James had lost credibility with his people for two reasons. First, he had been caught in manifest lies time after time. Second, he had declared himself above the law, even packing a court to ensure that it would rule that "the laws of England are the laws of the King of England. . . . [T]he king of England or any sovereign prince upon urgent occasions & necessities may dispense with any penal laws of their dominion. . . . [T]he king is sole judge of the necessities & urgency of these occasions upon which they may dispense with the laws. . . . [T]he king's power is in himself independent of any & not entrusted of any & not entrusted to them from the people of England."

Now, with William's invasion, James more than anything else needed credibility. The survival of his reign depended on it. His troops' willingness to fight for his reign depended on it. Lacking it, he watched as regiment after regiment of the army, ship after ship of the navy, either simply refused to fight or actually changed allegiance and joined William. Within a month, and with hardly a battle fought, James—who had begun with superior forces—found himself stripped of all ability to defend himself and his kingdom, and was forced to abdicate, fleeing to France. The "Glorious Revolution" of 1688 was brought on, and consummated, by the simple fact that the people of Great Britain did not trust their king.

When President Bill Clinton, one day before a scheduled House vote on impeachment, ordered air attacks on Iraq, some Republican congressional leaders, like millions of American citizens, broke with the tradition of supporting the president in foreign military action and clearly spoke their own incredulity at both the policy and its timing. Nothing Clinton could say could eliminate the doubts. Why?

Because, like King James II, President Clinton had lost his credibility. Repeated lies, even under oath, and his attempts to use "executive privilege" to shield himself from the normal application of the laws had combined to demonstrate that he was not—and is not—to be trusted. That is why it is tragic that the impeachment process was not permitted to end in a bona fide trial. Such a trial, unlike the sham proceedings that took place, was necessary to either exonerate the president of the charges against him and restore his credibility or to convict him and remove him from office so that a new president can govern with credibility. As it turned out, we are left with a president crippled by his own dishonesty—and a nation potentially crippled along with him. ☐

Ending Corporate Welfare as We Know It

Corporate welfare is one of the toughest nuts to crack in Washington. While almost everyone says he is opposed to it, Congress hasn't done much about it. Maybe, just maybe, that has something to do with the fact that many congressmen are on the dole too—in the form of campaign contributions from corporate welfare recipients. A new approach is needed if American taxpayers are ever to get this monkey off their backs.

The Cato Institute estimates that direct subsidies from the federal treasury to businesses big and small, cash-rich and bankrupt alike, amount to at least $80 billion annually. (No doubt state and local governments dole out a few billion dollars more on top of that.) Companies (most notably Archer Daniels Midland) defend the handouts as being good not just for them but for the economy as a whole.

That's not an argument that was ever given much credence in debates over welfare for individuals. Most people seemed to understand that taking from A to give to B doesn't stimulate anything but B's spending at A's expense. Aid to Families with Dependent Children (AFDC) and other welfare programs for individuals were defended primarily as necessary and helpful to the recipients, rarely as a general economic stimulus. Then came overwhelming evidence that these programs were actually harmful to the recipients themselves—producing lifelong slothfulness and demoralization, intergenerational dependency, and the breakdown of families. Reforms at the federal, state, and local levels are now aimed at getting people off welfare and into work.

It seems reasonable that what's good for individuals ought to be good for companies too, especially since companies are nothing but collections of individuals anyway. Perhaps we'd be more successful at ending corporate welfare if we made it plain that it's only fair to apply the same welfare reforms to businesses that we apply to individuals. Sort of a twist on the old canard, "What's good for General Motors is good for the country."

Following this prescription, here's what corporate welfare reform might look like (and I'm being only a little bit facetious).

Declare an end to any and all "entitlements" to corporate welfare.

President Clinton signed a historic bill in 1996 that ended individuals' legal entitlement to federal subsidies. He should put businesses on notice that they are not owed anything either, except for the same common defense and other constitutional functions intended by the Founders for all of us. States should follow suit.

Put time limits on corporate welfare.

If we can't get rid of all these business handouts forthwith, then Congress should at least do what a growing number of states are doing with families formerly on AFDC: limit any company's time at the trough to five years.

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Impose a "family cap" on corporate welfare recipients.

New Jersey was the first state to deny additional aid to any families having more children while on welfare. Businesses should be advised that while on the corporate welfare rolls, they cannot get an increase in assistance if they hire additional employees.

Start drug testing for CEOs.

Governor John Engler of Michigan, regarded as a national leader in welfare reform, wants to deny welfare payments to individuals found to be abusing drugs. Taxpayers should not be required to subsidize corporate CEOs who abuse drugs either and there's only one way to find out if they are: if they're gettin' handouts, test 'em.

Get tough with work requirements.

To one degree or another, states now require welfare recipients to show evidence of conscientiously searching for gainful employment or doing volunteer work in their local communities. Corporate executives on the dole should also be required to prove that they are trying to straighten out their lives and develop a serious work ethic.

Require attendance at welfare-to-work counseling sessions.

Columnist Paul Gigot describes ethanol as a mixture of corn and your tax dollars. There's no reason why Dwayne Andreas, the longtime head of the Archer Daniels Midland Company and recipient of massive ethanol subsidies, shouldn't have to sit through the same social worker lectures that other welfare recipients have to endure.

Put a "LearnFare" program in place.

Wisconsin was the first state to cut welfare benefits to parents if they couldn't keep their kids in school. Companies should be cut off if they can't keep their executives in remedial economics classes taught by economists who can explain the importance of the free economy, property rights, and keeping your hands in your own pockets.

Create incentives for the bureaucracy to discourage corporate welfare.

Wisconsin was also among the first states to reward welfare department employees for helping recipients leave the welfare rolls or stay off them in the first place. Early retirement with handsome severance packages for federal and state bureaucrats who lop corporate clients off the rolls might save us a lot of money in the long run.

President Clinton pledged in 1992 to "end welfare as we know it." He did not qualify the statement with anything like "it depends on what you mean by the word 'welfare.'" So let's call his bluff and ask him to end *all* welfare, as we've known it and as many of us would like to forget it. ☐

THE FREEMAN
Ideas On Liberty

Bogus Freedom

by James Bovard

"Freedom from want" is one of the most frequently invoked notions of freedom in our time. However, it is a bogus freedom that politicians and socialists offer to lull people into accepting policies that destroy true freedom. Freedom from want has been most loudly advocated in this century by those who favored removing almost all limits from government power.

For example, Sidney and Beatrice Webb, two of the founders of British socialism and authors of *The Soviet Union: A New Civilization?*, asserted in 1936: "Personal freedom means, in effect, the power of the individual to buy sufficient food, shelter and clothing."[1]

The Webbs did not specify how many millions of people government should be permitted to kill in the name of "freedom from want." But during Stalin's bloodiest decade, they asserted that for government economic planning to succeed, "public discussion must be suspended between the promulgation of the decision and the accomplishment of the task" and that any criticisms of the master plan should be treated as "an act of disloyalty, or even of treachery."[2] For government to be able to liberate people with food and clothing, it must have the power to execute anyone who criticizes the official economic plan. After visiting the Ukraine, the Webbs endorsed Stalin's war on the kulaks (the least impoverished peasants), commenting that "it must be recognized that the liquidation of the individual capitalist in agriculture had necessarily to be faced if the required increase of output was to be obtained."[3] (Output plummeted.)

Equating liberty with satisfactory living standards became far more common as the twentieth century went on. "Real freedom means good wages, short hours, security in employment, good homes, opportunity for leisure and recreation with family and friends," wrote Sir Oswald Mosley, the most prominent British supporter of Nazi Germany, in his 1936 book, *Fascism*.[4] James Gregor noted in his book *The Ideology of Fascism* that fascism aimed at "restraints which foster the increased *effective* freedom of the individual."[5] President Franklin Delano Roosevelt noted in 1937 that "even some of our own people may wonder whether democracy can match dictatorship in giving this generation the things it wants from government."[6] University of Chicago professor Leslie Pape noted in 1941 that "democracies readily admit the claims of totalitarian states to great achievements in the cause of positive freedom."[7]

British historian E.H. Carr, writing in 1951, observed that, for the modern era, "freedom from the economic constraint of want was clearly just as important as freedom from the political constraint of kings and tyrants."[8] Carr justified the array of economic controls in postwar Britain: "The price of liberty is the restriction of liberty. The price of some liberty for all is the restriction of the greater liberty of some."[9] However, with this standard,

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there is no limit to the amount of freedom that government can destroy in the name of creating "greater liberty for some." The British Labour government that Carr championed advanced freedom by conscripting labor for the coal mines and empowering the Ministry of Labour to direct workers to whatever employment was considered in the national interest—empowering over 10,000 government officials to carry out searches (including of private homes) without warrants—prohibiting restaurants from serving customer meals costing more than 5 shillings (less than $2 in 1947)—and fining farmers who refused to plant the specific crops government demanded.[10] The government also "nationalized all potential land uses in the United Kingdom, permitting only continuation of existing ones and requiring 'planning permission' for any others," as law professor Gideon Kanner noted.[11]

The Labour government offered freedom via the solidarity of standing in the same rationing line—liberation via deprivation. (A 1998 *New York Times* article cited the Labour government's postwar food rationing, which continued into the 1950s, as a contributing factor to the long-term decline of British cuisine.[12])

The more politicians promise to give, the more they entitle themselves to take. Carr, serving in 1945 as chairman of the UNESCO Committee on the Principles of the Rights of Man, declared that "no society can guarantee the enjoyment of such rights [to government handouts] unless it in turn has the right to call upon and direct the productive capacities of the individuals enjoying them."[13] Thus, the price of government benefits is unlimited political control over people's paychecks and work lives.

Once freedom is equated with a certain material standard of living, confiscation becomes the path to liberation. Thus, the more avidly a politician raises taxes, the greater his apparent love for liberty. In the name of providing "freedom from want," the politician acquires a pretext to destroy the basis of private citizens' independence. "Freedom from want" becomes a license for politicians, rather than a declaration of rights of citizens.

Anyone who does not have certain possessions is assumed not to be free—and in need of political rescue. President Johnson, justifying a vast expansion of government social programs, declared in 1965, "Negroes are trapped—as many whites are trapped—in inherited, gateless poverty. . . . Public and private poverty combine to cripple their capacities."[14] Vice President Hubert Humphrey defined a poor person as "the man who for reasons beyond his control cannot help himself." This perspective on poverty and self-help mocks all of American history. It implies that any individual who earns less than $7,890 a year (the official poverty line for a single person) is incapable of any discipline or resolution.

While advocates of positive freedom insist that government must intervene so that each person "can be all that they can be," government aid programs are notorious for rewarding people for making the least of themselves. President Roosevelt warned in 1935 that "continued dependence on relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber."[15] President Clinton declared in 1996: "For decades now, welfare has too often been a trap, consigning generation after generation to a cycle of dependency. The children of welfare are more likely to drop out of school, to run afoul of the law, to become teen parents, to raise their own children on welfare."[16] A rising tide no longer lifts all boats when the government rewards people for scuttling their own ships.

Faith in freedom from want depends on a political myopia that focuses devoutly on only one side of the ledger of government action. This is measuring freedom according to how much government does *for* people, and totally disregarding what government does *to* people. Government provides "freedom" for the welfare recipient by imposing tax servitude on the worker. Federal, state, and local governments collected an average of $26,434 in taxes for every household in the country, or an average of $9,881 for every U.S. resident in 1998, according to the Tax Foundation.[17] In an age of unprecedented prosperity, government tax policies have turned the average citizen's life into a financial struggle and insured that he will likely become a ward of the state in his last decades.

Some statists insist that taxation is irrelevant to freedom. According to sociologist Robert Goodin,

> If what the rich man loses when his property is redistributed is described as a loss of freedom, then the gain to the poor must similarly be described as a gain of freedom. . . . No net loss of freedom for society as a whole, as distinct from individuals within it, is involved in redistributive taxation. Thus, there is no basis in terms of freedom . . . for objecting to it.[18]

What does Goodin mean by "freedom for society as a whole"? By this standard, slavery would not reduce a society's freedom, since the slave's loss of freedom would be equaled by the slave owner's gain. Nor is there any difference, vis-à-vis freedom, between permitting people to retain their earnings and spend them as they choose, and government confiscating their money to hire more regulators, inspectors, and informants to better repress the citizenry.

What are the practical results of the modern "freedom from want"? Economist Edgar Browning, writing in 1993, examined the marginal cost of redistribution—defined as "the ratio of the aggregate loss to the top four quintiles of households to the aggregate gain to the bottom quintile of households."[19] Browning estimated that the marginal cost to the most affluent 80 percent of households of increasing the income of the poorest 20 percent by $1 was $7.82.[20] The marginal costs of redistribution are much larger than people might presume because of reduced incentives to work, both among the taxpayers and recipients. Also, as Browning noted, "marginal tax rates must be increased very sharply relative to the amount of income that is redistributed." Combining Browning's analysis and Goodin's definition, confiscatory redistribution destroys almost eight times as much "freedom" as it creates.

Once the notion of "freedom from want" is accepted as the pre-eminent freedom, it becomes a wish list justifying endless political forays deeper and deeper into people's lives. Princeton professor Amy Gutmann, in her 1980 book, *Liberal Equality*, declared: "Liberal egalitarians want to say that freedom of choice is not very meaningful without a right to those goods necessary to life itself."[21] Gutmann's elaboration of "necessary goods" reveals how government would be obliged to control almost everything: "Supplying the poorest with more primary goods will be insufficient if their sense of self-worth or their very desire to pursue their conceptions of the good is undercut by self-doubt."[22] By this standard, freedom is violated when people suffer self-doubt, and the government is obliged to forcibly intervene to guarantee that all people think well of themselves.

Political scientist Alan Wolfe, a self-described "welfare liberal," asserted in 1995 that "people need a modicum of security and income maintenance, underwritten by government, in order to fulfill the ideal of negative liberty, which is self-sufficiency."[23] Government dependency is the new, improved form of self-reliance: dependency on government doesn't count because government is a better friend to you than you are yourself. But the more dependent people become on government, the more susceptible they are to political and bureaucratic abuse. Freedom from want is conceivable only so long as people are allowed to want only what the government thinks they should have.

Freedom from want supposedly results from government taking away what a person owns so that it can give him back what it thinks he deserves. The welfare state is either a way to force people to finance their own benefits via political-bureaucratic bagmen, or it is a way to force some people to labor for other people's benefit. In the first case, government sacrifices the person's freedom to the fraud that government must tax him to subsidize him; in the second, government sacrifices the person's freedom in order to "liberate" someone else—often someone who chooses not to work. If someone pays the taxes that finance the government benefits he receives, he is less free than he would otherwise have been.

Some "freedom from want" advocates imply that government is a great benefactor when it promises citizens "three hots and a cot"—the old-time recruiting slogan of the Marine Corps. But trading freedom for a full belly is a worse bargain now than ever before. As economist F.A. Hayek observed, "As the result of the growth of free markets, the reward of manual labor has during the past hundred and fifty years experienced an increase unknown in any earlier period in history."[24] The average worker in industrialized countries can purchase the bare necessities of life with fewer hours of labor than ever before. Comparing current wages and prices with those of 1800, economist Julian Simon found that the average American worker today needs to labor less than one-tenth the time to earn enough to purchase a bushel of wheat than his predecessors did two centuries ago.[25] While the real price of food has plummeted (in spite of government farm policies), the "real price" of political servitude has not diminished.

It is understandable that some well-intentioned people assume that "freedom from want" is the most important freedom. It is difficult for many people to conceive of enjoying anything (much less their freedom) if they lack food, clothing, or shelter. However, freedom is not a guarantee of prosperity for every citizen; the fact that some people have meager incomes does not prove that they are shackled. It is a cardinal error to confuse freedom with the things that free individuals can achieve or produce, and then to sacrifice the reality of freedom in a deluded shortcut to the bounty of freedom. Freedom is not measured by how much a person possesses, but by the restrictions and shackles under which he lives.

Throughout history, politicians have used other people's property to buy themselves power. That is the primary achievement of the welfare state. The danger of government handouts to freedom was clear to some political writers hundreds of years ago. The French writer Etienne de la Boétie, in his 1577 *Discourse of Voluntary Servitude*, noted of ancient Rome: "Tyrants would distribute largess, a bushel of wheat, a gallon of wine . . . and then everybody would shamelessly cry, 'Long live the King!' The fools did not realize that they were merely recovering a portion of their own property, and that their ruler could not have given them what they were receiving without having first taken it from them."[26]

"Freedom from want" is not possible unless the government is allowed to control all things people want. Americans must beware of Trojan-horse definitions of freedom—definitions that, once accepted, allow bureaucrats to take over everyone's life. Government handouts insinuate political power into the deepest recesses of a person's life. And when the time is ripe, politicians take command where they previously lavished their gifts. □

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The Green Scare

by Roger E. Meiners

During the Cold War, anti-communist activists were accused of using Red Scare tactics. They were parodied along these lines: The communists were everywhere, maybe even under your bed, so support the politicians who would spend massive resources, and perhaps strip away a few liberties, for the greater good of saving the nation, and especially the children, from a horrible fate. Politicians such as Senator Joseph McCarthy rose to prominence by "revealing" the threat the nation faced. Some stories were false, some exaggerated, and some true, but sensible national policy should never be based on horror stories by charlatans.

In recent years politicians have gotten good mileage with a Green Scare campaign. Vice President Al Gore wrote *Earth in the Balance,* a book filled with green scares, most of dubious merit, far overblown, or simply false, but all requiring central control of property and the economy. Environmental horror stories are so widely accepted that political opponents are chary of sneering about them. It's worth reviewing the facts about some famous Green Scare stories, most of which are still repeated as gospel.

Common Law Co-Opted

Some readers may recall the sight of flames leaping from the Cuyahoga River in Cleveland in 1969. An oil slick on the river caught fire, which lit wooden train trusses. There had been fires in the river before; the Cuyahoga, an industrial sewer, was biologically dead. A few years before the fire, a real estate company had sued the city for allowing the river to deteriorate to such a condition. The trial court ordered the city to investigate the causes of the pollution and ordered "such nuisances . . . to be abated." The supreme court of Ohio reversed, holding that the river was under the control of state authorities. Common-law protection had been erased by the Ohio Water Pollution Control Board, which had granted permission for various industries to discharge wastes into the Cuyahoga and, thereby, Lake Erie. When regulation takes precedence over common-law rights, the result can be destructive to the environment.

DDT Defamed

The book *Silent Spring* is referred to as a sacred writ of environmentalism; but it is more of a totem than a useful source of information since the book is filled with incorrect information and half-truths. The single chemical most bewailed by Rachel Carson was DDT, which was alleged to have caused massive destruction of birds (thereby leading to the silent spring when chirping would no longer be heard). As a result, DDT was banned. Yet it had saved millions of lives. Paul Hermann Müeller, its Swiss creator, won the Nobel Prize for the chemical, which con-

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trolled mosquitoes and, thereby, malaria, in many parts of the world.

Before large-scale DDT programs were introduced in 1962 in Ceylon (now Sri Lanka), there were some two million cases of active malaria reported for the country.[1] During the DDT program, the number of new active cases fell to 17 in 1963. In 1964, pressures from Western nations brought an end to the use of DDT. By 1969, 2.5 million people in Sri Lanka were suffering from the disease, partly because it was not politic to admit that wise leaders do not know their environmental science and are willing to inflict massive suffering on tens of millions of people in lesser-developed nations.

Of course there can be too much of a good thing; the federal government was so DDT-happy after World War II that it dumped huge quantities from bombers, despite objections from farmers who resisted such "help." In one case the concentration was so high from a U.S. Department of Agriculture dump that it killed a herd of cows.[2] Despite Carson's assertions, there was then and still is little evidence that individual farmers, paying for DDT, sprayed it in such massive quantities that it caused environmental damage. The relationship between DDT and damage to bird eggs is no longer the certainty that was presumed. Scientific evidence is in order before assertions are accepted and policy conclusions are reached, but politicians have little incentive to rely on science.

Air Pollution Solution

The air in Los Angeles is much cleaner today than it was in the 1950s and 1960s, despite the large growth in population and number of vehicles on the road. It is not certain that the federal Clean Air Act and the Environmental Protection Agency deserve the credit. By the time the 1970 Clean Air Act was enacted, every state had some sort of air-pollution control legislation, as did 81 counties and 107 cities.[3] Citizens of L.A. had little choice but to find a solution to the smog problem, which at the time even the best scientists could not explain well. British insurance companies holding Los Angeles municipal bonds were so concerned about the city's future prospects that they indicated the bonds would be called unless effective action was taken to clear the air.[4] Market pressure required city leaders to act. Scientists at the California Institute of Technology were paid to research the problem, and one received a Nobel Prize for identifying the photochemistry of smog. State restrictions on automobile emissions followed.

California and the rust-belt states with sooty coal-fired electric generators and steel mills knew that as they took costly steps to deal with their peculiar or worse-than-average air pollution problems, they would face competitive disadvantages. So California pressed for the rest of the nation to be forced to implement the same kinds of emission controls that made good sense for it to impose. California and the rust-belt states patched together what should have been seen as an anti-environmental alliance in crafting many provisions of the Clean Air Act. The filthiest places were given less responsibility to clean up than were the clean-air areas, and the cleanup mandates were expensive, special-interest driven measures.[5]

Since passage of the 1970 Clean Air Act, progress on air quality has been made, but it was being made before that time, perhaps more rapidly, and certainly in a more cost-effective manner designed to address local problems.[6] The billions mandated by statute to be spent on outdated technological and command-and-control solutions, to comply with standards that have little to do with scientific evidence of harm, force the consumption of many resources that could have been devoted to other worthy endeavors.

Unloved Canal

The granddaddy of all Superfund sites is Love Canal. In 1980 it generated horror stories of chemicals seeping from an abandoned toxic dump site run by Hooker Chemical Company (Occidental Petroleum). Publicity about the site helped spur public support for quick passage of the Superfund toxic-cleanup law, the Carter administration's final major "gift" to citizens before leaving office.

Love Canal was a failed entrepreneurial canal built in the 1800s. In 1941, Hooker Chemical bought the 3,000-foot long trough, which was 8 to 16 feet deep and 60 to 80 feet wide, to use to dump toxic waste from its plant on the outskirts of the City of Niagara Falls, New York. The canal soil was hard clay, so it made an excellent disposal site that did not appear to cause water contamination. In the 1950s, the city, which had been fully informed of what was under the soil, essentially condemned the Love Canal property and, over company objections, later built a public school on the grounds and allowed housing to be constructed there. Eventually, Hooker had to pay to clean up the site under the Superfund law.

Hooker was also sued in tort by citizens and various governments. The federal court judge in 1994 provided exhaustive findings in the case *U.S. v. Hooker Chemical.* The government requested punitive damages from Hooker, but the court rejected the request. Nevertheless, Hooker was held negligent, primarily for not coming forward with more information about the dangers of various chemicals in later years. "While the Company should have made greater efforts to keep local residents off the property," the judge ruled, "it violated . . . no legal obligation in failing to do so. It responded to complaints about odors, fires, and exposures to chemicals whenever notified, and there was no evidence of injury during the disposal operations that would have signaled a compelling need to provide more protection."

Love Canal is notorious. One environmental law textbook asserts that hundreds of people suffered terrible injuries there. No doubt the hysteria caused by EPA workers in space suits hustling people from their homes may have caused distress. Yet the court's review of injuries from chemical exposure shows only "relatively minor noticeable injury." That is, the Love Canal Superfund site, the stuff of environmental legends, was found, on careful examination, to be associated with little harm to human beings at the time and no lasting harm. But the company was liable for what minor harms it negligently inflicted on residents. No harm at all would have likely ever occurred had the city not demanded the property from the company and built on it, tampering with the soil cover on the chemicals.

These horror stories, the stuff of the Green Scare, have achieved the status of Official Truth. But each is grossly distorted in the service of interventionist environmentalism. Here's yet another example of the old saying that it's not what we don't know that hurts us. It's what we know that isn't so. □

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by Doug Bandow

Congressional Lost Opportunities

Although Republicans retain the control of Congress that they won in 1994, they have done little good with their power. President Bill Clinton, despite his crippling scandal woes, retains the initiative in making policy. Not only does he push for new spending programs, but his administration also continues to pour forth a flood of intrusive regulations—8,645 in the last two years alone.

Of course, people have been suffering from runaway bureaucratic rule-making ever since Congress began creating agencies. Federal regulations cost us $670 billion annually, according to Thomas Hopkins of the Rochester Institute of Technology. That's about $7,000 per family—and doesn't count lost economic growth.

For years constitutional scholars have decried Congress's "excessive delegation" of power to the hundreds of departments, agencies, and bureaus that fill Washington. Average citizens have complained too—after being fined by OSHA, penalized by the IRS, sued by the SEC, or otherwise abused by one or another alphabet-soup bureaucracy. But legislators have been unwilling to give up this tool to expand their power. After all, it would take real work for them to fill in all the blanks created by their own statutes. Equally important, doing so would allow voters to hold them responsible.

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Cases are legion where bureaucrats have created rules essentially out of whole cloth. For instance, the entire regulatory web governing wetlands grows out of the Clean Water Act, which never mentions wetlands. Yet under these rules people find their property effectively seized; an unfortunate few even end up in jail.

The Clinton administration made a similar power grab through the Food and Drug Administration's proposed controls over the tobacco industry. Such rules were never thought to be within the purview of the FDA. Nevertheless, the agency unilaterally declared its authority to ban advertising, control tobacco production, and monitor cigarette sales.

Even where the authority exists, agencies often act irresponsibly to achieve ideological ends. For example, the Clinton Environmental Protection Agency developed air pollution rules, allegedly to protect children, which offered minimal health benefits to justify their enormous cost.

Yet the GOP Congress did nothing. Republicans were unwilling to make any effort to explain why rules that sounded superficially appealing were actually environmentally as well as economically destructive.

The Clinton regulatory flood continues. As Angela Antonelli of the Heritage Foundation points out, the number of pages in the Federal Register, which catalogues federal rules, peaked under President Jimmy Carter at 87,012. It was still a too-high 53,376 pages in 1988, President Ronald Reagan's last full year in office. Last year the Federal Register was back up to 64,549 pages. The Center for the Study of American Business reports that spending on 61 different regulatory agencies will hit $17.9 billion this year, the highest ever. Staffing is also up, to 127,927 employees (full-time equivalents).

Congressional deregulators should push an aggressive agenda. They should start by killing agencies. There is no evidence that OSHA has had any impact on workplace deaths and injuries, but plenty of evidence that its nitpicking rules cost far more than any benefits they provide. By slowing the flow of drugs to market, the FDA has killed far more people than it has saved. And so on.

Legislators should stop delegating near plenary power to regulatory bureaucracies and allowing informal "nonlegislative rules" to be binding. Congress should undertake systematic oversight of federal regulatory activity.

Regulation can be lethal. A half dozen rules—for chloroform at pulp mills, for instance—are estimated to cost literally trillions of dollars per life saved. Yet a 1994 Harvard University study figured that 60,000 people die each year as a result of today's regulatory complex, which diverts tens of billions of dollars from productive uses to fighting just such trivial risks.

Congress could at least say no to bad regulations before they take effect. Until 1996 that wasn't easy, since both houses of Congress would have had to pass a new law—over the President's veto, if necessary. Congress did create a one-chamber veto, which was later voided by the Supreme Court.

But three years ago Congress approved the Congressional Review Act (CRA). It requires all agencies to submit their rules to the Senate, House, and General Accounting Office (GAO). Legislators then have 60 days to use an expedited lawmaking process (easing the discharge of resolutions from committee, for instance) to pass a joint resolution disapproving the regulations. Already agencies have been resisting the act's requirements, just as they have sought to thwart earlier attempts to restrict new regulations. The departments of agriculture and transportation, in particular, simply refuse to submit some rules to the GAO. The GAO has done little to implement the law.

Meanwhile, Congress has not yet blocked even one rule. It may be that all 8,645 rules approved by the Clinton administration in 1997 and 1998 advanced the public interest. But it's not likely.

Past regulatory reform legislation has had little effect. For instance, the Paperwork Reduction Act and Unfunded Mandates Reform Act were both weakened before being passed in 1995 and have had only minimal impact. Other reform measures, such as property rights protection, regulatory budgets, and requirements for risk assessment, failed to become law. Throughout most of U.S. history, Congress was viewed as the strongest branch of government. But regulation has given presidents the power effectively to make law. For the sake of liberty and the Constitution, Congress needs to act aggressively to curtail agency rule-making. □

THE FREEMAN (Ideas On Liberty)

Fighting Back

by John Landrum

I have always envied "how-to" writers and secretly hoped to become one. This is my latest essay into the field. I want to bestir *Freeman* readers to make more noise in the mainstream media.

I'll offer some quick background, hoping to convince you that, if I can do it, you surely can. Until roughly three years ago, I was what Ayn Rand would have called a "contemptible middle-of-the-roader." I tended to dismiss those who talked about political issues in terms of principles, thinking them poor compromisers. I thought that we could never make democracy work if everyone insisted on his own starting position. I was well meaning and sincere. And I was like almost everyone else I knew.

Then a friend introduced me to the writings of Henry Hazlitt (*Economics in One Lesson*), Frederic Bastiat (*The Law* and *Economic Sophisms*), and Ludwig von Mises ("Economic Calculation in the Socialist Commonwealth"). Suddenly, I got it.

Reading these writings, and since then many others, I was struck by the question: why was all of this such a revelation to me? I almost never encountered even cheap imitations of these writers in any newspaper—including "conservative" newspapers.

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It occurred to me that anyone who was convinced by this stuff and took it seriously should make some racket. And writers such as Bastiat and Hazlitt gave wonderful examples of how this could be done.

Last year I found my first chance—a newspaper article in the New Orleans *Times-Picayune*—and wrote a letter to the editor in response. (A reader of my letter sent a copy to *The Freeman*, which in turn invited this article.)

I imagine I'm less well educated in free-market principles than most *Freeman* readers. So I share this story in the hope that it inspires others who may not consider themselves authorities to write confidently when they see free markets challenged.

Think of this as *The Complete Idiot's Guide to Defending Liberty.*

Unappealing Competition?

The *Times-Picayune* is the only major newspaper in New Orleans. Last May, it ran a page-one article headlined "Crawfish peelers losers in trade war." Crawfish are a favored source of protein in Louisiana. In the short season—roughly March through April—restaurants and markets sell them freshly boiled, with shells on. During the entire year, stores and restaurants buy them shelled and frozen for inclusion in sauces and stews. For this market, crawfish peelers remove the shells by hand.

The *Times-Picayune* explained that in the past few years Chinese exporters have begun to produce and peel crawfish in large quantities and sell them in Louisiana. Chinese prices are considerably lower than local ones, presumably because of the lower cost of labor in China.

The article made clear that peeling crawfish is one of the least desirable jobs imaginable, with low wages, unpleasant conditions, utter monotony, unpredictable demand for work, and frequent hand lacerations and abrasions. Nevertheless, the article called local peelers "the latest victims in the trade war with China." The federal government had slapped a tariff on Chinese crawfish imports, but according to the newspaper, that was not enough to create a "level playing field."

Local buyers were interviewed about the seeming ethical dilemma posed by the prospect of putting local workers out of jobs by buying the cheaper foreign crawfish. In reading the article, I could imagine readers writing angry letters to their congressmen urging stronger action against the insidious Chinese.

Stealing Bastiat

After reading Bastiat's *Economic Sophisms* one time through, I knew the rebuttals to the philosophical arguments implicit in the article. My letter to the editor quoted the news article's salient passages, then stated that we are no more "at war" with crawfish peelers from China than we are with wheat growers from Kansas, poultry men from Arkansas, cattlemen from Texas, automakers from Detroit, or anyone else who produces the things we need more cheaply than we can produce them ourselves. In the same way, should a French pharmaceutical company discover a low-cost cure for cancer, we would not be at war with the French, even though the cure might "threaten" the local cancer-treatment industry.

Still following Bastiat, I argued that the purpose of an economy is to create an abundance of the things we need and want, rather than to create jobs. If the essential point were to create jobs, then I could help the economy by hijacking truckloads of peeled crawfish—or better yet, blowing up roads and bridges.

I mentioned that confusion of these objectives underlay opposition to free trade. Protectionists assume that foreign producers' success can only come at the expense of local jobs in the mistaken belief that economics is a zero-sum game; they fail to recognize that trade and innovation create new wealth, with attendant new capacity and demand.

I concluded with the observation—which the *Times-Picayune* omitted—that the front page of the same edition had a long article celebrating the lowest unemployment in a long time.

I was motivated by principle, but I did fall prey to something of a stunt. One paragraph near the end of my letter stated: "Protecting uncompetitive, labor-intensive industries is a losing game. Bangladesh promotes jute production because it creates so many jobs, even though alternative materials made jute uneconomical long ago. Bangladesh is not my idea of a good economic model to follow."

My motive was to hit the "street smart," practical reader who would not easily be swayed by Bastiat's logic. My source was P.J. O'Rourke's *All the Trouble in the World*—a must-read for anyone interested in an effective challenge to people who want you to worry.

Like Shakespeare, very little of my content is original.

A Better Approach

Read, or re-read, Bastiat's *Economic Sophisms*. You'll get the clear impression that the author is having a marvelous time—luxuriating in the falsehoods of protectionists, like a porpoise sporting in the surf. The wonderful thing about the free-trade controversy is that the potential opportunities for *reductio ad absurdum* are unlimited.

After the *Times-Picayune* published my letter, it occurred to me that my article could have included an entirely different approach. Namely, if it is a good idea for Congress to protect Louisiana crawfish peelers, what American producers is it *not* a good idea for them to protect? (I suppose that we could spare *uncompetitive* foreign imports, since presumably no local producers would lose business to them.)

And if protecting American producers from all foreign competition helps the U.S. economy, then it should also be true that in each of the 50 states, protecting in-state producers from out-of-state competition would help the state economy. That is, Arkansans as a class would presumably be richer if they could only buy from fellow Arkansans; Texans as a class would be richer if they only bought Texas-produced goods and services; and so on.

And if protecting in-state businesses from out-of-state competition would enrich each state, then it would stand to reason that a law requiring each of us to buy only from vendors located in our own *counties* would only compound the positive effect—necessitating a local producer for everything that we need.

And if it would enrich everyone to insist that we buy from inside our home counties, then logically it should enrich us most to prevent us from buying from anyone—to legislate that we have to meet all of our own needs ourselves. We would certainly have full employment.

But as countless free-market advocates have pointed out, the total elimination of specialization would also restore us to the economic condition of savages.

This approach would have been a good line to pursue. I haven't seen any articles with a protectionist slant in the *Times-Picayune* since the crawfish feature and began to despair of a chance to try it. Then last fall, *USA Today* offered a debate between its editor arguing against protection (thank goodness!) and a steel industry spokesman trying to "protect American jobs." I mailed the letter immediately.

Any *Freeman* reader can do what I've done. I encourage you all to try it.

See you in the papers. □

Gullible Skeptics

". . . the reason why liberty, of which we Americans talk so much, is a good thing is that it means leaving people to live out their own lives in their own way, while we do the same. If we believe in liberty, as an American principle, why do we not stand by it?"

—WILLIAM GRAHAM SUMNER (1840–1910)

Webster's defines a skeptic as "one who doubts . . . a person marked by skepticism regarding religion or religious principles." Similarly, the *Oxford English Dictionary* states that a sceptic is "One who doubts the validity of what claims to be knowledge in some particular department of inquiry (e.g., metaphysics, theology, natural science, etc); . . . an unbeliever in Christianity, infidel."

Webster's and the OED both emphasize that skeptics are likely to be especially skeptical about matters pertaining to religion. Why should this be so? Because skeptics, like most Americans, think they love liberty and seek to "liberate" people from what they regard as "religious oppression." However, as the OED also states, a skeptic is a person who is skeptical about "some particular department of inquiry"—hence, he may not be skeptical about some other department of inquiry. Indeed, we could not go through life without being unskeptical about many things, accepting them on "faith value"—for example, that diabetes is better treated with insulin than with aspirin.

I want to show that although contemporary skeptics pride themselves on disbelieving the theology of traditional religions, most of them ardently believe the theology of the Therapeutic State—the alliance of Medicine and the State—epitomized by Psychiatry. Although most educated people doubt what they regard as false claims, they do not call themselves "skeptics." Most self-styled or professional skeptics (Skeptics) are not only obsessed with agitating against what they regard as false religious claims but also act as if such doubting were a daring, modern attitude.

Actually, skepticism about religion is as old as religion itself. Adherence to religion A implies skepticism about religion B, and vice versa. Since the Enlightenment, the debunking of religion, especially Christianity, has been a veritable growth industry. Nevertheless, religious belief remains widespread. In the United States, support for religious belief as "truth" and as a political agenda is associated with the so-called Christian Right.

Skeptics are best viewed as the Christian Right's dialogic partners and political adversaries. By targeting the Religious Right, the Skeptics ally themselves—sometimes tacitly, often explicitly—with the Psychiatric Left. The result is that Skeptics are among the leading supporters of the dominant "religious" fraud and oppression of our age, Psychiatry.

The United States has a National Institute of Mental Health, but it has no National Institute of Religion. Every state has mental health laws, but none has religious health laws; indeed, none has physical health laws. Each year, hundreds of thousands of Americans are deprived of liberty on psychiatric grounds; not a single American is deprived of liberty on religious grounds. I will not belabor my view that mental illnesses, like ghosts, are nonexistent entities and that psychiatry, like slav-

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ery, rests on the state-sanctioned coercion of innocent individuals.

Persons engage in actions. There is no psychiatry without psychiatric acts: the paradigmatic psychiatric acts are civil commitment and the insanity defense, both euphemisms for depriving people of liberty. Civil commitment is preventive detention of the innocent. The insanity defense or, more precisely, the insanity disposition, is the punitive detention of criminals classified as "mentally ill" in prisons called "mental hospitals."

One need not be a devout skeptic to doubt that John W. Hinckley, Jr., is really innocent of attempting to assassinate President Reagan (although such is his official "diagnosis") or that he is really being treated for a bona fide illness (in a building "diagnosed" as a hospital). I submit that Hinckley's non-existent illness and psychiatric torture is emblematic of a large class of phenomena that Skeptics are not eager to be skeptical about. In the Therapeutic State, the person skeptical about religion is acclaimed as humane and scientifically enlightened, whereas the person skeptical about psychiatry is reviled as a heretic denying science and a cruel reactionary to boot.

As there is no psychiatry without psychiatric acts, so too there is no madness without mad acts. Acts we deem "mad" are either noncriminal, like depression, in which case the Skeptic rationalizes imprisoning the person in a mental hospital as saving his mind (as the inquisitors rationalized burning the heretic as saving his soul); or such acts are criminal, like murder, in which case the Skeptic basks in self-approval by demanding that the offender be "treated," not punished. In short, the Skeptic clings to the idea that mental illnesses are "real diseases" that the "sufferers" would want treated if only they recognized their true interests.

Why are so many Skeptics gullible about psychiatry? Mainly, I surmise, because psychiatrists tend to support the Skeptics' claim that religion is an "illusion." Which raises the rhetorical question, Are Skeptics more interested in the differences between true and false beliefs or the differences between consensual and coercive actions?

Psychiatry is an instrument of the coercive apparatus of the state. Separate Psychiatry and the State, and Psychiatry as we know it would melt like snow under the hot sun. Skepticism about psychiatry would then become as politically correct as skepticism about religion is now.

Consider the contrast between freedom of religion and unfreedom from psychiatry. Religion as false belief—religious relations between consenting adults—harms no one, except possibly the believer, who "deserves" to be helped or harmed by the exercise of his free choice of self-regarding religious conduct. Only Religion as political power—as violence against others masquerading as help (and the use of tax money to support Religion)—is dangerous to others. We have no religious health laws; hence, Religion is not a danger to anyone.

Mutatis mutandis, Psychiatry as false belief—psychiatric relations between consenting adults—harms no one, except possibly the believer, who "deserves" to be helped or harmed by the exercise of his free choice of self-regarding psychiatric conduct. Only Psychiatry as political power (and the use of tax money to support Psychiatry)—as violence against others masquerading as help—is a danger to others. However stubbornly true believers in Psychiatry insist that "mental illness is like any other illness," the truth is that we have no physical health laws, but we do have mental health laws. Hence, Psychiatry is a danger to everyone.

Organized religion qua religion is separated from the American State by the Constitution as well as by custom. Organized psychiatry is not: Religion qua Psychiatry is the danger that now faces us. It is Psychiatry—not Christianity—that is lavishly supported by the State and is empowered to use its coercive apparatus. It is Psychiatry—not Christianity—that is the grand deception of our age. It is Psychiatry—not Christianity—that Skeptics ought to unmask, ridicule, condemn, and combat. □

THE FREEMAN (Ideas On Liberty)

Friedrich A. Hayek: A Centenary Appreciation

by Richard M. Ebeling

In 1967, English economist Sir John Hicks published an essay titled "The Hayek Story" in which he said that:

> When the definitive history of economic analysis during the nineteen thirties comes to be written, a leading character in the drama (it was quite a drama) will be Professor Hayek. . . . Hayek's economic writings . . . are almost unknown to the modern student; it is hardly remembered that there was a time when the new theories of Hayek were the principal rival of the new theories of Keynes. Which was right, Keynes or Hayek?[1]

In February 1931, Friedrich August von Hayek had arrived in England from Vienna, Austria, to deliver a series of lectures at the London School of Economics. The lectures created such excitement and sensation that he was invited to permanently join the faculty of the LSE.[2] In the early fall of 1931 these lectures appeared in book form under the title *Prices and Production* and began the "drama" to which John Hicks referred. Indeed, in the years between 1931 and 1935, Hayek was the third-most frequently cited economist in the English-language economics journals. (John Maynard Keynes and his Cambridge University colleague Dennis Robertson came in first and second.)[3]

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But by the 1960s, when Hicks wrote the passage quoted, the general opinion among economists and policy-makers would have been almost unanimous. The "New Economics" of Keynes dominated the economics profession and was the guiding star for macroeconomic policy. Hayek was only known to those who took an interest in the economic ideas of the earlier decades of the twentieth century. Thirty years later, however, it is Keynesian economics that is now merely a passing episode in the history of economic ideas. And it is Hayek's ideas in economics, political philosophy, social theory, and the methodology of the human sciences that have gained increasing attention and relevancy as the twentieth century draws to a close.

One War, Two Doctorates

On May 8, 1899, F.A. Hayek was born in Vienna. The occasion of his centenary serves as an appropriate opportunity to appreciate the man and his contributions to the cause of liberty and the free-market economy. Hayek had briefly served in the Austrian Army on the Italian front during World War I. Shortly after returning from the battlefield in 1918 he entered the University of Vienna and earned two doctorates, one in jurisprudence in 1921 and the other in political science in 1923. While at the university, he studied with one of the founders of the Austrian school of economics, Friedrich von Wieser.

But perhaps the most important intellectual influence on his life began in 1921, when he met Ludwig von Mises while working for the Austrian Reparations Commission. It is not meant to detract from Hayek's own contributions to suggest that many areas in which he later made his profoundly important mark were initially stimulated by the writings of Mises. This is most certainly true of Hayek's work in monetary and business-cycle theory, his criticisms of socialism and the interventionist state, and in some of his writings on the methodology of the social sciences.

In 1923 and 1924, Hayek visited New York to learn about the state of economics in the United States. After he returned to Austria, Mises helped arrange the founding of the Austrian Institute for Business Cycle Research, with Hayek as the first director. Though Hayek initially operated the institute with almost no staff and only a modest budget primarily funded by the Rockefeller Foundation, it was soon recognized as a leading center for the study of economic trends and forecasting in central Europe. Hayek and the institute were frequently asked to prepare studies on economic conditions in Austria and central Europe for the League of Nations. When Hayek moved to London in September 1931, Oskar Morgenstern became the institute's director until the Nazi annexation of Austria in March 1938, when it ceased to operate as an independent organization. Beginning in 1929, Hayek was also a *Privatdozent* (an unsalaried professor) at the University of Vienna.

Hayek and the Great Depression

Hayek remained at the London School of Economics until 1949. During that time he published a large body of work that established his international stature as one of the leading economists of his time. It was during this period that he became the greatest challenger to the emerging New Economics of Keynes. In *Prices and Production*; *Monetary Theory and the Trade Cycle* (1933); a series of articles reprinted in 1939 under the title *Profits, Interest and Investment*; and *The Pure Theory of Capital* (1941), Hayek argued that business cycles had their origin in the mismanagement of the monetary system. Also, in 1931–1932, Hayek wrote a lengthy two-part review of Keynes's *Treatise on Money* for the journal *Economica*. It was considered a definitive critique of Keynes's work.[4] The Great Depression served as the backdrop against which Hayek explained his own theory and criticized Keynes.

Hayek argued that in the 1920s, the American Federal Reserve System had followed a monetary policy geared toward stabilizing the general price level. But that decade had been one of major technological innovations and increases in productivity. If the Federal Reserve had not increased the money supply, the prices for goods and services would have gently fallen to reflect the increased ability of the American economy to produce greater quantities of output at lower costs of production.

Instead, the Federal Reserve increased the money supply just sufficiently to prevent prices from falling and to create the illusion of economic stability under an apparently stable price level. But the only way the Fed could succeed in this task was to increase reserves to the banking system, which then served as additional funds lent primarily for investment purposes to the business community. To attract borrowers to take these funds off the market, interest rates had to be lowered. Beneath the calm surface of a stable price level, interest rates had been artificially pushed below real market-clearing levels. That generated a misdirection of labor and investment resources into long-term capital projects that eventually would be revealed as unsustainable because there was no savings available to complete and maintain them.

The break finally came in 1928 and 1929, when the Fed became concerned that prices in general were finally beginning to rise. The Fed stopped increasing the money supply, investment profitability became uncertain, and the stock market crashed in October 1929. Hayek argued that the economic downturn that then began was the inevitable consequence of the investment distortions caused by the earlier monetary inflation. A return to economic balance required a writing down of unprofitable capital investments, a downward adjustment of wages and prices, and a reallocation of labor and other resources to uses reflecting actual supply and demand in the market.

But the political and ideological climate of the 1930s was one increasingly dominated by collectivist and interventionist ideas. Governments in Europe as well as the United States did everything in their power to resist these required market adjustments. Business interests as well as trade unions called for protection from foreign competition and government support of various types to keep prices and wages at their artificial inflationary levels. International trade collapsed, industrial output fell dramatically, and unemployment increased and became permanent for many of those now out of work.

Throughout the 1930s Keynes presented arguments to justify activist monetary and fiscal policies to try to overcome the imbalances the earlier monetary manipulation and interventions had created. This culminated in his 1936 book, *The General Theory of Employment, Interest and Money*, which soon became the bible of a new macroeconomics that claimed that capitalism was inherently unstable and could only be saved through government "aggregate demand management." Hayek and other critics of Keynesian economics were rapidly swept away in the euphoric belief that government had the ability to demand-manage a return to full employment.

But while seemingly "defeated" in the area of macroeconomics, Hayek realized that what was at stake was the wider question of whether in fact government had the wisdom and ability to successfully plan an economy. This also led him to ask profoundly important questions about how markets successfully function and what institutions are essential for economic coordination to be possible in a complex system of division of labor.

Debunking Central Planning

In 1935, Hayek edited a collection of essays titled *Collectivist Economic Planning*, which included a translation of Mises's famous 1920 article, "Economic Calculation in the Socialist Commonwealth." For the volume, Hayek wrote an introduction summarizing the history of the question of whether socialist central planning could work and a concluding chapter on "the present state of the debate" in which he challenged many of the newer arguments in support of planning. This was followed by a series of articles over the next several years on the same theme: "Economics and Knowledge" (1937), "Socialist Calculation: The Competitive 'Solution'" (1940), "The Use of Knowledge in Society" (1945), and "The Meaning of Competition" (1946). Along with other writings, they were published in a volume with the title *Individualism and Economic Order* (1948).[5]

In this work Hayek emphasized that the division of labor has a counterpart: the division of knowledge. Each individual comes to possess specialized and local knowledge in his corner of the division of labor that he alone may fully understand and appreciate how to use. Yet if all of these bits of specialized knowledge are to serve everyone in society, some method must exist to coordinate the activities of all these interdependent participants in the market. The market's solution to this problem, Hayek argued, was the competitive price system. Prices not only served as an incentive to stimulate work and effort, they also informed individuals about opportunities worth pursuing. Hayek clearly and concisely explained this in "The Use of Knowledge in Society":

> We must look at the price system as such a mechanism for communicating information if we want to understand its real function. . . . The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action.[6]

In elaborating his point, Hayek wrote that "The marvel is that in a case like that of a scarcity of one raw material, without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly."[7]

Hayek added: "I am convinced that if it [the price system] were the result of deliberate human design, and if the people guided by the price changes understood that their decisions have significance far beyond their immediate aim, this mechanism would have been acclaimed as one of the greatest triumphs of the human mind."[8]

It was in this period that Hayek applied his thinking about central planning to current politics. In 1944 he published what became his most famous book, *The Road to Serfdom*, in which he warned of the danger of tyranny that inevitably results from government control of economic decision-making through central planning. His message was clear: Nazism and fascism were not the only threats to liberty. The little book was condensed in *Reader's Digest* and read by millions.

In 1949 Hayek moved to the United States and took a position at the University of Chicago in 1950 as professor of social and moral science. He remained there until 1962, when he returned to Europe, where he held positions at various times at the University of Freiburg in West Germany and the University of Salzburg in Austria.

Undesigned Order

The realization that something so significant—the price system—was *undesigned* and not *intended* to serve the purpose it serves so well became the centerpiece of Hayek's writings for the rest of his life. He developed the idea in several directions in another series of works, including, *The Counter-Revolution of Science* (1952); *The Constitution of Liberty* (1960); *Law, Legislation and Liberty* in three volumes (1973–1979); in various essays collected in *Studies in Philosophy, Politics and Economics* (1967) and *New Studies in Philosophy, Politics, Economics and the History of Ideas* (1978); and in his final work, *The Fatal Conceit: The Errors of Socialism* (1988).

His underlying theme was that most institutions in society and the rules of interpersonal conduct are, as the eighteenth-century Scottish philosopher Adam Ferguson expressed it, "the result of human action, but not the execution of any human design."[9] In developing this idea, Hayek consciously took up the task of extending and improving the notion of the "invisible hand" as first formulated by Adam Smith in *The Wealth of Nations* and refined in the nineteenth century by Carl Menger, the founder of the Austrian school of economics.[10]

Hayek argued that many forms of social interaction are coordinated through institutions that at one level are unplanned and are part of a wider "spontaneous order." Language, customs, traditions, rules of conduct, and exchange relationships have all to a large extent evolved and developed without any conscious design guiding them. Yet without such unplanned rules and institutions, society would have found it impossible to progress beyond a rather primitive level.

Another way of expressing this is that in Hayek's view, the unique characteristic of an advanced civilization is that no one mind (or group of minds) controls or directs it. In a small tribal society all members often share basically one scale of values and preferences; the chief or leader can know the potentialities of each member and can assign roles and duties so that the tribe's physical and mental means can be applied more or less successfully to the common hierarchy of ends.

However, once the group passes beyond a simple level of development, any further social progress will require radical revision of the social rules and order: the complexity of social and economic activity will make it impossible for any individual to master the information necessary to coordinating the members of the group. Nor will the members continue to agree on preferences and values; their actions and interests will become more diverse.

An advanced society, therefore, must always be a "planless" society, that is, a society in which no one overall "plan" is superimposed over the actions and plans of the individuals making up the society. Instead, civilization is by necessity a "spontaneous order," in which the participants use their own special knowledge and pursue their own individually chosen plans without a higher will or mind guiding them.

"Social Justice"

The very complexity that makes it impossible to know all the information required to guide society, Hayek reasoned, makes it equally impossible to judge the "justice" or "worthiness" of an individual's total actions. As a result, the popular call for "social," or "distributive," justice is inapplicable in a free society. Social justice requires not merely that individuals receive what is rightly theirs in general terms, but that individuals and groups also receive some stipulated distributional share of the society's total output or wealth. However, Hayek showed that in the market economy, distributions of income are not based on some standard of "deservedness," but rather on the degree to which the individual has directly or indirectly satisfied consumer demand within the general rules of individual rights and property.

To attempt to distribute income shares by "deservedness" would require the government to establish some overarching standard for disbursing "social justice," and would necessitate an economic system in which that government had the authority and the power to investigate, measure, and judge each person's "right" to a share of the society's wealth. Hayek suggested that such a system would involve a return to the mentality and the rules of a tribal society: government would reimpose a single hierarchy of ends and would decide what each member should have and what should be expected from him in return. It would mean the end of the free and open society.

In October 1974, Hayek won the Nobel Prize in economics (along with Swedish welfare-state economist Gunnar Myrdal). In explaining its reasons for choosing Hayek for this highest of awards, the Nobel Committee drew especial attention to his contributions to monetary and business-cycle theory and to his work on alternative economic systems.

By the time Hayek died on March 23, 1992, at the age of 91, an answer could finally and clearly be given to Sir John Hicks's question: "Who was right, Hayek or Keynes?" Hayek was right, regarding both Keynesianism and socialism.

And thanks to his ideas, the 21st century may very well be a freer and more prosperous place to live. □

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1. Sir John Hicks, "The Hayek Story," in *Critical Essays in Monetary Theory* (Oxford: Oxford University Press, 1967), p. 203.
2. Lord Robbins, *Autobiography of an Economist* (New York: St. Martin's Press, 1971), p. 127.
3. Brian Snowdon and Howard R. Vane, "The Development of Modern Macroeconomics," in Brian Snowdon and Howard R. Vane, eds., *A Macroeconomic Reader* (New York: Routledge, 1997), pp. 4–5.
4. Hayek's review essay of Keynes's *Treatise on Money* as well as Keynes's reply are reprinted in Bruce Caldwell, ed., *The Collected Works of F. A. Hayek*, Vol. 9: *Contra Keynes and Cambridge* (Chicago: University of Chicago Press, 1995). See also my review of this volume in *Freedom Daily*, September 1995, pp. 43–48.
5. Hayek's two contributions to *Collectivist Economic Planning*, his 1940 essay "Socialist Calculation: The Competitive 'Solution,'" and other related essays by him on the theme of socialism and planning have been reprinted in Bruce Caldwell, ed., *The Collected Works of F. A. Hayek*, Vol. 10: *Socialism and War* (Chicago: University of Chicago Press, 1997). See also my review of this volume in *Freedom Daily*, January 1998, pp. 43–48.
6. F.A. Hayek, "The Use of Knowledge in Society" (1945), in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), p. 86.
7. Ibid., p. 87.
8. Ibid.
9. See Hayek's essay, "The Result of Human Action But Not of Human Design" in *Studies in Philosophy, Politics and Economics* (Chicago: University of Chicago Press, 1967), pp. 96–105.
10. Carl Menger, "The Theoretical Understanding of Those Social Phenomena which are not a Product of Agreement or of Positive Legislation, but are Unintended Results of Historical Development," [1883], in Richard M. Ebeling, ed., *Austrian Economics: A Reader* (Hillsdale, Mich.: Hillsdale College Press, 1991), pp. 183–211.

THE FREEMAN (Ideas On Liberty)

The New Money

by George C. Leef

By now you have probably received and spent some of the U.S. Treasury's new currency. Starting with the hundred-dollar bill in 1996, the Treasury has redesigned all three of our larger denomination bills, and plans to redesign the smaller bills in the future. Treasury Secretary Robert Rubin, on release of the new twenty-dollar bill in 1998, said that each new bill "marks a new stage in the government's assault on would-be counterfeiters."

The new money certainly does contain an impressive array of features that seem to make it more difficult for anyone to produce a bill that would pass careful inspection: color-shifting ink; security threads; microprinting; fine line printing patterns; larger, more detailed portraits; and other security features designed to foil counterfeiters.

While the new currency is being put into circulation, the old will not be recalled. A reason, if not *the* reason, for not recalling the old currency is that so much of it is abroad. Upwards of two-thirds of all U.S. currency is held in foreign countries, and the Treasury feared disruption of those economies if the old money were declared to be invalid as of a certain date. So the old currency will continue in circulation alongside the new for years to come.

This has led some people to question whether the introduction of new bills will really do much to defeat counterfeiting. The old U.S. currency, according to experts, was among the easiest of all currencies to counterfeit. It had remained unchanged since 1929, giving counterfeiters a lot of time to hone their skills. Moreover, scanners and laser printers can do a very good job of reproducing the old bills. Other nations have updated their currency over the decades. The Australians, for example, produce their currency on plastic with clear windows, making counterfeiting difficult. But the old U.S. bills relied on what was the state of the art in 1929. So even if the new bills are hard to counterfeit, there currently isn't any need to try.

Edward J. Green and Warren E. Weber, economists with the Federal Reserve Bank of Minneapolis, sought to evaluate the prospects for success of the Treasury's policy of printing new bills, but honoring the old and only gradually removing them from circulation in "Will the New $100 Bill Decrease Counterfeiting?" (Federal Reserve Bank of Minneapolis *Quarterly Review*, Summer 1996). After a sophisticated analysis, they conclude that they can't say: "Although we do not show that the current policy will necessarily be effective in the near term, we do show that a long-term failure cannot be taken for granted." As federal programs go, that is actually not too bad.

A Question of Incentives

People, including government officials, generally act in accordance with their incentives. Where they stand to make a significant gain (or avert a significant loss) from taking

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action, they can be counted on to do so. As public choice economists have been saying for a long time, we should not expect that government officials will do things just because they are in "the public interest." The interests of the state do not often coincide with the interests of the ordinary citizen. Counterfeiting is a species of fraud and should be illegal. But government officials devote their efforts and resources to fighting the crimes that do them the most good.

If violent crimes are on the increase, politicians take notice and will at least take some grandstanding measures so that opponents won't accuse them of being "soft on crime." If tax evasion is on the increase, politicians will really take notice, since tax evasion reduces their ability to spend money on the programs that voters like (or at least think they like). Counterfeiting, however, does not have much impact. Competition in the production of money is definitely not welcome, but if the unlucky citizen occasionally gets stuck with a bogus twenty-dollar bill, the loss is his. The political incentive to combat counterfeiting isn't very strong compared to other goals and it should not surprise us that it has not been a high priority.

Furthermore, we may wonder if the attack on counterfeiting won't turn out to be more a matter of bravado than of effect. Printing the new bills may deter some counterfeiters who conclude that it is too costly to produce new bills that will pass, but it is not going to keep creative people who want to augment their incomes from trying to make and pass bills. In fact, shortly after the introduction of the new twenty-dollar bill, I read an article in my local newspaper about an unsuccessful attempt to pass a very poor counterfeit bill. It was two sheets that had been copied and glued together—upside down! A store clerk easily identified the bill as a fake.

Store owners and everyone else taking money in exchange for valuable goods and services have a strong incentive to see to it that they are paid with genuine money (or checks or credit cards). They will take what they believe to be the optimal degree of precaution against accepting counterfeits, and if you observe the behavior of bank tellers, retail clerks, vendors, and others who handle a lot of money, you conclude that the optimal level of precaution is very low indeed. They rarely examine the money they receive with any care.

The new currency has features that make it possible for the average person to tell a real bill from a high-quality counterfeit with a good deal of certainty. Listen to Secretary Rubin: "If you tilt the note back and forth, you will see the color-shifting ink change from green to black, and back again. And by holding the note up to the light, you will see a watermark on the right, and a security thread on the far left with its own tiny lettering and graphics. These are simple things each and every one of us can and should do." Sure, but how many money-handlers are going to take the time to look for those features unless a bill is printed badly enough to arouse suspicion?

Private Enterprise Versus Counterfeiting

The problem of counterfeiting is not unique to government currency. Businesses stand to lose money if people are able to counterfeit their products, and for that reason have a strong incentive to search for the most cost-effective means to prevent or detect counterfeits. Consider, for example, the credit card industry.

When bank credit cards were first introduced in the early 1970s, the issuers suffered large losses due to counterfeiting. It was easy for criminals to create and use phony plastic cards. The resulting losses were not diffused among the general public, but were felt by the card issuers, who realized that they had to find a solution.

The solution was the hologram. MasterCard pioneered the use of holograms in 1983 and since then they have become almost ubiquitous. Because hologram technology was not widely dispersed, this innovation dramatically reduced the amount of fraud through counterfeiting.

However, just as offense tends to catch up to defense and vice versa in war, eventually criminals found out how to produce them and get back into the card fraud game. But the card issuers, with a constant eye on the bottom line, continue to work to minimize losses. Some cards now bear a photo identification, and cardholders are also required to confirm receipt of new or replacement cards via telephone, which has proved effective in cutting down on theft.

Counterfeit software is also a financial problem for software makers. The new Windows 98 booklet has an elaborately printed certificate of authenticity and says in fine print: "IS IT GENUINE? If you believe this certificate or the software you obtained with your system is not legally licensed and/or may be counterfeit, please e-mail Microsoft at piracy@microsoft.com." It is safe to conclude that Bill Gates has his executives constantly on the lookout for the most effective means of dealing with software counterfeiting.

Yes, credit cards, computer software, and many other items continue to be counterfeited, as does our money, old and new. The key difference is in the incentives of the people responsible. While business people who stand to lose money are always alert to the problem of counterfeiting and thus search for the optimal methods to deter it, government officials do not have such a direct, powerful incentive. After doing nothing innovative for decades, the Treasury has come up with an anti-counterfeiting program about which the best that can be said is, to repeat Green and Weber, "its failure cannot be taken for granted."

Private Money?

Back in 1976, the Nobel laureate economist F. A. Hayek published a provocative essay entitled "The Denationalization of Money." He argued that it was a grave mistake to allow governments a monopoly on money and that we should do away with legal tender laws and permit individuals to trade in whatever media of exchange they think best.

His reason for advocating this idea was not the problem of counterfeiting, but rather the problem of stability of value. Money issuers, private and governmental, would have a strong incentive to maintain the value of their money if they faced competition in the monetary marketplace. Depreciating money would be as undesirable as foodstuffs that rapidly rotted. Subjected to the test of the marketplace, good money would drive out bad money. (No, that is not contrary to Gresham's Law, which says that artificially overvalued money tends to drive out of circulation artificially undervalued money; in a free monetary market, government cannot artificially overvalue anything.)

A good side effect of monetary competition, however, would be that it would also bring into play the market's incentives to combat counterfeiting. Private issuers would compete in many respects, among them the reliability of their products. The firms that have already ventured into the realm of electronic money (e-cash) have taken pains to assure customers that accounts will be secure. Producers of tangible money would have the same strong incentive to see to it that their users had confidence in the genuineness and worth of their money.

We are used to thinking that the production of money is one of the core functions of government, but there is no reason why the production of money must be a governmental monopoly, or even a governmental function at all. There were private money producers—mints—in operation in America during the colonial period and also well into the nineteenth century. They had to pass the test of the market, unlike federal mints, and when they did so, they thrived. (For an interesting history, see Brian Summers, "Private Coinage in America," *The Freeman*, July 1976.)

Marketplace competition provides the optimal incentives for maximizing consumer welfare—giving people the greatest value for their money. That applies to money itself. The next time you receive some money, new or old, you might think about that. ☐

THE FREEMAN (Ideas On Liberty)

Gold Policy in the 1930s

by Richard H. Timberlake

Between 1929 and 1933, the Federal Reserve System, which is the central bank of the United States, monetarily starved the country into the worst economic crisis it has ever experienced. Markets, and the market system generally, did not fail, and nothing was inevitable about the collapse that occurred. Rather, the monetary system was so mismanaged that even a healthy and vigorous market system could not correct the disequilibrium that resulted.

The popular application of "market failure" to describe the economy during the years of the Great Contraction, 1929–1933, is wrong. Market actions in that era made the politically inspired crisis less severe than it otherwise would have been. Furthermore, "market failure" is a term people often apply to events when they cannot understand the complexities of economic processes that result from ill-conceived government policies. The operations of just about any monetary system, and especially one with a central bank, are always puzzling to the layman. Consequently, when things go wrong owing to monetary mismanagement by central bankers or some other political intervention, the instigators can ring in "market failure" as an excuse for their personal failures to make the right decisions.

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Failure in other aspects of human endeavor often generates learning that subsequently leads to correction and eventual success.[1] Federal Reserve policy failure in 1929–1933, however, led only to federal legislation that *increased* the number and power of federal government agencies. The Republican Hoover administration, for example, initiated the expensive Reconstruction Finance Corporation in 1932 to carry out lending policies that the elaborately structured Federal Reserve System had failed to undertake. The Roosevelt administration then took control of the political machinery in 1933 and began a program of federal intervention and bureaucratic propagation that is mind-boggling even today.

Two items of Roosevelt-era legislation markedly affected the U.S. banking and monetary system. The first was the so-called Gold Reserve Act of 1934. This legislation gave the president the unconstitutional power to call in all privately owned gold for deposit in the U.S. Treasury. It also gave him the unconstitutional power by his fiat to *revalue* the price of gold (*devalue* the dollar) by as much as 60 percent.

Congress's constitutional power to "regulate the value of money" was a power that could *not* be delegated to the executive. Furthermore, "regulate" did not mean a massive change in the monetary values of either gold or silver. Its sole purpose was to provide a means for congressional housekeeping control over the coinage system. Properly used, it allowed Congress to make incremental changes in the legal tender value of either gold or silver so that both metals would stay in circulation. It was put into the Constitution to counteract Gresham's Law. Otherwise, changes in the market value of one or the other metal would result in what had now become the cheaper metal going to the mint and the other, dearer, metal going into the markets as a commodity.[2]

A New Central Banking Measure

The other piece of legislation, the Banking Act of 1935, was more momentous than the original Federal Reserve Act passed in 1913. In fact, the Act of 1935 might better have been labeled "The Central Banking Act of 1935," because it virtually rewrote the earlier Act.

A central bank, like a gold standard, can assume many institutional forms that differ markedly from one another. The 1913 Fed Banks, for example, were regionally autonomous; the Board in Washington was relatively powerless. Board members were treated and paid on a scale similar to government employees in the U.S. Treasury, while the presidents of the regional Fed Banks commanded salaries comparable to those of executives heading major corporations. The Fed Banks' gold reserves severely restricted their lending policies, as was proper under an operational gold standard. Finally, the real bills doctrine was supposed to furnish the grounds for Fed Banks' accommodation of credit to their client member banks.

The Banking Act of 1935 changed the whole paraphernalia of monetary control. It vested the Federal Open Market Committee (FOMC) with complete discretionary control to determine the stock of money in the United States. Regional Fed Bank presidents still had five of the 12 seats on the FOMC, but the Board was now a seven-man majority. From that time on, the FOMC has fashioned monetary policy by authorizing the purchase (or sale) of U.S. government securities in the open market, an operation that the Fed Bank of New York conducts week by week.

When the FOMC buys the U.S. securities that the Treasury has previously sold to pay the government's bills, it does so by creating money. This new money is either commercial bank reserves or Federal Reserve note currency. Clearly, if a 12-person board is determining the quantity of money that exists, the quantity of gold in the system has little or nothing to do with the money. Either a gold standard specifies the quantity of money in the economy, or a central bank does. A marriage of the two never lasts longer than an unhappy weekend.

The Gold Reserve Act of 1934 was the final divorce decree between gold and the monetary system. After January 31, 1934, no private household, bank, or business was allowed to own or hold more than a trivial amount of gold. Gold coin was forbidden for monetary purposes. This Act also authorized the president, Franklin Roosevelt, to raise the price of gold by 60 percent. Roosevelt, however, did not use all the power given him—only 98 percent of it. In early 1934, he increased the official mint price of gold, which had been $20.67 per ounce for 100 years, to $35 per ounce. The Treasury gold stock, valued at $4,033 million in *January* 1934, became $7,348 million in *February* 1934, an increase of $3,405 million by the decree of one man.[3] The federal government had also, unconstitutionally, repudiated all gold clauses in its contracts and debts, so it did not have to share any of its newfound wealth with the private sector. In one month Congress and Roosevelt, by their legislative and administrative fiats, created seigniorage revenue from gold equal to one year's ordinary tax revenues. In contrast, the federal government of 1834–1837, when it realized one year's extraordinary revenue from land sales, returned that surplus to the state governments to be used or distributed as those sovereign governments saw fit.[4]

President Roosevelt rationalized this usurpation of private property rights in gold in one of his notorious fireside chats. "Since there was not enough gold to pay all holders of gold obligations," he claimed, "the Government should in the interest of justice allow none to be paid in gold."[5]

This rationalization of government confiscation was fatuous pretension. Gold in banks was then and had always been a *fractional* reserve against outstanding obligations. When the banks were on their own, they had adequate means to protect their reserves—gold, silver, or other legal tender. The Fed Banks and the U.S. Treasury—government institutions—also held only fractional reserves against their outstanding currencies. Use of gold as a recognized fractional reserve always precluded immediate liquidation of all monetary obligations into gold. So in effect Roosevelt was saying, "Since there was not enough gold to pay all holders of gold obligations, . . . *the federal government should expropriate and keep all of the gold*."

The increase in the dollar price of gold, though other countries had gone off the gold standard or had also raised the price of gold in their own currencies, started a massive inflow of gold to the United States. Political apprehension in Europe and elsewhere also contributed to the U.S. accumulation. By 1940 the U.S. gold stock totaled $20 billion, or almost 20,000 tons! The contrast was notable between a government awash in gold and a depressed economy denuded of money and functioning with a shell-shocked banking system.

Fed Banks and the Treasury still accounted new gold coming into the U.S. system as though the gold were a monetary asset. The Treasury issued "Gold Certificates"—currency notes in $100,000 denominations—accounted at the new gold price of $35 per ounce, which it "deposited" in Federal Reserve Banks. Fed Banks then debited their "Treasury deposit" liability account, and credited their "Gold Certificates." Whoever had received a check for the gold from the Treasury, however, had by now deposited that check in a commercial bank that in turn sent it to the Fed Bank for clearance. The Fed Bank cleared the check against the "Treasury deposit" account and debited the deposit-reserve account of the client bank by the same amount. No one could get the gold out of the Treasury, or touch it, or see it, or use it. (It was now a criminal act to use gold for monetary purposes!) Nonetheless, the gold provided an accounting medium for increasing the basic money stock of bank reserves and Federal Reserve note currency.

The Treasury in Control— The Fed Plays Ball

With all of the new gold coming into the system, the FOMC did not need to use its newly legislated powers. From 1933 to 1936, the M2 money stock grew at annual rates of 9.5, 14.0, and 13.0 percent.[6] In fact, so much gold was coming into the Fed-Treasury's coffers that sentiment in both the Fed and Treasury leaned toward monetary restriction.

The Fed had active hands-on control of monetary policy. Not only did it have the power to initiate open-market operations in government securities through the FOMC, but the Banking Act of 1935 also gave the Fed Board extensive control over member bank reserve requirements. Prior to the Banking Act, reserve requirements were statutory at 7, 10, and 13 percent—not based on the size of the bank, but on the size of the city in which the bank was located. The larger the city the higher the legal reserve requirement.[7] The Banking Act of 1935 used the existing set of reserve requirements as the lower end of a new *range* of requirements: 7–14, 10–20, and 13–26 percent. Board of Governors' decisions in Washington were to specify the precise set of requirements in force at any time. Thus Fed policy could be restrictive by mandating an increase in requirements.[8]

Banking Act or not, the Treasury was still very much in the monetary picture. Treasury Secretary Henry Morgenthau, Jr., had recommended to President Roosevelt the appointment of Marriner Eccles to be chairman of the Federal Reserve Board. Eccles outspokenly favored lots of federal spending and fiscal budget deficits. By his stance, he effectively signed over monetary policy to the Treasury. (Morgenthau had recommended Eccles for this reason.) The upshot of the arrangement was that Morgenthau ran the show. Both men favored a dominant fiscal policy that had Federal Reserve support. Although the new Banking Act took the secretary of the Treasury off the Fed's Board of Governors (he had been the ex officio chairman), he now had a surrogate as chairman. He was more than satisfied to see his purposes served from behind the throne.

Even a surrogate position was not enough for Morgenthau. The realized seigniorage from the gold devaluation had given the Treasury a \$2 billion windfall, accounted in an Exchange Stabilization Fund, that the Treasury was supposed to use to "stabilize" the dollar price of foreign currencies. The Treasury thus had a gold "position" and license for conducting gold policy.

Federal Reserve policy directed the first increase (50 percent) in reserve requirements in August 1936—from 7, 10, and 13 percent to 10½, 15, and 19½ percent. A few months later the Treasury initiated its own gold sterilization policy—the same policy the Fed had fostered in the 1920s. Its purpose was "to halt the inflationary potentialities [sic]" of all incoming gold. Beginning December 22, 1936, the Treasury placed its gold purchases in an "inactive" account. Instead of issuing gold certificates and depositing them in Fed Banks to raise the necessary credit balance to pay for the gold, the Treasury paid for the gold by selling government securities in financial markets. By this means, it carried out its own open market operations—sales in this case—with its own "FOMC." This way the gold remained stockpiled but unmonetized in the Treasury.

Besides neutralizing the gold inflows, the policy was further deflationary because it brought more government securities into markets to compete with consumers' and investors' dollars. It thereby tended to raise interest rates as it inhibited general spending. In March and May of 1937, the Fed complemented this generally deflationary policy by increasing reserve requirements to the maximum allowable percentages: 14, 20, and 26 percent.

Fed-Treasury policy makers had acted deliberately and purposively. They believed in human management of the monetary system. Just before he was appointed Fed chairman, Eccles had boldly stated that the Fed should "support expansionary fiscal policy through discretionary monetary policy."[9] Unfortunately, the discretionary monetary policy now being practiced was anything but expansionary. It was, in fact, extremely repressive.

Unprecedented Depression

However, the rest of the economy, unlike politically prosperous Washington, was moving at an unprecedentedly slow rate. Never before had a recession-depression been so tenured or so intense. By late 1936 business was picking up, but the price level was still 18 percent below its 1929 value, and unemployment was still 16 percent of the labor force. Nonetheless, the great concern in the Treasury and Federal Reserve was the danger of inflation! Fed and Treasury officials looked at the overhang of excess *legal* reserves in the banking system and imagined what would happen if the commercial banks expanded all those reserves into an avalanche of checkbook money. Monetary mismanagement had just provoked the most disastrous hyper-deflation in history. Yet, before all the foreclosures had been properly settled, the government's monetary managers were contriving to counteract the inflationary potential that they had systematically built into the monetary machinery.

Secretary Morgenthau announced in a press release, dated December 20, 1936, that Treasury gold policy was coordinated with the Fed's reserve requirement increases.[10] By mid-1937 "inactive" gold in the Treasury was \$1,087 million, or about 9 percent of total Treasury gold.

Meanwhile, the banking system and the private economy foundered in a new recession. If one were to write a script that chronicled the end of free-enterprise capitalism, the events of 1929–1938 would logically serve the purpose. Since few people understood the nuances of Fed-Treasury monetary policies, the common perception was that the Recession of 1937–1938 posed yet another failure of the market system. Dozens of tracts, novels, plays, and newspaper editorials reflected this notion.

The appearance of the depression-recession evidently convinced Morgenthau that the "danger of inflation" was passed. In September 1937 he released \$300 million of gold from the inactive account thereby restarting the machinery of gold monetization. Gold certificate accounts at Fed Banks responded and gave rise as usual to increases in monetary base items in Fed Banks' balance sheets. Finally, on April 19, 1938, Morgenthau announced the discontinuance of the inactive gold account altogether.

The time span of the Treasury's gold policy was 16 months—December 1936 to April 1938, while the Fed's reserve requirement increases occurred in August 1936 and March–May 1937, and continued in force with little change until after World War II. Treasury policy cut off new gold at the initial point of monetization; Fed policy effectively smothered the money-creating potential that old gold had already provided. For the next three years the economy stagnated. By 1941 the price level was still 14 percent below its 1929 value, and unemployment was still 10 percent of the labor force. Treatises appeared analyzing "the stagnant industrial economy." The Keynesian notion of less-than-full-employment equilibrium seemed documented beyond reasonable doubt.

Fed-Treasury methods in the mid-1930s reflected the prevailing notion of the times—that someone had to run the show, that operations without the rule of men were destined to be "chaotic." Economists and financial gurus were just as convinced of this argument as politicians and political scientists. One economist, Gove Griffith Johnson, commented in his contemporary book on Treasury policy: "One may be skeptical of the wisdom with which monetary instruments will be used, *but the possibility of abuse extends throughout the whole sphere of governmental activity and is a risk which must be assumed under a democratic or any other form of government.*"

The Treasury's gold policy, Johnson continued, "was an essential instrument for producing desired political aims." Congress had given over the Fed's powers of monetary regulation to the Treasury because the central bank had proven ineffectual. These powers had become more democratic because "they were now exercised by politically responsible officials . . . [and] would eventually be subject to review by the electorate. . . . In large part," he concluded, "the [Federal Reserve] System has served merely as a technical instrument for effecting the Treasury's policies."[11]

Clearly, the awesome monetary powers the Fed-Treasury had wielded were not the product of either "wisdom" or scientific analysis. They were simply discretionary, seat-of-the-pants responses, sometimes politically motivated, by political authorities who faced no responsibility for their decisions. Furthermore, the "risk of abuse" did not need to be "assumed" under a democratic government suitably restrained by the rule of law. Finally, the electorate knew less about these policies than it knew about Sanskrit, and it had no power at all either to pass judgment on them or to change them .

Under a true rule-of-law gold standard, the Treasury would not have had a "gold policy." The gold standard *itself* would have been the gold policy and would have been self-regulating through the concerted actions of thousands of households and businesses that bought and sold goods and services in hundreds of markets. The gold, more important, would not have been stockpiled in Treasury vaults unavailable and illegal for human use, like some dangerous drug or weapon. It would have been in commercial banks primarily, serving its conventional function of securing bank-issued money.

The monetary mismanagement chronicled here should serve as the all-time example of the failure of discretionary monetary policy. Although a gold standard was still on the books, it was nothing more than a façade for Fed-Treasury manipulations. First the Fed by itself in the 1920s, then the Treasury ten years later, simply fit this "gold standard" into their other hands-on policies. Both agencies saw to it that the gold was safely tucked away where it could do no one any good. Approximately seven thousand banks failed in the early 1930s for want of reserves while the stockpiling went on. Congress then gave the executive the power to enact an unprecedented increase in the price of gold, and added as well significant new powers to the Federal Reserve's authority. By 1936 the Fed-Treasury managers, fearing they had overdone monetary expansion, decided to put on the brakes by again sterilizing gold and doubling bank reserve requirements. The result was a virtual paralysis of the monetary system and the economy.

Had the banks held their own reserves or had them available in their own clearinghouses, as they did before the coming of the Fed, bank and clearinghouse executives (who were often the same people) would have parlayed the gold into strategic trouble spots where it would have prevented failures of healthy banks and general monetary destruction. Gold to be effective cannot be declared illegal and buried in the ground where no one can get it. If that is the best that civilization can do, we might as well have left the gold in California, the Klondike, Australia, and South Africa. ☐

1. See, Dwight R. Lee and Richard McKenzie, *Failure and Progress: The Bright Side of the Dismal Science* (Washington, D.C.: Cato Institute, 1993).

2. For further discussion of this issue, see Richard H. Timberlake, *Gold, Greenbacks, and the Constitution* (Berryville, Va.: The George Edward Durell Foundation, 1991), pp. 8–9.

3. Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics* (Washington, D.C.: Government Printing Office,1943), p. 537.

4. See my *Monetary Policy in the United States: An Intellectual and Institutional History* (Chicago: University of Chicago Press, 1993), chapter 5.

5. James D. Paris, *Monetary Policies of the United States* (New York: Columbia University Press, 1938), p. 18.

6. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton: National Bureau of Economic Research and Princeton University Press, 1963), p. 544.

7. This pattern of law reflected the flawed notion that banks in larger cities were more subject to "speculative" influences and were more likely to make risky loans than banks in the "country."

8. In next month's issue of *The Freeman*, I will treat the reserve requirement episode in more detail.

9. Donald F. Kettl, *Leadership at the Fed* (New Haven: Yale University Press, 1986), pp. 48–53.

10. U.S. Treasury, Press Releases, nos. 9–20, December 20, 1936.

11. Gove Griffith Johnson, *The Treasury and Monetary Policies, 1933–1938* (Cambridge, Mass.: Harvard University Press, 1939), pp. 205–11, 223; emphasis added.

Economics

Costs Should Be Revealed, Not Concealed

Making sound economic decisions is impossible without information about opportunity costs. Thinking about the cost of doing anything is crucial; it amounts to considering the value of the alternatives.

A major advantage of the market process is that it gathers up information on costs and transmits it to market decision-makers through prices that cannot be ignored. In contrast, the political process fails either to transmit cost information to political decision-makers or to motivate the proper use of this information. It fails partly because organized interest groups want to ignore the costs of their pet projects, and partly because political institutions are unable to acquire and communicate information on cost. Markets promote wealth-creating decisions by revealing costs, while politics promote wealth-destroying decisions by concealing costs.

Revealing Lots of Little Costs

The costs of doing anything—for example, buying a pencil—result from tiny sacrifices made all over the world. Leonard Read's primary point in his justly famous 1958 article "I, Pencil" is that making something as simple as a pencil requires the coordinated efforts of thousands (probably millions) of people with a wide range of specialized knowledge that no one person could ever possess. This coordinated effort is possible only because of the guidance provided by market prices. Read's example also illustrates how the opportunity costs incurred by everyone involved in getting a pencil to the consumer (both in terms of the value of their time and other resources) is incorporated into its price. The consumer is thereby implicitly aware of the value of every tiny sacrifice made in producing it.

All prices reveal a similar collection of diffused costs to consumers. Therefore, each product is consumed only to the point where consumers value another unit by an amount equal to the value sacrificed to make it available. As I've emphasized before, the market generates a pattern of cooperative interaction by people pursuing their own advantages in ways that take into account the concerns of others. If only the diffused costs of government action could be collected through the political process and revealed to decision-makers with the same compelling clarity as in the marketplace! That the costs of government decisions are commonly ignored goes a long way in explaining the perversities of so many public policies.

Concealing Lots of Little Costs

When the costs of government action are spread wide, as they commonly are, they are generally ignored. For example, a tariff that protects a domestic industry against foreign competition will cost consumers far more in higher prices than it benefits the industry. But

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while the benefits are easily attributed to the tariff and concentrated on a relatively small number of people, the costs amount to only a few dollars a year for each of millions of consumers, few of whom will notice the extra costs or the connection with the tariff. And even if a consumer does know of these costs, his share is so small that it doesn't pay him to actively oppose the tariff.

The benefits of any special-interest proposal are communicated through the political process loud and clear. The costs, however, are borne in silence and therefore largely ignored by politicians. Organized interest groups are aware that lots of small, widely diffused costs are difficult to register through the political process, and they aggressively exploit this fact to capture benefits at others' expense. But the inability of the political process to collect and concentrate diffused cost would result in popular support for perverse public policies even without interest-group lobbying.

For example, after an airplane crash in Sioux City, Iowa, in the late 1980s, in which an infant was killed when torn from his mother's arms, pressure arose for the federal government to require that all infants have their own airplane seats. The benefit to children on planes was obvious; they would be safer. But what was the cost? The cost of an extra seat is obvious. Other costs, however, were less obvious because they were diffused and remote. If families with infants faced higher costs for airline travel, more infants would travel in cars instead of airplanes. This would result in more infants being killed in automobile accidents than would be saved in airline accidents, since car travel is many times more dangerous per passenger mile than air travel. Several studies suggested that the cost of saving one child with the seat requirement would have been the lives of four to six children lost in car accidents. Fortunately, the requirement never became law, but that it was seriously considered illustrates the difficulty the political process has perceiving widely dispersed costs and concentrating them on the relevant decision-makers.

The Cost of the 55-MPH Speed Limit

Enactment of the 55 MPH speed limit on the grounds that it saves lives also shows the tendency of the political process to conceal rather than reveal costs. We have all heard that the speed limit reduced traffic fatalities, which then increased when it was raised. But what were the costs of the 55 MPH limit? One cost was the additional time people had to spend on the highway, a cost that came to billions of hours per year (20 extra hours a year on the road for 200 million people is 4 billion hours). Evaluated at the minimum wage, this amounts to $21 billion. Because this cost was spread over the entire population, it was largely ignored.

Unfortunately, an even greater cost—also politically ignored—was the cost in lives. The claims that traffic fatalities were reduced by the speed limit are based on fatalities on the interstate highways, which, because they are multilane divided highways, are the safest roads. But when the limit was imposed, traffic was diverted to two-lane state roads that are far less safe. This diversion occurred because the speed limit of these roads became relatively higher than before, and they were not policed as effectively as the interstates. The result was an overall increase in traffic fatalities even though interstate fatalities decreased. It has been estimated that when states were allowed to raise the speed limit on interstates outside the cities, fatalities on all roads declined by 3.4 to 5.1 percent. (See Charles Lave and Patrick Elias, "Resource Allocation in Public Policy: The Effects of the 65-MPH Speed Limit," *Economic Inquiry*, July 1997, pp. 614–20.)

If the market did as poorly as government at collecting information about dispersed and fragmented costs and imposing them on those responsible, we would live in an impoverished economy. Governments are tempted to meddle precisely because of their ability to conceal costs, and their inability to reveal them. That's why the benefits from government action are low and the costs high. □

THE FREEMAN
Ideas On Liberty

Tensions in Early American Political Thought

by Joseph R. Stromberg

According to the eminent historian of political thought J.G.A. Pocock, republican theory (or "civic humanism") was the most significant current of eighteenth-century English and American political philosophy. In the form of "country ideology," republicanism gave "left" and "right" critics of government policies a framework and believable rhetoric for their arguments. The so-called "radical Whiggism" of the American Revolution was itself, on this reading, merely an extreme and consistent version of the republican ideas of the English opposition.

From 1656, when James Harrington published a definitive statement of English republicanism in *Oceana*, down to the Americans' secession from the empire, republicanism furnished ideas for Tory party dissidents around Viscount Bolingbroke and their magazine, *The Craftsman,* and for various "commonwealthmen" and True Whigs on what we could perhaps call the original Left.

Civic humanism was an outlook grounded in the renewed classicism of the Renaissance. Niccolò Machiavelli (1469–1527) was its major prophet in his *Discourses.* His ideas rested on a view of ancient Greek and Roman political life that came to him via Aristotle, Polybius, and Titus Livy. For these writers, the ideal state had a "mixed constitution" that combined the virtues of monarchy, aristocracy, and commonwealth ("republic" in the narrow sense), and thereby avoided the degeneration into tyranny, oligarchy, and democracy (mob rule) inherent in unmixed systems. A substantial "middle class" was needed to provide stability by preventing exploitation of the masses by a narrow oligarchy or, alternatively, the plundering of the wealthy by a great mass of desperate poor. This middle class was not "bourgeois," or commercial, but a class of independent landed yeomen.

In Machiavelli's republicanism, the monarchical element lessens as emphasis on the social "balance" grows. Machiavelli's English interpreter, Harrington, stressed that the key to preserving a republic was for "the soldiers [to] be citizens and the citizens soldiers."[1] The independent landed proprietor of small or middling fortune, able to bear arms on his own account, was the ideal citizen and the guarantor of the republic.

Reading the English Constitution

Pressed into the service of many causes, this ideal was at the heart of country ideology, or republicanism. An important difference over the interpretation of English history separated Harrington himself from later thinkers who were in other respects his disciples. The point of contention was the nature of England's "Ancient Constitution," which—allegedly—included the common law, Parliament (which thereby gained many centuries in

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antiquity and traditionalist prestige), fee simple tenures, and various rights and customs from "time out of mind." Aware of the feudal basis of medieval English society, Harrington knew that the Constitution was the work of recent times and sought its origins in the passing away of the "Gothick" (i.e., feudal) balance of power and property. Royal encroachments had overborne real feudalism and its basis in military tenures (great estates held by nobles in exchange for their bearing the costs of providing military forces for the King). A new social "balance" thereby came into being, one nearer to the republican ideal and one reflected in the political struggles of the seventeenth century.

Later "Harringtonians" inverted his analysis, arguing that the old order had corresponded to the proper balance and that *later* developments unbalanced state and Constitution. They were thus able to say that the Ancient Constitution—from as far back as Alfred the Great—had embodied republican liberty and that this libertarian inheritance was now under attack. The King's "standing army"—made possible by the financial revolution (in effect, the invention of national debt)—was the instrument of anticonstitutional forces. Hence the fundamental political division was between "Court" and "Country."

Court and Country

The Court was the clique of stockjobbers, placemen, pensioners, and courtiers who made policy by means of high taxation, monetized national debt, and all manner of "corruption" (in the narrow sense). Their program undermined the Constitution (the larger "corruption" in republican thought) by overthrowing the republican balance of "classes," property, and power. The Country, by contrast, consisted of the public-spirited opponents of such state-capitalism, or mercantilism. Over time, the concept of a Country party came to stand for an ever broader range of independent property owners, finally taking on board—in the radically altered American context—every farmer and planter on the land.

As Pocock sees it, republicanism influenced the English opposition from the seventeenth century onward, so that "there can be traced a major movement of Country ideas into the radical-democratic tradition; not only much of the Chartist program, but a good deal of its ideology as well, can be shown to possess a history continuous since the days of Shaftesbury."[2] An important strand of country ideology appears in the writings of the early eighteenth-century Tory leader Henry St. John, Viscount Bolingbroke, and his allies (including Jonathan Swift). Tory in his basic principles, socially conservative, and not at all opposed to a strong monarch as such, Bolingbroke nonetheless expounded a sort of "Tory populism." Championing limited free trade, defending small craftsmen against state-sponsored monopolies, and attacking Court corruption, Bolingbroke and his circle often took positions that overlapped those of the growing pro-commercial and anti-monopolist "bourgeois" opposition.

His attacks on social upstarts and economic change separate his views from those who criticized state grants of privilege as *impediments* to the market and the rise of new men. Thus this "right-wing" opposition would have opposed an unsettling laissez-faire political economy almost as much as the unsettling "growth" made possible by Court-sponsored mercantilism and rent-seeking. Many historians who deal with these questions muddy the waters by lumping together all opponents of Court policies as "agrarians" and throwing all others together as "capitalists" (or, for U.S. historians, "industrialists"). The groups on both sides of the water that were pro-commercial but anti-mercantilist and pro-laissez faire thus fall by the wayside.

Bolingbroke's group—dedicated to preserving an older England of gentry (large landholders below the ranks of the nobility) and retainers, ready to defend old established freedoms but seemingly radical in its assaults on the Court party—had an influence on the American colonists, however ambiguous. Certainly in the South, the conservatism of this kind of republican thinking proved attractive. (Jefferson, for one, had read his Bolingbroke.) The overlap between Bolingbrokean and bourgeois versions of republicanism made it easy for American radicals to treat the broad stream of English opposition ideas (including those of John Locke) as a unified inheritance.

Levellers, Locke, and Libertarians

Something must be said now about the relationship of classical liberalism to republican theory. Republicans idealized the independent armed proprietor as citizen and basis of the social balance, which in turn preserves the constitution. They worried little about the origin and justification of the state (which Locke sought to supply), but provided a world-outlook and language useful to various property-owning opposition movements. If pressed, a knowledgeable republican thinker might have fallen back on Aristotle, who rooted the political community in man's social nature.

For liberalism (by which we mean classical liberalism) the point of departure is different. The liberal begins with the "natural" individual in full ownership of his natural rights who cooperates with others in "civil society" before the creation of any government (state). The liberal is not unaware—as is so often suggested—that families and social relations exist, but *has* noticed that only individuals can act.

Already in the Puritan Revolution, 1642–1658, so-called "Levellers" like John Lilburne and William Walwyn developed a radical program based on individuals' ownership of themselves, natural rights, and equal access to unappropriated resources. (They did not actually want to "level men's estates"—as their enemies charged—but merely wished to open up the market.) Unlike Locke, these "Lockeans before Locke" *did* appeal to history; but theirs was not the conventional "Country party" argument from an Ancient Constitution of Liberties but a denunciation of the "Norman Yoke" fastened on the free Saxons at the Conquest in 1066 and which must be swept away.

In the *Second Treatise of Government* John Locke derived individual rights from natural law and made a case for government by consent that stood independent of historical specifics. Men's rights in a "state of nature" included self-ownership, acquisition of property by "mixing" one's labor with resources ("homesteading"), and the right to defend oneself and one's justly acquired property from aggression by others. With the "invention" of money by tacit universal consent (a notion that anticipates Ludwig von Mises's "regression theorem"), a wider division of labor and bigger marketplace comes into being that allows inequalities to arise but only along the lines of differing natural ability. Owing to the inconvenience of each man's being judge in his own cause, these pre-political individuals establish government mainly to overcome the lack of judicial services and common defense of their properties. This is the "social contract." Men do not actually give up their natural rights for all time, but merely put them in trust. Property and self-ownership cannot be transferred for Locke even by conquest and change of regime. (One doubts he had the Irish case in mind.)

The "applied" portion of Locke's system is less liberal than his discussion of pre-state civil society. From the high ground of reason and justice we arrive at the actual distribution of property in England. Locke persuasively sketches out a highly libertarian theory of property rights and then pretends that the actual distribution of English properties rests on labor title (homesteading) rather than on conquest, enclosure, force, fraud, and (frequent) expropriation of real homesteading peasant farmers. (Marx, of course, pointed this out before wandering into his own erroneous conclusions.) As Murray Rothbard observed, it is critical when applying the Lockean theory to criticize pre-existing titles in the light of the theory. The difference is between apology for a semifeudal status quo, as in England, or assertion of popular rights to property as in revolutionary North America.[3]

Whatever the limitations of Locke's writings, liberal ideas were broadly compatible with republicanism, and the new English opposition that arose after the Revolution of 1688 (which Locke's writings served to justify before the fact) employed both sets of ideas rather interchangeably. Republicans and liberals believed in property rights, however they derived them, and Locke's pre-state proprietors looked a lot like the ideal republican citizen, armed and on his own land. In the end, natural and historically prescriptive rights ("the rights of Englishmen," the Common Law, and even Saxon freedoms) coexisted with little difficulty in the minds of Anglo-American radical Whigs on both sides of the water, and led to the same program of republican politics, freer markets, and (potentially) revolution. English opposition writers—the "Commonwealthmen" or "True Whigs"—placed side by side, and began mixing, two separate traditions into a potent new outlook: liberal republicanism. The writings of Algernon Sidney, John Trenchard, and Thomas Gordon (the latter two writing under the name "Cato") made their way across the Atlantic in a broad stream alongside those of the Tory Bolingbroke and early liberals like Locke, Richard Price, and Joseph Priestley. Stifled by moderate Whigs who turned to political capitalism once the Catholic Stuarts were deposed, liberalism and republicanism took on new meaning and life across the water. English opposition ideology entered into and helped frame the debates that preceded the American Revolution. George III and his ministers, by their intrusive policies, unwittingly set fire to this ideological tinder.

The American Revolutionary Synthesis

According to American Revolutionary thought, political life is a constant struggle between Power and Liberty. The former is inherently aggressive, constantly attempting to escape its constitutional bounds. Society is therefore best served when people guard their liberty jealously.

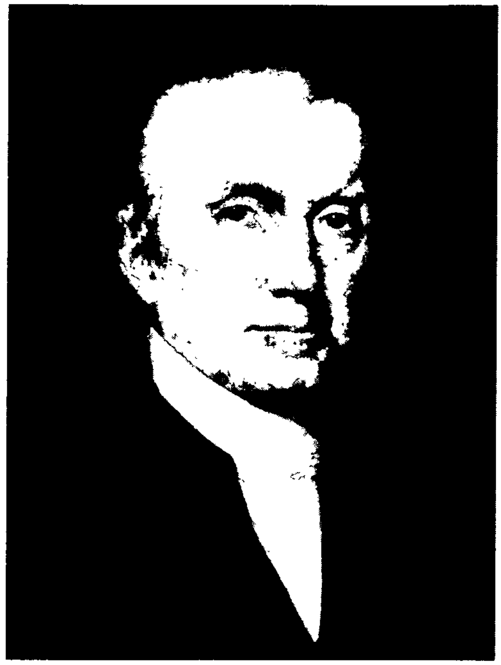
People have rights—by nature or by English law—and continued violation of their rights by government justified armed revolution and the institution of new forms of government. Justification of popular revolution against governments that fail "to secure these rights" was, after all, the central message of Locke's *Second Treatise*, and many passages in the American Declaration of Independence come directly from Locke.

The American colonists, whose leading figures were deeply read in the whole Radical Whig tradition, were primed to fear the overthrow of liberty by a Court clique using standing armies and abusing the power to tax. Royal policies after 1763, rather harmless by present-day standards,[4] were ideally fitted to touch the radical nerve of the Americans. English and Roman history and current events in Turkey, Denmark, England, and elsewhere, as understood by the colonists, prepared them to expect the worst from kings and ministers: corruption, overthrow of constitutional forms, military rule, public debt, standing armies. . . . (They also understood that they were expected, by consuming and paying taxes on tea, to make good the East India Company's losses in the inflationary South Sea Bubble scandal.)

Working within a framework that drew from both liberalism and republicanism, the colonial radicals believed that the minimum practical content of natural law was already embodied in the "rights of Englishmen." Imperial acts infringing on these rights necessarily excited resistance. The republican idea that the safety of the republic rests in the hands of virtuous property-holders able to bear arms held a central place in the Americans' theory and practice. The differences between American social reality and that of England had democratized the concept. Broader ownership of property and firearms gave Country party ideas greater appeal and relevance in the colonies. The notion of an armed people was of great importance in a revolutionary war in which the militia may have played a decisive—if still underappreciated—role.[5]

Pocock comments on the absence of an appropriate "bourgeois" (that is, modern and commercial) ideology in the eighteenth century. As a result, he says, radicals fell back on republicanism, which they developed along new lines. In America, both the rural gentry and yeomen, as well as urban strata, were therefore in hock to pre-bourgeois ideas. Thus revolutionary statesmen such as Sam Adams, John Adams, and Thomas Jefferson returned again and again to a pre-modern concern over the negative results of prosperity ("luxury" and "effeminacy": dreaded nemeses of republican virtue), something over which more economically oriented leaders like Thomas Paine and—a bit surprisingly—John Taylor of Caroline showed little concern.

Paine, Taylor, and many others set out a kind of libertarian republicanism, which completed the synthesis begun over the water, and which was certainly far more compatible with market relations ("capitalism") than Pocock would care to admit. Americans used republican ideas alongside classical liberal ideas, and this synthesis became "the transforming ideology of the American Revolution."[6] Liberal republicanism became the common American political language within which later struggles over mercantilism and laissez faire and slavery and emancipation would take place.



John Taylor of Caroline (c. 1753–1824)

A Unique Balance

In the American Revolution "classical republicanism" underwent considerable change as its key ideas were intertwined with those of liberalism. Gone was the concern with balancing the three classical forms of government. Instead, as Robert Shalhope writes, a "unique frame of mind emerged," which dealt with the balance between the people and their rulers. Americans went into their Revolution with "a negative view of government."[7] With the substitution of people versus government for the older contrast of Country versus Court, the stage was set for characteristically American debates in which each side claimed better to protect the people's rights against the rulers' power.

Shalhope adds that the wide acceptance of liberal/republican ideas made political stability possible after the Revolution. The debates over the ratification of the second U.S. Constitution (the Articles of Confederation being the first) underlines the point. Acting in the best Radical Whig tradition, the misnamed Anti-Federalists opposed the new charter as creating uncontrolled power. Gordon Wood has shown how the Constitution's proponents, the Federalists, justified creating a stronger federal government while staying within the theoretical confines of revolutionary thought. In effect, they made an end-run around the Anti-Federalists by suddenly becoming more democratic. Attributing a general "sovereignty" to the people (carefully avoiding the question of who were the people—the people as a whole or the people as thirteen states), the Federalists assimilated popular will to the new federal regime. So doing, they "created a distinctly American political theory but only at the cost of eventually impoverishing late American political thought."[8]

Be that as it may, what we may loosely call early "liberalism" (with some of this coming out of English law and not from Locke) and republicanism run all through the Constitution, especially if the Bill of Rights is taken into account. The provisions about freedom of religion, speech, and assembly, search and seizure, and so forth reflect the liberalizing thrust of the English political battles of the seventeenth century, while the Second Amendment enshrines the ideal republican citizen armed on his own land. (A complete account of American Revolutionary ideology would have to trace how trends in English law ran parallel with liberalism and individual rights, as did the Protestantism of the thirteen colonies.)

It seems fairly clear that the two separate doctrines—liberalism and republicanism—were fused together by the English opposition writers and the American revolutionaries because together they made for a stronger, and reasonably coherent, worldview. Liberalism, as such, had no theory of government. The French physiocratic school of laissez-faire liberal economists had no better political theory or plan than simply to get the King to sweep away barriers to trade. Republicanism, as such, had no theory of individual rights. Writers like Rousseau showed how unalloyed republicanism can easily justify militaristic and authoritarian rule on the model of ancient Sparta or the Roman Republic. (The "radical phase" of the French Revolution teaches this lesson very well.) By combining the two ideologies, the Anglo-Americans forged a powerful outlook favorable to liberty and limited government.

Some recent writers have tried to ride the renewed interest in republicanism, set off by the work of Pocock, Bernard Bailyn, and others, to the left. They hope to find in American republicanism a charter for state interventionism, mercantilism, or communitarianism. This is futile precisely because revolutionary American republicanism was a unique outlook that thoroughly blended republicanism and liberalism. (Anyway, there are plenty of "foreign" ideologies they can work with.) As regards the Second Amendment, for example, Stephen P. Halbrook makes clear that the founding generation saw no conflict between an individual right to bear arms and defense of the larger society through a militia system.[9]

Liberal Republicanism Reappears

American liberal republicanism as defined here did not die out after the adoption of the Constitution, however, but kept reappearing in slightly different guises. The asserted right to resist abusive rulers who corrupt the constitution or trample on the people's freedom found expression in the Whiskey Rebellion, the Kentucky and Virginia Resolutions of 1789, the Hartford Convention (1815), the Nullification controversy (1833), and even in Southern secession and creation of an alternative confederation (1860–1861). The Jeffersonian and Jacksonian political movements, in particular, carried with them the ideas and language of the revolutionary generation. Inevitably, Northern and Southern heirs of liberal republican thinking diverged more and more from their original common ground. Already from the beginning there had been differences of emphasis.

Henry David Thoreau (1817–1862)

In the North, some successors to liberal republicanism—Henry David Thoreau, Lysander Spooner, Stephen Pearl Andrews, and others—developed the logic of natural law and rights all the way into individualist anarchism.[10] In the South, the felt need to defend Southern interests and culture (and not merely slavery, the relationship being more complex) led first John Taylor and, later, such figures as John C. Calhoun, Jefferson Davis, and Alexander H. Stephens to assert the South's right of resistance to federal innovation and intrusion. Ironically, slavery itself may have contributed to Southerners' assertion (for whites) of an extreme degree of personal liberty. Liberty for some and slavery for others reinforced one another on several levels, and all attempts at consistent resolution of the intellectual dilemma foundered on the problem of race. The painful evasions on the part of Jefferson and Taylor were characteristic.[11]

In this connection it might be said that the slavery question, among others, led to a partial unraveling of liberal republicanism. Southern thinkers became very good republican theorists indeed—but somewhat at the expense of the liberal elements of the American synthesis. By the same token, Northern abolitionists (at least those working with liberal, contractual thought rather than with post-Puritan religious ideas) focused rather exclusively on the individual rights and liberties found in liberalism and English law.

The Southern Confederacy was the embodiment of a consistent, if socially conservative variety of republican theory and its defeat could be taken as a sort of last stand of the Anglo-American Country party. We might equally well take the Spanish-American War (1898)—with its leap into the uncharted and unrepublican territory of overseas empire—as the final step in the marginalization of real republican thought (as well as real liberalism).[12] American participation in World War I, on that view, made the steps taken in the 1860s and in 1898 nearly irreversible. All the same, the "Founders"—Federalist and Anti-Federalist alike—appear to have had a better grasp of human nature and the notions of responsible power (that is, power "answering to" those with whose rights and safety it is temporarily entrusted), liberty, and the rest, than do either of our existing post-republican factions called political parties. □

1. Quoted in J.G.A. Pocock, "Machiavelli, Harrington, and English Political Ideologies in the Eighteenth Century," *William and Mary Quarterly*, October 1965, pp. 549–83.

2. Ibid., p. 582.

3. Murray N. Rothbard, *Conceived in Liberty*, vol. I (New Rochelle, N.Y.: Arlington House, 1975), p. 123, note.

4. As Bernard Bailyn writes, "The condition of British America by the end of the Seven Years' War [that is 1763] was therefore anomalous: extreme decentralization of authority within an empire presumably ruled by a single, absolute, undivided sovereign" (*The Ideological Origins of the American Revolution* [Cambridge, Mass.: Harvard University Press, 1967], p. 204). George III and Lord North wanted to tighten up this loose structure and collect enough revenue to make it pay for itself. The Americans were quite happy to be neglected by arbitrary officials across the water.

5. See John Shy, "The American Revolution: The Military Conflict Considered as a Revolutionary War," in Stephen G. Kurtz and James H. Hutson, eds., *Essays on the American Revolution* (Chapel Hill, N.C.: University of North Carolina Press, 1973), pp. 121–56, and William F. Marina, "Militia, Standing Armies, and the Second Amendment," *Law and Liberty*, II, Spring 1976, pp. 1–4.

6. See generally Bailyn, especially chapter 5, "Transformation," pp. 160–229.

7. Robert E. Shalhope, "Toward a Republican Synthesis," *William and Mary Quarterly*, January 1972, p. 65.

8. Gordon S. Wood, *Creation of the American Republic, 1776–1787* (Chapel Hill: N.C.: University of North Carolina Press, 1969), p. 562.

9. While the Constitution can be read—as by William Appleman Williams—as a partially "merchantilist" document, the Americans' reading of such Scottish Enlightenment figures as David Hume and Adam Smith and French economists like J. B. Say (popularizer of Smith, but more importantly, someone possessed of many "proto-Austrian" insights) pushed their liberal republicans in a direction in which laissez faire became a real option. On the Second Amendment, see Stephen P. Halbrook, *That Every Man Be Armed* (Albuquerque: University of New Mexico Press, 1984). See also Robert E. Shalhope, "The Armed Citizen in the Early Republic," *Law and Contemporary Problems*, Winter 1986, pp. 125–41.

10. See Staughton Lynd, *Intellectual Origins of American Radicalism* (New York: Pantheon, 1968), pp. 100–48, and James J. Martin, *Men Against the State* (Colorado Springs, Colo.: Ralph Myles, 1970), for the connections between abolitionism and individualist anarchism.

11. For the paradoxes of liberty and slavery in the South, see Edmund S. Morgan, *American Slavery, American Freedom: The Ordeal of Colonial Virginia* (New York: Norton, 1975); on Jefferson's and Taylor's grapplings with the problem, see Robert McColley, *Slavery and Jeffersonian Virginia* (Urbana, Ill.: University of Illinois Press, 1973) and Duncan J. MacLeod, *Slavery, Race and the American Revolution* (New York: Cambridge University Press, 1974), especially pp. 89–94.

12. For a classical liberal and republican critique of our *fin de siècle* adventure, see Joseph R. Stromberg, "The Spanish American War as Trial Run, Or Empire Its Own Justification" in John V. Denson, ed., *The Costs of War* (New Brunswick, N.J.: Transaction Publishers, 1997), pp. 169–202.

THE FREEMAN (Ideas On Liberty)
MAY 1999

America Is Number 1 Again

"By the year 2000 Japan may well be enjoying the highest standard of living of any industrialized country."

—Economics textbook, 1987[1]

In 1991, I prepared an advertising campaign for my book *Economics on Trial* (Irwin). The headline was: "Japan and Germany Win World War III," followed by the subtitle, "Their formula multiplies wealth so rapidly that they will achieve their goal of world domination by the year 2000." In this ad, I referenced the sound economic model that had transformed war-torn Germany and Japan into economic powerhouses in one generation and vulcanized their stock markets. These principles were high savings rates, low taxes on capital and investment, low inflation, balanced budgets, and free markets.

Friedman Sets Me Straight

I sent a copy of my ad to the Nobel laureate economist Milton Friedman, who wasted no time debunking it: "This prediction is a bunch of nonsense," he wrote to me. "I will not live long enough to see it falsified, but you will. In the [year 2000] as in 1991, the U.S. standard of living will be higher than the Japanese."

It wasn't long before Professor Friedman was proven right. (He has set me straight on a number of occasions.) My prediction of German and Japanese dominance went awry. Not because the market formula for growth is wrong, but because Germany and Japan abandoned their model of success. Germany adopted high-cost labor-union controls, imposed anti-business regulations, and dramatically increased taxes to pay for a unified Germany. Japan exacted substantial tax increases (including a capital gains tax), propped up inefficient banks, and imposed a severe tight money policy in the early 1990s (following an excessive liberal monetary policy in the 1980s that created a bubble in real estate and stocks). Japan is still trying to recover from these devastating anti-market measures. Easier money and a higher national sales tax haven't helped. If Japan and Germany want to regain their fast-track status, they need to embrace a healthy dose of supply-side tax cuts and deregulation (known as Reaganomics in this country).

Meanwhile, the good ol' USA is rolling right along. The tax increases in the early 1990s are being reversed (long-term capital gains are now taxed at only 20 percent). Corporations have downsized and labor remains wage-flexible and productive. We lead the world in technology and employment creation, among other categories.

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Friedman (and others) convinced me to turn bullish on the U.S. economy and stock market in the early 1990s. In January 1995, I made a major prediction in *Forecasts & Strategies*, arguing that America was on the comeback, and would lead the world in stock market performance. So far it has.

How Does the U.S. Rank?

Recently I came across a delightful book that confirms my view that America is once again on top of the world: the fourth edition of *The Illustrated Book of World Rankings*, edited and compiled by George Thomas Kurian.[2] Out of some 100 positive listings, the United States received top billing in 33 categories. Among them:

- Most powerful nation (based on military manpower and economic capacity), way ahead of number 2 Russia.
- Largest gross domestic product (GDP), way ahead of number 2 Japan and number 3 Germany.
- World's highest per capita income based on purchasing power parity (though number 6 based on exchange rates), ahead of number 2 Switzerland.
- World's biggest exporter and importer, ahead of number 2 Germany and number 3 Japan.
- World's leader in retail sales.
- Leader in production of electricity, timber, and milk.
- Number 1 in airline travel, passenger cars, and commercial vehicles.
- Primary country of destination based on tourist expenditures.
- Number 1 in mail, telephones, faxes, and e-mail addresses.
- Tops in number of scientists and engineers, patents in force, and Nobel Prize winners (three times more than number 2 United Kingdom).
- Number 1 in televisions and radios per capita, number of movie theaters, museums, botanical gardens, and zoos. (India produces more films per year, but the United States dominates in movie revenues.)

The United States was edged out by Canada for number 1 in the Human Development Index (longevity, educational achievement, and standard of living). Japan is number 3.

Lest you think America can do no wrong, the United States is also ranked number 1 in several negative categories: teen pregnancies, divorce rate (among industrial nations), sulfur and carbon emissions and nuclear wastes, AIDS cases, and number of prisoners. However, it is way down the list in several crime statistics.

Debunking the Pessimists

A new book confirms America's lead in the world. In *Myths of Rich and Poor*, Michael Cox and Richard Alm highlight a slew of facts demonstrating American prowess and denying economic decay since the mid-1970s: real wealth has skyrocketed, the poor have not gotten poorer, corporate downsizing has created jobs, and the trade deficit suggests the United States is the "best place to invest."[3]

What about the future? Another fascinating book argues that the United States has a monopoly position on future technology. In *Probable Tomorrows: How Science and Technology Will Transform Our Lives in the Next Twenty Years*, Marvin Cetron and Owen L. Davies compile an exhaustive list of possible technological breakthroughs in engineering, manufacturing, computers, communications, energy, space, and medicine, noting which countries are likely to produce these innovations.[4] The United States was named the likely choice in 95 percent of the cases.

No wonder so many people from abroad want to come here. Their best alternative: invest in U.S. stocks, businesses, and real estate. □

1. Richard G. Lipsey, Peter O. Steiner, and Douglas R. Purvis, *Economics*, 8th ed. (New York: Harper & Row, 1987), p. 735.
2. Sharpe Reference, 1997.
3. See chapter 5, "Still on Top of the World," *Myths of Rich and Poor* (New York: Basic Books, 1999), pp. 91-108.
4. St. Martin's Press, 1997.

BOOKS

America's 30 Years War

by Balint Vazsonyi

Regnery Publishing • 1998 • 285 pages • $24.95

Reviewed by Clarence B. Carson

As a child of eight, Balint Vazsonyi experienced National Socialism (Nazism) when the Germans took control of his native Hungary during World War II. In 1948, the Communist Party came to power, followed by Soviet occupation and the elimination of all opposition. Those events left a lasting impression on him, and he concluded that Nazism and communism were branches of the same socialist plant, differing only slightly in the details.

Vazsonyi was able to escape to the United States in 1959. A virtuoso pianist with a strong interest in philosophy, he has been a keen observer of the American scene ever since. He concludes that for at least 30 years a struggle (he terms it a war) has gone on between those who would transform the United States into a socialist nation and those who would preserve—or perhaps we should say restore—the principles of the Constitution. This book expresses his observations on the course of that war.

The frame in which he encloses his argument is original, and his insights into how the United States is being transformed (which is to say that the war is not going well) are worth studying. Vazsonyi's early experiences with the twin evils of Nazism and communism make his book all the more compelling.

He argues that the war is really between two different ways of looking at the relationship between man and government: what he calls the "Anglo-American" view that individual rights are prior to government and that government must be constitutionally restrained to protect those rights, and what he calls the "Franco-German" view that government needs to be absolutist and wield enormous power to bring about the best possible society. These peoples are the only ones, in his view, who have produced political theories worth attending to.

This way of characterizing the opposing sides may well produce more heat than light. Neither the French nor the Germans are apt to be pleased at being credited with a series of disastrous, discredited ideas; nor have the Anglo-Americans been pure defenders of the ideas of individual liberty and limited government. England has as good a claim to the title "birthplace of evolutionary socialism" as any.

It is not at all clear to me that ideas have a native habitat and that there are national traits in political philosophy. We do ill, I think, to attribute the liking for or antipathy to various political arrangements to whole peoples. Vazsonyi would have done better to avoid pinning a national label on the contending theories.

That aside, Vazsonyi provides many clear insights into how socialist thought has mutated through hard experience to become more dangerous to America. He writes, for example, "The appetite to manage all corporations, large and small, has given way to the realization that a combination of threats, restrictions, and controls will provide access to the fruit, without ever having to plant the tree, buy the fertilizer, or perform any of the ongoing chores that go with production." This is the triumph of the fascist (Nazi) side of socialism, the realization that you encounter less resistance and get "better" results by insinuating the state into a position to take key decision-making power away from private owners, rather than trying to expropriate those owners directly.

Having lived under the control of the commissars, Vazsonyi is able to clearly see current trends in the United States. He can see how our own bureaucrats are increasingly resembling those commissars in their control over our lives. Rightly, he understands that the environmental movement and its accompanying hordes of bureaucrats are erecting a structure for a vast expansion of government authority. Since almost every use of land or activity could be said to have some impact on the environment, we are moving toward a future in which government officials will have enormous control over us.

Vazsonyi also correctly sees that piecemeal opposition to the modified socialist program is a losing game. If we argue over the "right" amount of government control, each time hoping to negotiate a somewhat better deal from the socialists than they initially propose, we are certain to see a continuing erosion of our freedom. He argues strongly in favor of an uncompromising return to our original constitutional principles, and to that I shout "Bravo." □

Clarence Carson, a contributing editor of The Freeman, *has written and taught extensively, specializing in American intellectual history.*

In Praise of Commercial Culture

by Tyler Cowen

Harvard University Press • 1998 • 278 pages • $27.95

Reviewed by Donald J. Boudreaux

For most of this century, capitalism was regularly accused of not delivering the goods as efficiently as could socialism. Today, this accusation packs as much persuasive force as do claims that ouija boards foster communication between the living and the dead. Even capitalism's most strident critics today admit that capitalism can't be beat at satisfying people's material needs. "In fact," bark the critics, "that's the real problem with capitalism: it's too responsive to consumers!" Capitalism's unparalleled capacity for delivering new 'n' improved things to satisfy the vulgar needs of the masses supposedly results in a shallow culture, whose dumbed-down denizens recognize Ronald McDonald's mug more readily than they recognize Mozart's music.

Unlike the productivity-based criticisms of capitalism, the cultural criticism of free markets comes not only from the left, but also from the right. When the likes of hyperfeminist Catharine MacKinnon are joined in their crusade against free markets by influential conservatives such as Pat Buchanan and William Kristol, the resulting coalition might well turn out to be fatal to capitalism.

The menace of this left-right alliance against the alleged cultural inadequacies of capitalism is reason alone to applaud—loudly, while standing!—Tyler Cowen's *In Praise of Commercial Culture*. But this book's virtues go well beyond the assistance it delivers in the intellectual battle against those who would substitute the whims of a political elite for the wishes of individuals. Cowen's book is also a wellhead of information about art, music, and literature, brimming with economically inspired insights into the patterns of culture and people's responses to those patterns.

Cowen, a professor of economics at George Mason University, uses as a springboard in his book the continuing debate between "cultural pessimists" and "cultural optimists." He casts his lot squarely with the (outnumbered) optimists. His case for cultural optimism is woven skillfully from sound economics and a careful study of cultural history.

One element of Cowen's argument grows from his exploration of the sources of cultural pessimism. Many pessimists are simply unimaginative old coots—as Cowen writes, they "identify great culture with what they know and have learned to love." If you spend, say, the first 40 years of your life listening only to the music of baroque composers, when you first hear the music of romantics such as Tchaikovsky, it sounds barbarous. In economic terms, you dislike post-baroque music because you haven't yet developed the human capital required to appreciate it.

Cowen also exposes the self-centeredness of many cultural pessimists. If the masses can enjoy a new work immediately, cultural pessimists haughtily pan it; but if the cultural pessimists themselves are baffled by the work, they dismiss it as illegitimate. Each pessimist regards his or her own unique accumulation of cultural human capital to be the only legitimate accumulation.

Another source of cultural pessimism that Cowen identifies is fear of the future. Many people truly fear for society when they see its cultural basis changing. This fear, however, owes far more to lack of imagination than to any evidence that cultural change necessarily portends social dry rot or disintegration. The culture of 1990s America differs from that of

1950s America—but is it really worse (as many people believe)?

Workers' greater productivity today means that they have more time to enjoy cultural amenities. Musical recordings of all types are more readily available than ever, as are broadcast performances and videotapes of dance, opera, and theater. The recent advent of book superstores brings to most Americans a selection of books that as recently as a decade ago was available only to residents of a few large cities. Far from destroying culture, the free market is bringing it within reach of more people than ever.

Mention of these bookstores points to a third source of cultural pessimism—interest-group agitation. Among those who wail about the cultural Armageddon allegedly foretold by book superstores are smaller book retailers. Those retailers naturally don't like the efficiencies that characterize Barnes & Noble and Borders. But it's uncouth to complain honestly about these new merchants ("I don't like 'em because they're better than I am at selling books!"). So smaller booksellers instead ominously prophesy cultural damnation if the book superstores aren't stopped. Cowen's discussion, replete with examples, of how cultural pessimism has been used through the centuries to mask attempts at undermining consumer choice is fascinating.

My only complaint is that Cowen is too easy on those who support government funding of the arts. Given the wealth of evidence assembled here on how markets promote a vibrant culture, he could easily have called for the abolition of the National Endowment for the Arts, but does not.

Reading Cowen's book is itself an act of cultural betterment; it is learned and sophisticated without being pedantic. It complements nicely the economics of the late Julian Simon, as well as the work of *Reason* editor Virginia Postrel. The message of each of these authors is that we should welcome, not fear, the results of freedom. □

Donald Boudreaux is president of the Foundation for Economic Education.

CancerScam: Diversion of Federal Cancer Funds to Politics

by James T. Bennett and Thomas J. DiLorenzo

Transaction Publishers • 1998 • 189 pages • $32.95

Reviewed by John Hood

Perhaps the most critical chapter of *CancerScam*, a slim but effective exposé of the politicization of America's health-care charities, begins with this famous quotation from Thomas Jefferson: "To compel a man to furnish contributions of money for the propagation of opinions which he disbelieves is sinful and tyrannical." This statement has properly been used to criticize taxpayer funding of political campaigns, of obscene art, and of various advocacy groups and lobbies.

In *CancerScam*, economists James Bennett and Thomas DiLorenzo apply Jefferson's maxim to critique the phenomenon of major health charities, such as the American Cancer Society, using taxpayer money to lobby for laws or ballot initiatives restricting the freedom of tobacco smokers. A case in point was the 1988 passage of a California initiative raising cigarette taxes and using some of the proceeds to subsidize tobacco control, research, and "public education" (read: lobbying) programs run by these very charities.

The American Cancer Society, the American Lung Association, and the American Heart Association all spent time and money pushing for approval of the initiative. They were rewarded by receiving at least $8 million a year from the cigarette tax increase to promote anti-tobacco education programs.

Bennett and DiLorenzo quote one journalist sympathetic to the tobacco-control movement, who wrote that the formerly "'starved for funds' movement . . . found itself awash in California gold."

The money-grubbing aspect of the health charities' involvement was underscored by the legislative history of the initiative. A cigarette tax hike would likely have been passed by the California legislature in 1988, but because of a constitutional spending limit, much of the proceeds from the tax would have had to be refunded to taxpayers. Instead of pushing for the tax hike legislatively—which would have accomplished the anti-smoking activists' purported goal of raising the price of cigarettes and thus discouraging smoking—the activists pushed for and got a tax hike written into the state constitution. This may have been a bizarre way to raise a tax, but it was the only way to route the new revenues to the charities themselves.

This story is replicated several times as Bennett and DiLorenzo chronicle the growing involvement of anti-smoking health charities in the political process. The book, not surprisingly, spends a fair amount of time rebutting claims made by these anti-smoking forces on such issues as the risks of secondhand smoke, the impact of smoking on government budgets, and how smokers perceive the risks of their habit.

There's little new here to a reader already familiar with the debate, but it will help other readers put into perspective the pervasive sense of moral rectitude that the anti-smoking zealots exhibit when criticized about their taxpayer-funded lobbying efforts.

Bennett and DiLorenzo don't focus only on the smoking issue. They argue that the corruption of charitable institutions—their seduction onto the government dole and into the political game—is a trend with far-reaching negative consequences. A free society is based, in part, on drawing clear lines between various social institutions, be they businesses, governments, families, or charities. Governments have a unique role to play in our lives, as do the other institutions. Corruption sets in when businesses act like governments (for example, the Mafia), governments act like businesses (for example, providing rail transportation), governments act like families (for example, giving food stamps and subsidized day care), and so on.

CancerScam tells a cautionary tale. To pervert government public health spending—which in any event should be limited to combating communicable diseases and other immediate threats to innocent bystanders—into a means of supporting political causes is to erase the lines that protect individual liberty and the market process. Jefferson understood this. He would see no justification for forcing anyone to finance campaigns against the right of smokers to do what they want with their own lives and property, and neither do Jim Bennett and Tom DiLorenzo. □

John Hood is president of the John Locke Foundation in Raleigh, North Carolina.

A Humane Economy

by Wilhelm Röpke

Intercollegiate Studies Institute • 1998 • 350 pages • $24.95

Reviewed by George C. Leef

This volume is a beautifully prepared new edition of Wilhelm Röpke's 1957 classic defense of the market economy and non-interventionist government. Röpke (1899-1966), a renowned German economist, lecturer, and writer, stood with Ludwig von Mises, F.A. Hayek, and a few other intellectuals in the middle decades of this century to warn against the perils of what he called "centrism." By this term he meant not what it means to most Americans (political namby-pambyism), but rather the tendency toward concentration of power in the hands of a few.

Röpke feared the crushing effects of big government, big business, and big labor on the forgotten, statistically insignificant individual. Reading this book of over 40 years ago reminds one of another great 1957 book, Ayn Rand's *Atlas Shrugged.* Although poles apart on some questions (especially religion), Rand and Röpke both clearly identified the ominous social and political trends that were deforming the world, and both are worth revisiting.

The subtitle of Röpke's book is *The Social Framework of the Free Market.* He seeks to show that the network of voluntary economic relationships we call the market requires a certain social framework. He writes, "Even if we conscientiously credit the market with certain educational influences, we are led back, therefore, to our main contention that the ultimate moral support of the market economy lies outside the market. Market and competition are far from generating their moral prerequisites autonomously."

What the author has in mind, for example, are moral constraints on the means by which people go about trying to get what they want. Röpke writes, "A spirit of ever alert and suspicious rivalry, not too particular in the choice of its means, must not be allowed to predominate and to sway society in all its spheres, or it will poison men's souls, destroy civilization, and ultimately disintegrate the economy." He argued that what any society needs, if it is to protect the moral norms that make the market possible is a *nobilitas naturalis*, a natural "aristocracy of the public spirit"—that is to say, men and women whose integrity and moral authority would lead most others to follow their example.

I suspect that there is much truth in this breathtakingly politically incorrect idea. The support for the ethical basis of market dealings needs to come from moral authority figures. Without that support, we will slowly sink into barbarism. Unfortunately, Röpke's thesis means that America is in grave danger. The way most Americans are educated today makes them almost impervious to any sort of leadership except by the idols of sports and popular music. Moreover, where does one see respected men and women emphasizing the importance of, say, the freedom of individuals to enter or decline to enter into contracts?

Röpke was a keen observer and elegant writer. Most of what he said is still true today, if not more so. Consider this attack on the tendency to turn economics into a branch of mathematics: "[S]uch concepts as the 'elasticity' of supply and demand, the 'multiplier' . . . and so on . . . simulate a scientific and mathematical precision which does not really exist. They are not physical constraints like . . . gravity, but relations dependent upon the unpredictable behavior of men." Or this observation about left-wing moralists: "The moralist, with his lofty admonitions, becomes an intolerant hater and envier, the theoretical pacifist an imperialist when it comes to the practical test, and the advocate of abstract social justice an ambitious place-hunter."

Sadly, the book also contains some sections that prove useful to enemies of freedom. Röpke was a population worrier. He emphatically did not want to see government in the family-planning and resource-planning business, but his alarmist statements are ammunition for those who do. And sometimes he sounds like an early Earth Firster: "We violate nature at every turn, even to the total disappearance of the countryside. . . ." Röpke would not have taken kindly to the Environmental Protection Agency with its blatant hostility to private property rights, but rhetoric like that almost inevitably promotes the "centrism" he deplored.

It is easy to ignore foibles like that, however, in a book having such an abundance of clear thinking. Over and over again, *A Humane Economy* reminds us of what is at stake in the battle between those who consistently defend freedom and those who won't: "Once the mania of uniformity and centralization spreads and the centrists begin to lay down the law of the land, then we are in the presence of one of the most serious danger signals warning us of the impending loss of freedom, humanity, and the health of society." □

George Leef is book review editor of The Freeman.

All the Essential Half-Truths about Higher Education

by George Dennis O'Brien

University of Chicago Press • 1998 • 244 pages • $19.95

Reviewed by George Roche

George Dennis O'Brien, retired president of Bucknell University and the University of Rochester and author of *What to Expect from College*, has addressed himself to a vitally important subject—the many myths and misconceptions surrounding American higher education. Although he identifies serious problems and sometimes makes telling observations, the book ultimately proves to be maddening because the author will not for the life of him make hard decisions. His proposals are always safe and temperate. O'Brien's book circles at 30,000 feet over the major issues confronting universities and the reader exclaims, "Land somewhere! Take a position! Offer a solution! Act in some principled way even if it might create some enemies!"

At almost every turn, O'Brien takes the safe road, trying to keep establishment friends happy through equivocations and conciliation. One example: "If faculty are to administer—as I believe they should. . . ." This is a "respectable" position, but one that I view as entirely mistaken. The faculty should no more administer the institution than the players should manage the team. Many schools started to go horribly wrong when they tried mixing teaching and administration. But the author declines to challenge this conventional idea.

In another place O'Brien writes, "I think that multiculturalism is dead wrong." The reader earnestly hopes for a tough position and suggestions for curing this intellectual cancer (or at least halting its spread). But no, he does not want to offend his politically correct colleagues and thus adds, "However, if multiculturalism is bizarre in astronomy, it is not so in the area of the lost moral curriculum. It starts in the right place." He thus criticizes without really criticizing at all. This reminds one of Yogi Berra's saying, "When you come to a fork in the road, take it." O'Brien usually follows this advice and manages to take both paths.

Near the end of the book, O'Brien writes, "The issue that faces higher education is whether current faculty expectations and education will allow them to join in with administration or cause them to fight a generally losing battle against the social and economic forces that have created the need for decisive institutional direction." Indeed, we might wonder how the largely overpaid and underworked faculty of the typical American university will react when confronted with the need for "decisive . . . direction," but exactly what this "decisive . . . direction" must entail, the author will not hazard to guess.

A book that is to deal sensibly with the many problems of higher education in the United States must inquire about the *real* causes of exorbitant college costs, high dropout rates, the dumbing-down of academic standards, the perversion of the curriculum, the short-changing of students in universities where teaching takes a back seat to "research" (which often means abstruse writings that are never read and no one would voluntarily pay for), and of the spreading politicization of courses, to mention just the top of the list. It must then propose solutions.

Unfortunately, *All the Essential Half-Truths about Higher Education* comes up short. O'Brien says that his purpose "has been to raise issues." He does raise a number of them (nine "half-truths"), but misses others and, more important, semantically skirts the issues without offering any real solutions. And he unwittingly tells the reader why he adopts this inoffensive approach, when he writes, "The political cost of changing entrenched interests is staggering."

That is unquestionably true, and anyone who proposes more than minor, cosmetic tinkering with higher education will certainly incur the wrath of the entrenched interests, comfortable as they are with the status quo. O'Brien, sad to say, is like so many in the education establishment who readily sacrifice principle and correct action to popularity.

A reading of this book will give one who knows little about the terrible state of higher education some familiarity with the issues, but for deep analysis and tough solutions, it is a disappointment, reminiscent of Matthew Arnold's description of the poet Percy Bysshe Shelley: "a beautiful and ineffectual angel, beating in the void his luminous wings in vain." □

George Roche is the president of Hillsdale College and author of The Fall of the Ivory Tower.

Commodity and Propriety: Competing Visions of Property in American Legal Thought, 1776–1970

by Gregory S. Alexander

University of Chicago Press • 1997 • 486 pages • $39.95; $25.00 paperback

Reviewed by Bradley A. Smith

To discuss the meaning of property is, in many ways, to discuss the meaning of liberty. If property is an individual right, secure from encroachment by government, then government power is necessarily restricted by the existence of property. If, on the other hand, property is merely a private basis for creating a public good, then government has a right, and at times even a duty, to dictate or regulate its use.

In *Commodity and Propriety*, Cornell University law professor Gregory Alexander chronicles the history of this debate in America. Alexander argues that in colonial America, most lawyers, if not most citizens, believed that the role of property was to provide for the "public good." Property, especially land, filled this role by anchoring the citizen to his "rightful" place in society, thereby promoting social stability.

What individuals gained from holding property was not independence from government, but rather independence from the swings and roundabouts of the marketplace. With this independence, however, came a duty to use property to further alleged societal interests. If one failed to properly use his property, the state could compel him to act for the public good. This is the "proprietarian" view of property.

During the American Revolution, views on the role of property shifted dramatically. A new conception of property, as an alienable market commodity, took root. In this "commodity" conception, property serves to define the "legal and political sphere in which individuals are free to pursue their own private agendas and satisfy their own preferences, free from government coercion or other forms of external interference." Alexander suggests that the last 200 years have been marked by an ongoing dialectic in which the proprietarian and commoditarian views are continually refined in response to concrete legal and social issues of the time.

To trace this history is an enormous task. Alexander reviews 200-plus years of thinking from David Hume, Adam Smith, and John Adams, through F.A. Hayek, Michael Harrington, and Justice William Brennan. In doing so, he offers up some controversial propositions. For example, while classical liberals have usually turned to Thomas Jefferson for political inspiration, Alexander portrays Jefferson's antagonist Alexander Hamilton as the true father of the individual rights-oriented, commodity view of property in America. It was Hamilton, not Jefferson, who recognized and promoted property rights in intangible objects such as securities and even vested interests. It was Hamilton who envisioned America not as a stable, agrarian society of individuals tied to the land, but as "a society of great wealth and power whose life blood was the class of enterprising merchants [with] none of the vestiges of feudal society to inhibit [their] entrepreneurial strivings."

On the other hand, modern liberals, who like to point to slavery as a great evil of laissez-faire capitalism, will find Alexander correctly demonstrating how the philosophy of slavery reflected proprietarian views of property. The abolition of slavery was a triumph for the classical liberal, commoditarian view.

Despite such triumphs, the commoditarian view has never vanquished the proprietarian view. The common perception that property in America has always been considered a basic individual right, to be held free from the powers of government, is simply not true, says Alexander. Readers of this magazine may wish it were so, but a quick look at recent EPA regulations in the Federal Register demonstrates his point.

Still, the strength of the commodity vision has been such that in the late twentieth century those who favor the activist state have sometimes abandoned proprietarian rhetoric and attempted to put their theories into commodity terms. This is seen in efforts to define a commoditarian type "right" to welfare, health care, or other government benefits.

What Alexander's book lacks is a sense of passion. Though describing a great clash of ideas, there is little sense of drama or energy in these pages. Alexander reports the theories as equals, with little seeming interest in which view ought to prevail, or even in evaluating the merits of the arguments he describes. It must fall to others to demonstrate why and how a classical liberal view—the commodity conception of property rights—promotes prosperity, peace, and liberty. □

Bradley Smith is associate professor of law at Capital University Law School, Columbus, Ohio.

Against Politics:
On Government, Anarchy, and Order

by Anthony de Jasay

Routledge • 1998 • 256 pages • $75.00

Reviewed by Butler Shaffer

While studying political philosophy in college, I often pondered: why should my preferences for liberty have to depend on philosophical principles rather than my personal will? Why should it not be sufficient simply to declare that I do not choose to be coerced by a political system? Such a proposition did not seem to me to be so out of the ordinary—after all, the marketplace operates on such voluntaristic assumptions with obvious success.

That inquiry led me to other questions, such as, "Why isn't personal liberty the presumed condition in human society, with the burden of proof placed on those who would restrict it?" The "social contract" theorists' answer that we have agreed to the state's restrictions on our liberty rang hollow in the face of the tyrannical and butcherous regimes that had come to represent the modern world of nation-state politics.

To those who share this love for liberty, and who have likewise been troubled by such questions, Anthony de Jasay's book will prove worthwhile. In a lucid and intellectually invigorating manner, he challenges the classic justifications that have been offered on behalf of state power: from social contract theory to the public goods and economies-of-scale rationales, he thoughtfully analyzes, and casts doubts on, the case for the authority of the state.

De Jasay's explorations of the concept of "limited government" reveal an awareness of the difficulties inherent in all forms of collective behavior: namely, that "collective choice is never independent of what significant numbers of individuals wish it to be." In any kind of political system—including a democratically constituted one—it is impossible for political authority to remain "limited" except by imposing on it a higher sovereign authority, whose own actions must, in turn, be supervised by an even higher sovereign power, *ad infinitum*. The United Nations, for example, has been given some measure of authority to control the excesses of nation-states, but what will control the United Nations?

"Limited government with popular sovereignty," de Jasay tells us, "is precarious," dependent on widespread acceptance of certain philosophical propositions. The case for liberty, in other words, is never stronger than the insistence by each of us that it be preserved. Liberty must crumble when its philosophical foundation does.

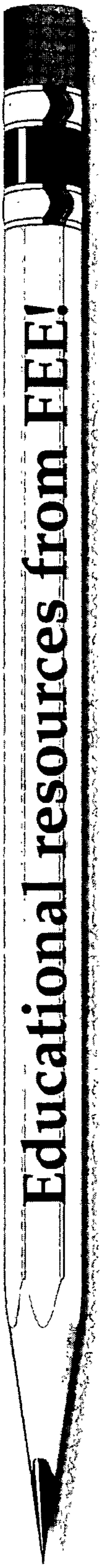
De Jasay has no sympathy for such traditional fictions as "the common good" as a basis for state power. Noting that "[n]ine-tenths of practical politics is the making of nonunanimous decisions by some, which hurt others," he proceeds to explain how an alleged "common good" need not, in fact, "be good for, nor desired by, any individual, past, present, or future." The result is social engineering, which he defines as "a series of political decisions making people allocate their efforts and wealth otherwise than they would if allowed to do it as they saw fit." Even Hayek comes in for criticism for his treatment of "public goods." Hayek's vision of "social order," de Jasay explains, would make "the state's place in society . . . ad hoc, open-ended, [and] indeterminate."

In a politicized society that no longer distinguishes between positive law that is imposed by the state and common law that arises out of human customs, practices, and expectations, de Jasay's resurrection of the distinction is not only refreshing, but essential to the case for nonpolitical systems of social order. The cult of state power appears to be in retreat in the minds of increasing numbers of people, and de Jasay's analysis is most useful in sweeping aside the dust-laden assumptions and faithfully chanted doxologies on which such power has rested.

Economic and systems analysis, "chaos" theory, and a growing spiritual revulsion at what state collectivism has wrought in this century alone have combined to fuel a resurgent interest in the processes of "spontaneous" order. Such order depends on a concept of "rights created by voluntary contracts," which, de Jasay tells us, are derived from property which, in turn, is not a "right . . . but a liberty to act upon owned objects."

Those who understand the distinction between "rights" and "liberties," and of how "property" and "liberty" are inextricably intertwined, will appreciate de Jasay's analysis. To those who wish to challenge the foundations of all systems of collective authority, his book will be of great value in confronting the arguments that have been historically offered on behalf of such systems. The author's title is, in the end, perfectly descriptive, for the book indeed makes the case *against politics* and in favor of liberty as the means of establishing order in human society. □

Butler Shaffer is professor of law at Southwestern University School of Law and author of Calculated Chaos: Institutional Threats to Peace and Human Survival (1985) *and* The Redistribution of Authority: Privately Owned Property as a System of Social Order *(forthcoming).*



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by Charles W. Baird

Tony Blair and "Fairness at Work"

Tony Blair, prime minister of Great Britain, heads the "New Labour" Party. The old Labour Party was a wholly owned subsidiary of the Trades Union Congress (TUC), the umbrella organization for most British unions. In 1976 Labour Prime Minister James Callaghan asserted that "no modern government can govern against the trade unions." During the 1978–79 "Winter of Discontent," the TUC and its constituents assaulted Britain with crippling strikes, violence, and sabotage. The electorate then elected Margaret Thatcher, who set about taming the unions through a series of statutes designed to make them subject to the ordinary rule of law and to protect workers against predatory union bosses.

In the early 1990s Blair began to repackage the Labour Party. New Labour would no longer take its orders from the TUC. It would favor entrepreneurship in the private marketplace, continue with the Conservative policy of privatization, and work in the interests of the increasingly affluent British middle class. Like his friend and mentor, Bill Clinton, Blair was a successful salesman. In 1997 he defeated John Major and became the first Labour Prime Minister in almost 18 years.

Blair resembles Clinton in another way—he favors compulsory unionism. In his foreword to a May 1998 White Paper titled "Fairness at Work," Blair assured his readers that "There will be no going back. The days of strikes without ballots, mass picketing, closed shops and secondary action are over." The purpose of the White Paper, he said, is "to replace the notion of conflict between employers and employees with the promotion of partnership."

Charles Baird is a professor of economics and the director of the Smith Center for Private Enterprise Studies at California State University at Hayward.

In the post-Thatcher status quo, there is no statutory requirement that employers recognize any union or even bargain with any union on the subject of recognition. Recognition is a matter of voluntary negotiations between employers and unions. Government doesn't intervene in labor relations except to uphold the rule of law.

Fair-Weather Voluntarists

British unions supported this voluntary system of labor relations when they enjoyed the privileges and immunities granted to them in the Trade Disputes Act of 1906. From then until the 1980s British unions were exempted from all claims for damages arising out of labor disputes. Employers were subject to the rule of law, but unions were not. Unions used "blacking" (violence-enforced boycotts) and mass picketing to force employers to agree to closed-shop collective bargaining. Now that the Thatcher reforms have removed their privileges and immunities, the unions no longer like voluntarism. They want the Labour government to force employers to recognize and to bargain with them. Blair proposes to do exactly that—American-style.

Exclusive representation and mandatory collective bargaining are central to American labor-relations law. Exclusive representation is the imposition of union recognition on the basis of majority vote among workers. A union that wins such an election at a firm represents all the employees eligible to vote, even those who vote against the union. Mandatory bargaining means that an employer is forced to bargain with a union certified by majority vote, and during bargaining the employer must compromise with the union.

Apologists for exclusive representation argue that it is merely workplace democracy. The will of the majority rules in politics; so, they argue, it should also rule at the workplace. Mandatory bargaining is necessary because the whole purpose of union recognition is bargaining. Recognition without bargaining is meaningless.

Freedom of Association

These apologists conveniently forget that democracy is a form of government, not a rule for private decision-making. The classical liberal principle of freedom of association requires that in their private lives (1) all individuals (even employers) be free to choose to associate with other willing individuals for legal purposes, and (2) all individuals be free to choose not to do so. Exclusive representation and mandatory bargaining violate freedom of association. To be represented by a union is to associate with it. To have a union as a bargaining agent is to associate with it. To bargain with a union is to associate with it.

So what is Blair up to? Chapter Four of the White Paper explains that the Labour government will propose legislation to force an employer to recognize a union "where a ballot shows that a majority of those [workers] voting and at least 40% of those eligible to vote are in favour of recognition." Moreover, a union so recognized will represent all the workers in the "appropriate bargaining unit"—that is, all the workers eligible to vote. This is American-style exclusive representation. The White Paper also states, "Recognition will cover pay, hours and holidays." In other words, recognition implies mandatory bargaining on those subjects.

In Annex 1 of the White Paper the authors explain that the Central Arbitration Committee (CAC), a government agency, can determine whether a union has majority support among workers without a ballot. Once a bargaining unit is defined by the CAC, and if the employer does not voluntarily recognize a union seeking recognition, the CAC can compel recognition "if it is satisfied, having examined carefully suitable evidence from the union and, if he wishes, from the employer, that more than 50% of the bargaining unit are members of the union seeking recognition." The CAC doesn't have to consider evidence from the employer; it may compel recognition solely on the basis of union-provided evidence. The ballot procedure is used only when the CAC is unwilling to compel recognition without a ballot. The union evidence on which the CAC is to make its determination "might take the form of membership records or a petition signed by a sufficient number of employees."

American unions have long tried to get Congress to amend the National Labor Relations Act to compel employers to recognize unions on the basis of signatures. Why? Union organizers collect signatures on a face-to-face basis, and they are not known for their gentle manners. It is much more difficult for workers to resist face-to-face organizers than to vote no in a secret ballot election.

However, the White Paper does not propose to adopt American "union security." American workers in unionized firms may be forced to pay union dues and fees as a condition of continued employment. This coercion is excused by saying that since a certified union must represent all workers in a bargaining unit, every worker should be forced to pay a share of the union's operating costs, otherwise many workers would be free riders.

In the 1930s Senator Robert Wagner, the principal author of the National Labor Relations Act, advocated a "camel's nose under the tent" strategy. First, make a few changes in the law, then a few more, and so on. Eventually your goal will be reached—the union-free tent will collapse. Given his affinity for the American model, could it be that Blair will impose union security once forced bargaining has been digested? □