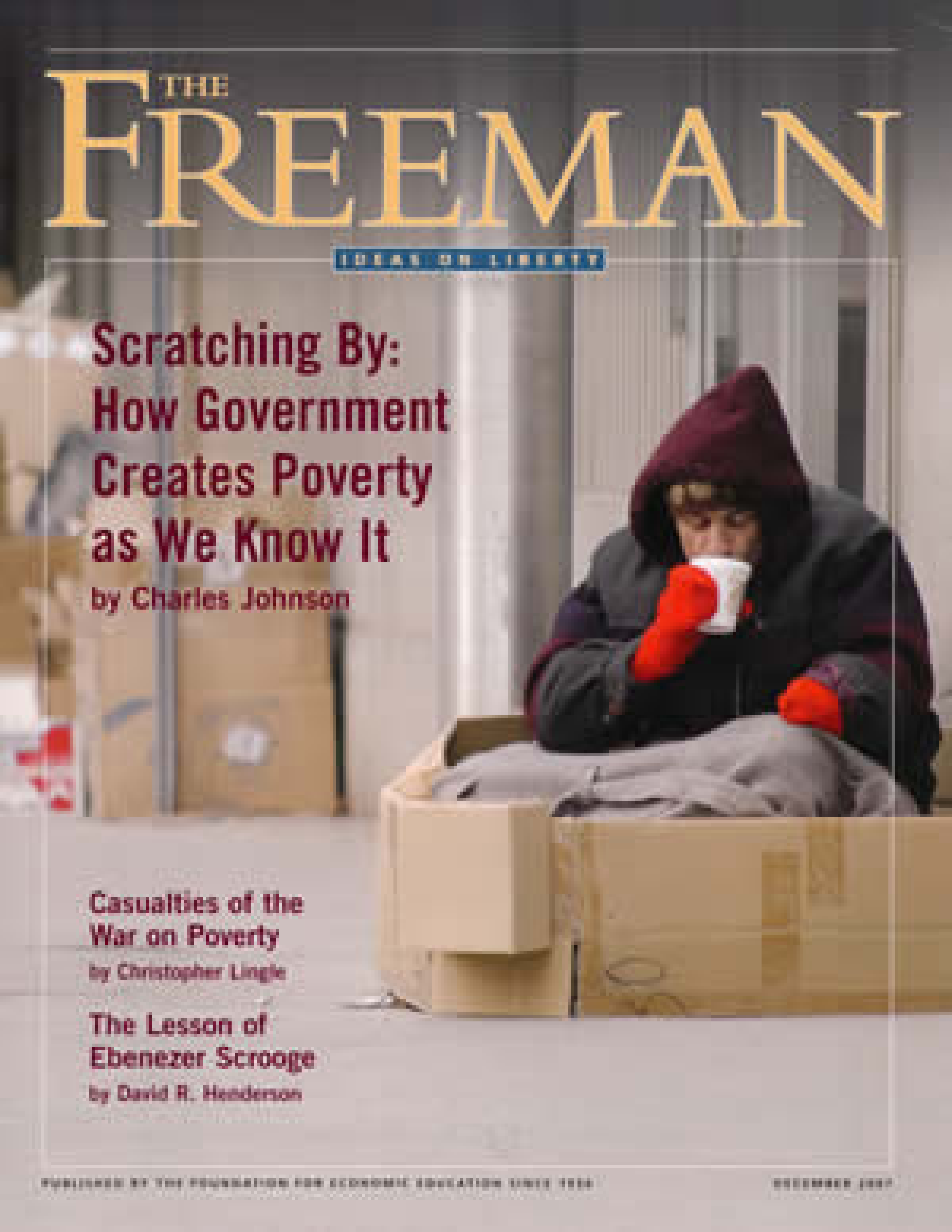

THE
FREEMAN
IDEAS ON LIBERTY

Scratching By: How Government Creates Poverty as We Know It
by Charles Johnson

Casualties of the War on Poverty
by Christopher Lingle

The Lesson of Ebenezer Scrooge
by David R. Henderson

PUBLISHED BY THE FOUNDATION FOR ECONOMIC EDUCATION SINCE 1946 DECEMBER 2007

December 2007

Sheldon Richman
Joshua C. Hall
George C. Leef
Beth Hoffman
Christopher Lingle
Charles Johnson
Mark W. Hendrickson
Harold B. Jones Jr.
Lawrence W. Reed
Richard Ebeling
Thomas S. Szasz
Stephen Davies
John Stossel
and
David R. Henderson

FEE

FEE's mission is to inspire, educate, and connect future leaders with the economic, ethical, and legal principles of a free society.

Find us online at:
FEE.org
Facebook.com/FEEonline
Twitter.com/FEEonline (@feeonline)

Contact us directly at: 1-800-960-4FEE (4333)

Foundation for Economic Education
1718 Peachtree St. NW, Suite 1048
Atlanta, GA 30309

Produced by
MiceEatCheese.co

Published by
Benjamin Tucker Institute, z.s.

Contents

Bad Policy Drives Out Good

AUGUST 24, 2007 by Sheldon Richman
All public policies are related. Okay, that may be a slight overstatement, but there's a point here. A politician's credibility on one public issue -- and thus the disposition of that issue -- will often be determined by his or her position on other issues. People will look at a politician's full program as a way of judging good faith. Case in point: the Bush administration's announcement that it will limit the states' ability to extend medical coverage through the State Children's Health Insurance Program (SCHIP) to families that do not qualify for poverty programs because they make too much money.

Uneven Information Causes Market Failure?

Market-Failure Arguments Ignore Incentives for Market Participants to Overcome Assymetric Information
DECEMBER 01, 2007 by Joshua C. Hall

Book Reviews - December 2007

DECEMBER 01, 2007 by George C. Leef

Index 2007

DECEMBER 01, 2007 by Beth Hoffman

Casualties of the War on Poverty

The Truth about the U.S. Poverty Rate
DECEMBER 01, 2007 by Christopher Lingle

Scratching By: How Government Creates Poverty as We Know It

DECEMBER 01, 2007 by Charles Johnson

The Fear of Free Trade

Addressing Protectionists' Fear of Job Loss
DECEMBER 01, 2007 by Mark W. Hendrickson

Immigration Control, Circa AD 175

A Lesson from Ancient Greece on Illegal Immigrants and Employment
DECEMBER 01, 2007 by Harold B. Jones Jr.

In Praise of an Uncommon Woman

School-Choice Entrepreneur Alberta Wilson and the Faith First Educational Assistance Corporation
DECEMBER 01, 2007 by Lawrence W. Reed

Marching to Bismarck's Drummer: The Origins of the Modern Welfare State

DECEMBER 01, 2007 by Richard Ebeling

The Medicalization of Everyday Life

The Medical Classification of Disease as Social Strategy
DECEMBER 01, 2007 by Thomas S. Szasz

The Real Argument about Government

Collectivism versus individualism.
DECEMBER 01, 2007 by Stephen Davies

Medical Competition Works for Patients

How the Free Market Keeps Health-Care Costs Low and Quality High
DECEMBER 01, 2007 by John Stossel

The Lesson of Ebenezer Scrooge

Raising Taxes to Expand Welfare Programs is Not Compassion but Coercion
DECEMBER 01, 2007 by David R. Henderson

Bad Policy Drives Out Good

AUGUST 24, 2007 by Sheldon Richman

All public policies are related. Okay, that may be a slight overstatement, but there's a point here. A politician's credibility on one public issue — and thus the disposition of that issue — will often be determined by his or her position on other issues. People will look at a politician's full program as a way of judging good faith.

Case in point: the Bush administration's announcement that it will limit the states' ability to extend medical coverage through the State Children's Health Insurance Program (SCHIP) to families that do not qualify for poverty programs because they make too much money. (The states are unhappy.) President Bush opposes expansion of SCHIP because when you expand eligibility . . . you're really beginning to open up an avenue for people to switch from private insurance to the government. (This in fact has happened.) Moving from private insurance to the government dole would undermine self-responsibility.

He really said that — the same public official as the one who added universal drug coverage to Medicare. Back then he was undeterred by predictions that retired people would drop their private coverage in favor of the government program.

There's another level of hypocrisy, though. Given the existence of a federally financed state medical program for low-income families, it is surely wise not to enlarge the coverage to include middle-income people, who have or can obtain private insurance. So in itself, the new rules are unobjectionable, even laudable. But the administration's new rules won't be judged on their own merits. That may be regrettable, but it's a fact. In politics public opinion matters, and perceived intentions shape public opinion. Ignoring this is self-defeating. To put it bluntly: how can the Bush administration hope to persuade people that the government should not subsidize middle-class children's medical care when it is famously on record supporting billions of dollars in subsidies and other privileges for big corporations, including agribusinesses.

It can't. It has no credibility whatever in the matter. Non-ideological, middle-of-the-road voters, who elect people to office, are likely to suspect the worst when they see a politician push energy, defense, and farm bills that transfer huge amounts of taxpayer money to wealthy individuals and companies while opposing health coverage for children in nonwealthy families.

And why shouldn't they suspect the worst? When the president lectures working people about self-responsibility, might they not wonder why self-responsibility isn't also expected of energy companies that find privileges included in energy bills, defense contractors that make things of dubious value to the average person, and agribusiness and food-processing companies that get ethanol subsidies and other guarantees?

Corporate Welfare

Don't get me wrong. SCHIP shouldn't have been created ten years ago (mind you, by a Republican Congress and President Clinton). And now that it exists, it shouldn't be expanded to cover more and more children. That will indeed undermine parental self-responsibility. And the government has wreaked enough havoc with this country's medical system.

But no politician who embraces *corporate* welfare in all its varieties can credibly oppose the SCHIP expansion. All he accomplishes is to make opposition to government health coverage look callous and cynical. With friends like that, the free market hardly needs enemies.

There's a lesson here. When a prominent figure holds a mixture of good and bad positions, *the bad ones damage the good*. It's a form of Gresham's Law. Inconsistent and seemingly insincere defenders of freedom harm the cause.

Keep this in mind when picking political allies.

Uneven Information Causes Market Failure?

Market-Failure Arguments Ignore Incentives for Market Participants to Overcome Assymetric Information

DECEMBER 01, 2007 by Joshua C. Hall

In a famous 1970 paper, economics Nobel Laureate George Akerlof used the market for used cars to show how differences in information between buyers and sellers ("asymmetric information") could lead a market to shrink or collapse entirely. A large variety of markets have been said to fail because of asymmetric information, from all different types of insurance markets to the market for translators. In many cases these market-failure arguments have been used as a justification for government intervention. The problem with many, if not all, of these arguments, however, is that they fail to appreciate the incentives market participants have to find ways to overcome the information differences.

A good example of this tendency to see market failures everywhere is Phil Birnbaum's article, "Are Traded Players Lemons," in the 2005 issue of The Baseball Research Journal. Birnbaum suggests that the trade market for major-league baseball players might suffer from asymmetric-information problems. As evidence he presents data showing that "exceptional" traded players seem to do worse than one would predict using their statistical records. Comparing similar players who were traded and those who were not, he finds that non-traded players were 2–3 times as likely to meet their projected statistics as traded players. From this he concludes that traded players are often damaged goods and thus the player trade market might be a "lemon market" similar to the used-car market.

While Birnbaum does not argue for government intervention in the market for baseball players, further examination of this argument is useful because it can tell us a lot about why asymmetric information is generally not a problem for other markets where government intervention is prevalent. To find out why, let's start by examining why the used-car market is not filled with lemons.

In his original article Akerlof noted that two outcomes are possible in markets where sellers have more information than buyers. If buyers cannot distinguish between high-quality and low-quality cars, for example, they will only be willing to offer a price equal to the average quality of existing used cars on the market. A potential seller of a high-quality car then will not sell his car since he cannot receive a price commensurate with its value. Over time this information asymmetry could reduce the number of high-quality cars in the used-car market until the market fails because only "lemons" are left.

The second possible outcome is that buyers invest time and effort to reduce uncertainty over the quality of products. In the used-car market, this can be done in a variety of ways. For example, a few years ago I purchased a 20-year-old Mercedes at a garage sale. When I asked the owner about the car's history, he showed me his original bill of sale and a detailed maintenance history from a well-known local mechanic. Asymmetric-information problem overcome! More generally, warranties, brand names, and reputation help to mitigate car-buyer uncertainty over quality.

The important thing to note is that while some sellers have an incentive to try to use asymmetric information to their advantage, many sellers and all buyers have the incentive to find ways to overcome the asymmetry problem. As a result, the market for used cars looks more like the second outcome than the first. It is not filled with lemons because sellers of high-quality used cars have an incentive to provide assurances such as warranties that their cars are of high quality. The lemons problem is mitigated because buyers and sellers want trades to happen and thus have the incentive to create institutional solutions that facilitate exchange. The problem disappears when the buyers have assurance of the quality of a used car and thus the seller can charge a price high enough to make it worthwhile to sell. When the used-car market is viewed from a market-process perspective, it is clearly not a lemons market.

What about the market for baseball players? That market is also unlikely to be a market for lemons because it has several institutional mechanisms to provide buyers with assurance of player quality. First, data on the performance histories of players, as well as their medical histories, is made available to trading partners at the time of the exchange. In addition, physicals are a part of every baseball trade—the baseball equivalent of taking a used car to your mechanic to verify the quality of the vehicle. Finally, in the market for baseball players sellers are also buyers. General managers need to be concerned about their reputation and the ability to make future trades, thus they are more likely to make mutually beneficial trades than attempting to profit from asymmetric information. Given the high number of high- and low-quality players traded each year, it appears that these institutional mechanisms work quite well in facilitating exchange.

How do we reconcile this with Birnbaum's findings that traded players underperform projections at much higher rates than non-traded players? Assuming that Birnbaum's research is correct, is the only explanation that traded players must be lemons? The answer is no.

To see why, consider a car market with two types of individuals: those who do their own maintenance and those who cannot. Individuals who cannot do their own maintenance will sell their cars as maintenance begins to increase. On the other hand, those who do their own maintenance prefer to buy used cars because they get them at a discount and can fix them cheaply.

If traded and non-traded cars in this market were analyzed, it would appear that traded cars are lemons. The difference between groups, however, does not arise because of asymmetric information but from differences in valuation.

More-Valued Bundle

This seems to fit both Birnbaum's description and the baseball-player market. Teams are exchanging a bundle of players and their contracts for a bundle of players and contracts they value more, even if the players they receive are going to decline in overall performance. The fact that Birnbaum looks only at "exceptional" players could be why he finds that most traded players decline in performance. For example, in 1974 the Atlanta Braves traded Hank Aaron to the Milwaukee Brewers. According to Birnbaum, Aaron was damaged goods in the sense that he underperformed after the trade. Does this mean that Aaron was a lemon? Of course not. The Brewers had just had their sixth straight losing season and wanted Aaron for his ability to draw fans to the ballpark as much as for his ability to hit home runs.

Even if a player's overall stats fall after the trade, he still might be more valuable because his marginal contribution is higher. After Jeff Conine was traded from the Baltimore Orioles to the Florida Marlins for the stretch drive in 2003, he often batted seventh in the order or was used as a pinch hitter; with the Orioles he had regularly batted cleanup. As a result, he averaged one fewer at bat per game and his overall stats were much lower. His contribution to winning was likely higher, however.

When market participants have the incentive to exchange, they also have the incentive to create institutional mechanisms to facilitate that exchange. The failure to recognize and appreciate these private mechanisms for overcoming asymmetric information—not the failure of actual markets—is often what leads to mistaken calls for government regulation.

Book Reviews - December 2007

DECEMBER 01, 2007 by George C. Leef

Who Controls the Internet? Illusions of a Borderless World

---

by Jack Goldsmith and Tim Wu

Oxford University Press • 2006 • 226 pages • $28.00

Reviewed by Andrew P. Morriss

Who Controls the Internet? is a thoughtful, clear, and engaging book written by two distinguished law professors. The authors do a major service to discussions of the Internet by debunking the 1990s "information just wants to be free" meme with their lucid account of how governments fought back to restrict the Internet's impact.

Along the way Goldsmith and Wu give a thorough critique of the Principality of Sealand, a World War II antiaircraft platform off the coast of England declared an independent country by its self-proclaimed Prince Roy. Sealand is revealed as a silly idea, but the larger story of governments' response to technologies that threaten them is depressing reading for those concerned with liberty.

Professors Goldsmith and Wu, who teach at Harvard and Columbia law schools, respectively, provide a good history of the Internet and describe the technology behind governments' response. In particular, the authors focus on governments' use of commercial technologies that enable websites to identify the location of visitors. Doing so makes the website more valuable to users (information can be customized to your location and helps prevent fraud) and to advertisers (ads can be bought for specific geographic areas). Unfortunately, it also offers governments an opportunity to censor and monitor. The technology isn't perfect, but as the authors note, location identification need not be perfect to be effective.

Another vulnerability of the Internet that governments can exploit is the payment system. So long as payments are made through a few large systems (VISA, MasterCard, American Express, Discover, PayPal), a lot of control can be obtained by regulating just a few chokepoints. The Internet gaming industry discovered this, as did sites selling cigarettes online to avoid state tobacco taxes.

The strongest, and most depressing, portion of the book is its thorough description of the evolution of the Internet in China. Goldsmith and Wu detail how American Internet companies like Cisco, Yahoo, and Google have assisted the Chinese government in its efforts to censor information it does not want Chinese citizens to see.

But if they debunk the idea that the Internet would allow "routing around censorship," Goldsmith and Wu fall into the opposite trap of imagining that the contest between freedom and coercion is a simple two-period contest: Internet pioneers innovate, then governments respond. Governments win because they move last. But the battle for liberty has no end—eternal vigilance has been called the price of liberty for precisely that reason.

The book would also have benefited from analysis more explicitly based on Public Choice principles. Looking at the course of copyright-infringement litigation and legislation, the authors persuasively argue that neither the lack of quick congressional action to enhance legal protections for copyright holders nor the lower-court Grokster decisions that rejected music-industry positions against file sharing reflected "an absence of power." Instead they were the result of "an intragovernmental discussion over how to balance conflicting interests in technological innovation and the protection of authors' rights." But it wasn't really a "discussion" in any intellectual sense of the word; what went on was a battle of interest groups that took time to play out. The authors note that "[m]any believe" that the Sonny Bono Term Extension Act, which extended existing copyrights, "aided the highly organized and ailing recording industry at the public's expense." This is accurate only in the sense that "many believe" that gravity causes things to fall to the earth when dropped. There is no plausible alternative explanation for the blatant rent-seeking of the Sonny Bono Act. More attention to interest groups' roles would have strengthened the book considerably.

Perhaps the most frustrating aspect of the book is its excessively state-centered view of law. For example, the authors label government-provided law as "real law" in contrast to customary legal systems. But they've actually got it backwards, and familiarity with the work of F. A. Hayek or Bruno Leoni—neither of whom are mentioned in the book or cited in the index—would have been a great help to the authors.

The efforts to make the book more accessible for a popular audience also led to some odd illustrations. There are a few excellent diagrams that enhance the discussion and clarify descriptions, but these are outnumbered by the various photographs that add nothing to the book. Despite these flaws, however, Who Controls the Internet? is an important contribution to the debate over the role of technology in advancing (or harming) the cause of liberty.

Andrew Morriss is the Dean of the Texas A&M University School of Law

Econospinning: How to Read Between the Lines When the Media Manipulate the Numbers

by Gene Epstein

John Wiley & Sons • 2006 • 246 pages • $24.95

Reviewed by Joseph Coletti

As a columnist for the New York Times, Paul Krugman has sometimes invented his own statistics or tortured real ones to make his point. Whether it is the fiscal health of Social Security and Medicare, how we count the unemployed, or the general condition of the economy, Krugman has often tried to drive readers to accept his conclusions with questionable data.

Gene Epstein's book on the misuse and abuse of economics and statistics, Econospinning, devotes a lot of attention to Krugman, but the author's critique of the media expands to include the Wall Street Journal, the Economist, and MSNBC's Squawkbox. Epstein also gives special attention to Barbara Ehrenreich's Nickel and Dimed, Steven Levitt and Stephen Dubner's Freakonomics, and the populist silliness of Lou Dobbs. Epstein is the economics editor for Barron's and author of the "Economic Beat" column for that weekly sibling of the Wall Street Journal. He really knows his subject.

Former Congressional Budget Director Douglas Holtz-Eakin said, "Every dollar of federal spending has a cost. It makes no difference if the payment is charged to the general fund, a trust fund, or an enterprise fund." Epstein's intent with this book is to show that every badly used economic statistic also has a cost. He defines econospinning as "the sort of journalism that shapes the data around a predetermined story, rather than the story around the discoverable data."

To make his points Epstein includes long quotes from the sources, italicizes the troublesome parts, and often dissects them bad idea by bad idea. He provides his own calculations to show what was wrong in the original and describes how to properly interpret the economic statistics under discussion.

Half the book is dedicated to employment statistics and their misuse. This focus is necessary, he writes, because these statistics are "of great concern to policy makers, traders, investors, and humanists." His writing here is illuminating, as he explains the differences between statistics available from the establishment and household surveys, and how they can be usefully compared. In doing so, he undermines both Krugman's claims about long-term unemployment and the Journal's claims about the extent of self-employment.

Epstein attributes the increase in long-term unemployment to changing demographics in the workforce. Women are becoming more career-oriented, which means they are becoming unemployed less often, but take longer to find work when they do. Meanwhile, the self-employed are more likely to show up in employment statistics than the Journal suggests.

Such statistical insights can help make for better consumers of economic news, even if it does not improve the quality of economic reporting. Given the difficulty of such reporting, however, Epstein would like to see less frequent output from government data gatherers. They look at the size of the economy only once a quarter and often revise that twice, but they report employment and unemployment statistics each month. Reporters just report the change in the unemployment rate, however, and pay little attention to the previous upward or downward revisions in the numbers and what those revisions mean for the actual state of employment in the country.

Epstein's sharp analysis is also useful in his chapters on corporate profits and workers' returns from productivity gains. He shows, for example, that changes in compensation over time have moved nearly in tandem with the tightness of the labor market. That shouldn't surprise readers of The Freeman, but confounds economists such as Krugman and Berkeley's Brad DeLong.

The increase in corporate profits turns out to be a story similar to long-term unemployment: it reflects a structural change in the economy rather than higher profits at individual companies. There are more corporations in the economy, and more of them are financial-service companies, which tend to have higher profit margins. Combine those trends and the result is corporate profits making up a larger portion of GDP than ever before. Contrary to the writers who claim to see rising profits as a danger, Epstein observes that this does no harm to anyone. Scare stories about corporate profits are a staple in many publications, but after reading Econospinning, the reader will be able to sort out fact from fantasy.

Given the popularity of Freakonomics, it is not surprising that Epstein devotes a chapter to refuting two of the more provocative claims from that book: legal abortion reduced the crime rate and real-estate agents do not negotiate well for their clients.

The demolition job Epstein does on Ehrenreich is utterly devastating. Lou Dobbs fares no better.

Econospinning is worth reading for the clarity of thought Epstein brings to his subject. The book is a much-needed volume on the ways economic journalists can lead people astray with the misuse of data.

Joseph Coletti ( / <![CDATA[*/!function(){try{var t="currentScript"in document?document.currentScript:function(){for(var t=document.getElementsByTagName("script"),e=t.length;e--;)if(t[e].getAttribute("cf-hash"))return t[e]}();if(t&&t.previousSibling){var e,r,n,i,c=t.previousSibling,a=c.getAttribute("data-cfemail");if(a){for(e="",r=parseInt(a.substr(0,2),16),n=2;a.length-n;n+=2)i=parseInt(a.substr(n,2),16)^r,e+=String.fromCharCode(i);e=document.createTextNode(e),c.parentNode.replaceChild(e,c)}}}catch(u){}}();/*]]> */) is a fiscal policy analyst at the John Locke Foundation.*

The Entrepreneurial Imperative: How America's Economic Miracle Will Reshape the World (and Change Your Life)

by Carl J. Schramm

HarperCollins • 2006 • 195 pages • $24.95

Reviewed by Frederic Sautet

Carl Schramm is president and CEO of the Kauffman Foundation, an organization that sees itself as the main center for the promotion of entrepreneurship in the United States. The Entrepreneurial Imperative aims at spreading this message: entrepreneurship is America's "comparative advantage," and the economic model that fosters it needs to be better known and adopted everywhere. While having a comparative advantage in entrepreneurship is not an adequate description of America's situation, the author is correct in saying that entrepreneurship has been crucial to economic growth and progress in the United States.

Schramm's book covers four main areas regarding entrepreneurship: personal ethics, politics, economics, and policy. Although the general thesis of the book is well argued, the analysis that supports the message is less convincing. Moreover, the author's policy ideas are disappointing.

Anyone versed in classical liberalism will agree with Schramm's view of ethics and politics. He defends individual freedom, responsibility, personal achievement, and economic independence. Without a well-defined personal ethos, as Schramm recommends, entrepreneurial activities are unlikely to succeed. He also strongly urges Americans not to fall prey to the critics of big businesses because the interest of businesses is, most of the time, to serve customers as well as they can, not to defraud them. Schramm correctly sees economic freedom as the main reason for America's success.

Difficulties arise, however, when one looks at the economic analysis behind his ethical and political views. While Schramm undoubtedly believes that free markets by and large work best, some readers may be less comfortable with his theoretical understanding of entrepreneurship. Basically, there are two different views of entrepreneurship in the literature. On the one hand, some writers define entrepreneurship as any action related to starting a business—this is the behavioral approach. On the other hand, it can be defined as the recognition of an opportunity—the cognitive approach. It is not clear where Schramm stands in this debate, as he borrows from both approaches. However, it is difficult to subscribe to both explanations because they're arguably mutually exclusive. Moreover, the policy implications that stem from each of these views are opposed. The behavioral approach leads to "active" government policies (such as guaranteed loans for small businesses), while the cognitive one leads to "passive" policies (such as better enforcement of contracts).

This theoretical confusion can be found in Schramm's policy recommendations, where education is his main focus. The central difficulty I have with his emphasis can be put simply: one cannot learn to become an entrepreneur. The problem is that Schramm sees entrepreneurship as being mostly about starting up and managing a business rather than discovering new opportunities for profit. The former can be taught, but without discovery first, there cannot be entrepreneurship in its true sense. Experience and knowledge help someone to notice opportunities others have missed, but nobody can know in advance what knowledge and experience will be needed. It follows that, contra Schramm, it is impossible to know what education is needed to become entrepreneurial.

To be fair to the author's analysis, he argues that universities don't provide the right education to help people become entrepreneurs. Instead of providing highly career-oriented courses, as they do now, he contends that they should provide classes that teach general problem-solving capacity. There is some merit to this, but teaching them problem solving isn't going to change students into people who identify and seize opportunities.

Another implication of his theoretical confusion is that Schramm dedicates only a few pages to what really matters for entrepreneurship—the role of institutions. This is unfortunate considering the policy mess existing at the local and federal level in the United States. The way to foster entrepreneurship is not by trying to teach it, but rather by making sure the institutional conditions for its emergence are as good as possible. With economic freedom, where barriers to entry into business are low (such as low taxes and flexible labor markets), a great deal of entrepreneurship will spontaneously arise.

While Schramm correctly states that freedom is the key to an entrepreneurial economy, he doesn't fully grasp what this means in practice. He only briefly mentions taxation and barely touches on the role of property rights and regulation, where bad policy can and does strangle entrepreneurship. Worse still, he favors active government policy, proposing an increase in tax money allocated to seed new entrepreneurial projects. That is a recipe for wasted investment. In view of what he says elsewhere on the problems of bureaucracy, it is hard to believe that Schramm seriously considers public financing for entrepreneurs a beneficial policy.

Schramm's central message is important: entrepreneurship matters a great deal to prosperity. Unfortunately, his ideas for promoting it are mostly off target.

Frederic Sautet ( /* <![CDATA[*/!function(){try{var t="currentScript"in document?document.currentScript:function(){for(var t=document.getElementsByTagName("script"),e=t.length;e--;)if(t[e].getAttribute("cf-hash"))return t[e]}();if(t&&t.previousSibling){var e,r,n,i,c=t.previousSibling,a=c.getAttribute("data-cfemail");if(a){for(e="",r=parseInt(a.substr(0,2),16),n=2;a.length-n;n+=2)i=parseInt(a.substr(n,2),16)^r,e+=String.fromCharCode(i);e=document.createTextNode(e),c.parentNode.replaceChild(e,c)}}}catch(u){}}();/*]]> */) is a senior research fellow at the Mercatus Center.

The Green Wave: Environmentalism and Its Consequences

by Bonner Cohen

Capital Research Center • 2006 • 209 pages • $14.95 paperback

Reviewed by George C. Leef

Environmentalists like to be portrayed as kindly, concerned people who just want to make sure that earth will remain a pleasant home for all living things. For the most part, they get their wish. Stories in the mainstream media that question their motives, call attention to their often nasty tactics, or point out that environmentalist policies frequently have harmful effects are as rare as manatees in Montana.

Fortunately, Bonner Cohen's book The Green Wave is at hand to show that there are a lot of "inconvenient truths" about the environmental movement. He argues convincingly that the environmental movement should be understood as just the most recent front in the war that authoritarians have long waged against private property and free enterprise. Cohen writes, "Along with more traditional goals like redistribution of income to secure 'equality,' activists seized on the environment as an issue with enormous potential to influence young educated urbanites who felt guilty about their affluence. Their aim: to bring about the reordering of national and global priorities." The "greens" talk about saving the planet, but what is really at issue is plain old power. They want it to control a wide array of human activities.

Just as Marxism used simple-minded but emotionally appealing catch-phrases to win converts, environmentalists try to sway people with similar notions. Instead of "exploitation of labor," the greens talk about "the precautionary principle." According to that "principle," the government should prevent people from doing anything (such as introducing a new technology) until we are absolutely certain that it won't have any adverse impact on the environment. Cohen shows how the environmental movement has employed this superficially reasonable idea to oppose many innovations. (As he points out, it really is extremely unreasonable since if we waited for proof of absolute safety before acting, we would never be able to do anything.) Genetically modified crops are a prime example. How do we know, green activists demand, that gene-spliced tomatoes won't wreak havoc among insects that might feed on the foliage?

By using their well-rehearsed playbook of media, political, and judicial tactics, the greens have managed to delay and even prevent the use of genetically modified crops and other innovations. They prefer the reality of human hunger to any threat to "biodiversity," no matter how speculative.

Cohen shows how environmental activists resort to junk science over and over in their quest to frighten the public and governmental officials into acceding to their demands. They recognize the truth in the adage that bad news sells and never hesitate to trumpet any scientific research, no matter how dubious, that purports to demonstrate that disaster will occur unless people are prevented from doing X. Compliant reporters oblige by incorporating environmentalist press releases into their scare stories, hardly ever bothering to assess the reliability of the information. Even if it later turns out that the research is completely bogus, no matter—the public will remember the frightening headlines and few will ever read about the refutation of the research behind them.

Something that we really should be frightened about, Cohen argues, are the various plans to put America increasingly under the environmentalists' control. Perhaps the most menacing is the Wildlands Project, which would use federal regulations to transform the country "from a place where 4.7 percent of the land is wilderness to an archipelago of human-inhabited islands surrounded by natural areas," he writes. This plan is the brainchild of Earth First! zealots who regard human beings as an affront to the beauty of the natural world and want to greatly decrease our impact on the world. Under Wildlands, large areas of the United States would be off-limits to any but the most primitive kinds of human activity. Sure, it sounds crazy. Our standard of living would plunge, and the population would decline greatly, but the animals and trees would supposedly be happier. And of course the environmentalists would be happier if they could get the government to exercise its power to bring about their vision of paradise.

Cohen reports that a bill to start Wildlands has been introduced in the House of Representatives and has substantial bipartisan support. The whole monstrous project won't become law any time soon, but after reading The Green Wave, you know that it's a mistake to underestimate the patience and deviousness of the environmental lobby.

Environmental protection and preservation are possible under a system of private property and individual freedom, but the powerful people and organizations within the green movement are not interested in that. They don't want to have to persuade people to go along with their wishes. They want the government to force them to. That's why they're just as dangerous as all the other coercive utopians who have trod upon people for millennia. Thanks to Bonner Cohen for making that clear.

George Leef ( /* <![CDATA[*/!function(){try{var t="currentScript"in document?document.currentScript:function(){for(var t=document.getElementsByTagName("script"),e=t.length;e--;)if(t[e].getAttribute("cf-hash"))return t[e]}();if(t&&t.previousSibling){var e,r,n,i,c=t.previousSibling,a=c.getAttribute("data-cfemail");if(a){for(e="",r=parseInt(a.substr(0,2),16),n=2;a.length-n;n+=2)i=parseInt(a.substr(n,2),16)^r,e+=String.fromCharCode(i);e=document.createTextNode(e),c.parentNode.replaceChild(e,c)}}}catch(u){}}();/*]]> */) is book review editor of *The Freeman.*

Index 2007

DECEMBER 01, 2007 by Beth Hoffman

Casualties of the War on Poverty

The Truth about the U.S. Poverty Rate

DECEMBER 01, 2007 by Christopher Lingle

Newspapers around the world recently carried a news item that seems to be a damning indictment of the U.S. government and the American people. The 2005 U.S. Census indicates that the percentage of poor Americans living in "severe" poverty was at a 32-year high. This put the proportion of poor people in deep poverty at 43 percent of the total of 37 million.

As such, the number of severely poor Americans grew by 26 percent from 2000 to 2005, so that 16 million Americans were living in deep, or severe, poverty. This is defined as a family of four with two children and an annual income of less than $9,903, or one-half the federal poverty line.

On their face, these figures sound ominous and suggest that the U.S. government and the American people have turned their backs on the weakest citizens. But truth and reality are much more complex than the raw data suggest.

As it is, the U.S. government has spent close to $10 trillion (current dollars) on domestic welfare programs since President Lyndon Johnson launched the "War on Poverty" in 1965. These include Aid to Families with Dependent Children (now Temporary Assistance to Needy Families—TANF); food stamps; Medicaid; the Special Supplemental Food Program for Women, Infants, and Children (WIC); utilities assistance under the Low-Income Home Energy Assistance Program (LIHEAP); housing assistance under a variety of programs, including public housing and Section 8 rental assistance; and the free commodities program. And then state and local governments engage in welfare spending that includes free medical care for the impoverished through charity hospitals.

Spending on all social programs is up by 22 percent (inflation-adjusted) since 2000. In 2004 total government spending on low-income families was

$129 billion, or $9,058 per poor family.

Besides all this public-sector spending, private charities and religious organizations offer considerable aid to the indigent, ranging from soup kitchens to housing and so forth.

Now let's look at the official poverty rate for the United States as estimated by the Census Bureau from data on poverty and income collected in an annual survey and defined according to household size and makeup. For example, the average poverty threshold for a family of four was $18,392 in annual income in 2002.

The official rate combines the money income of individuals and families before taxes with cash assistance received from government programs. That is compared with established poverty thresholds. These thresholds vary according to the size of the family and are adjusted annually to account for the effects of inflation.

But this official estimate does not include noncash government benefits like public housing, Medicaid, free or subsidized medical care, or food stamps.

In all events, the financial resources of the "poor" in the United States tend to be undercounted. For example, the poor tend to underreport income to the Census, perhaps because they fear it will be reported to the IRS. Consequently, Census figures on income relative to spending indicate that the poor spend $1.94 for every dollar of reported income.

Moreover, poverty measures ignore the value of household assets like housing. Data from 1995 indicate that 41 percent of all "poor" households owned their own homes, with an average size of three bedrooms and one-and-a-half bathrooms—and most had a garage and a porch or patio. Among the poor, three-quarters of a million owned homes worth over $150,000.

The average "poor" American lives with one-third more living space than the average Japanese, 25 percent more than the average Frenchman, 40 percent more than the average Greek, and four times more than the average Russian. In America 70 percent of "poor" households owned a car and 27 percent had two or more cars.

If absolute poverty is considered to be the lack of access to sufficient resources to satisfy basic needs, there is not much of this in the United States. As in most countries, relative poverty is a bigger issue.

But relative poverty can never be fully resolved without implementing an incentive-destroying policy of equal income regardless of effort or talent.

History provides little evidence that forced income redistribution through taxation can alleviate mass poverty.

And so it is that despite massive amounts of spending by governments, poverty remains at a high rate in the United States. Or perhaps it is better said that public-sector welfare and other aid programs are causing poverty since the poor become dependent on handouts instead of looking for work or starting a business. (See Charles Johnson's article on page 12 to understand why the poor have trouble starting businesses.)

Government officials who spend so much of other people's money have weak incentives to see that it is spent well. Indeed, the so-called war on poverty has been no more effective than the war on drugs and probably less so than the war in Iraq.

Perhaps a better response to poverty would be to reduce the reliance on governments. The slack could be made up by elements of civil society, such as private charities, that are more effective than welfare programs in serving the poor.

As it is, 85 million American households give a total of $250 billion to charities each year. Interestingly, private Americans gave more to the victims of the Asian tsunami than the federal government did.

Giving is not limited to the very rich. The working poor give as large a percentage of their incomes as do the rich and a lot more than does the American middle class.

Were it not for so many public policies that undermine private giving, this amount would almost certainly be larger. For example, private foundations face punitive regulation, and government subsidies to nonprofits crowd out charity. On the one hand, subsidies reduce the incentive for those groups to seek voluntary contributions, and on the other they reduce the incentive for individuals to donate since they already "gave at the office" when taxes were withheld from their paychecks. Moreover, many policies reduce disposable incomes of major donors.

It is important to know what lies behind the data on the extent of poverty and giving in America. It is wrong to think that Americans are shirking their obligations to needy neighbors or that the U.S. government should do more.

Scratching By: How Government Creates Poverty as We Know It

DECEMBER 01, 2007 by Charles Johnson

The experience of oppressed people is that the living of one's life is confined and shaped by forces and barriers which are not accidental or occasional and hence avoidable, but are systematically related to each other in such a way as to catch one between and among them and restrict or penalize motion in any direction. It is the experience of being caged in: all avenues, in every direction, are blocked or booby trapped.

—Marilyn Frye, "Oppression," in The Politics of Reality

Governments—local, state, and federal—spend a lot of time wringing their hands about the plight of the urban poor. Look around any government agency and you'll never fail to find some know-it-all with a suit and a nameplate on his desk who has just the right government program to eliminate or ameliorate, or at least contain, the worst aspects of grinding poverty in American cities—especially as experienced by black people, immigrants, people with disabilities, and everyone else marked for the special observation and solicitude of the state bureaucracy. Depending on the bureaucrat's frame of mind, his pet programs might focus on doling out conditional charity to "deserving" poor people, or putting more "at-risk" poor people under the surveillance of social workers and medical experts, or beating up recalcitrant poor people and locking them in cages for several years.

But the one thing that the government and its managerial aid workers will never do is just get out of the way and let poor people do the things that poor people naturally do, and always have done, to scratch by.

Government anti-poverty programs are a classic case of the therapeutic state setting out to treat disorders created by the state itself. Urban poverty as we know it is, in fact, exclusively a creature of state intervention in consensual economic dealings. This claim may seem bold, even to most libertarians. But a lot turns on the phrase “as we know it.” Even if absolute laissez faire reigned beginning tomorrow, there would still be people in big cities who are living paycheck to paycheck, heavily in debt, homeless, jobless, or otherwise at the bottom rungs of the socioeconomic ladder. These conditions may be persistent social problems, and it may be that free people in a free society will still have to come up with voluntary institutions and practices for addressing them. But in the state-regimented market that dominates today, the material predicament that poor people find themselves in—and the arrangements they must make within that predicament—are battered into their familiar shape, as if by an invisible fist, through the diffuse effects of pervasive, interlocking interventions.

Consider the commonplace phenomena of urban poverty. Livelihoods in American inner cities are typically extremely precarious: as Sudhir Alladi Venkatesh writes in Off the Books: “Conditions in neighborhoods of concentrated poverty can change quickly and in ways that can leave families unprepared and without much recourse.” Fixed costs of living—rent, food, clothing, and so on—consume most or all of a family’s income, with little or no access to credit, savings, or insurance to safeguard them from unexpected disasters.

Dependent on Others

Their poverty often leaves them dependent on other people. It pervades the lives of the employed and the unemployed alike: the jobless fall back on charity or help from family; those who live paycheck to paycheck, with little chance of finding any work elsewhere, depend on the good graces of a select few bosses and brokers. One woman quoted by Venkatesh explained why she continued to work through an exploitative labor shark rather than leaving for a steady job with a well-to-do family: “And what if that family gets rid of me? Where am I going next? See, I can’t take that chance, you know. . . . All I got is Johnnie and it took me the longest just to get him on my side.”

The daily experience of the urban poor is shaped by geographical concentration in socially and culturally isolated ghetto neighborhoods within the larger city, which have their own characteristic features: housing is concentrated in dilapidated apartments and housing projects, owned by a select few absentee landlords; many abandoned buildings and vacant lots are scattered through the neighborhood, which remain unused for years at a time; the use of outside spaces is affected by large numbers of unemployed or homeless people.

The favorite solutions of the welfare state—government doles and "urban renewal" projects—mark no real improvement. Rather than freeing poor people from dependence on benefactors and bosses, they merely transfer the dependence to the state, leaving the least politically connected people at the mercy of the political process.

But in a free market—a truly free market, where individual poor people are just as free as established formal-economy players to use their own property, their own labor, their own know-how, and the resources that are available to them—the informal, enterprising actions by poor people themselves would do far more to systematically undermine, or completely eliminate, each of the stereotypical conditions that welfare statists deplore. Every day and in every culture from time out of mind, poor people have repeatedly shown remarkable intelligence, courage, persistence, and creativity in finding ways to put food on the table, save money, keep safe, raise families, live full lives, learn, enjoy themselves, and experience beauty, whenever, wherever, and to whatever degree they have been free to do so. The fault for despairing, dilapidated urban ghettoes lies not in the pressures of the market, nor in the character flaws of individual poor people, nor in the characteristics of ghetto subcultures. The fault lies in the state and its persistent interference with poor people's own efforts to get by through independent work, clever hustling, scratching together resources, and voluntary mutual aid.

Housing Crisis

Progressives routinely deplore the "affordable housing crisis" in American cities. In cities such as New York and Los Angeles, about 20 to 25 percent of low-income renters are spending more than half their incomes just on housing. But it is the very laws that Progressives favor—land-use policies, zoning codes, and building codes—that ratchet up housing costs, stand in the way of alternative housing options, and confine poor people to ghetto neighborhoods. Historically, when they have been free to do so, poor people have happily disregarded the ideals of political humanitarians and found their own ways to cut housing costs, even in bustling cities with tight housing markets.

One way was to get other families, or friends, or strangers, to move in and split the rent. Depending on the number of people sharing a home, this might mean a less-comfortable living situation; it might even mean one that is unhealthy. But decisions about health and comfort are best made by the individual people who bear the costs and reap the benefits. Unfortunately today the decisions are made ahead of time by city governments through zoning laws that prohibit or restrict sharing a home among people not related by blood or marriage, and building codes that limit the number of residents in a building.

Those who cannot make enough money to cover the rent on their own, and cannot split the rent enough due to zoning and building codes, are priced out of the housing market entirely. Once homeless, they are left exposed not only to the elements, but also to harassment or arrest by the police for "loitering" or "vagrancy," even on public property, in efforts to force them into overcrowded and dangerous institutional shelters. But while government laws make living on the streets even harder than it already is, government intervention also blocks homeless people's efforts to find themselves shelter outside the conventional housing market. One of the oldest and commonest survival strategies practiced by the urban poor is to find wild or abandoned land and build shanties on it out of salvageable scrap materials. Scrap materials are plentiful, and large portions of land in ghetto neighborhoods are typically left unused as condemned buildings or vacant lots. Formal title is very often seized by the city government or by quasi-governmental "development" corporations through the use of eminent domain. Lots are held out of use, often for years at a time, while they await government public-works projects or developers willing to buy up the land for large-scale building.

Urban Homesteading

In a free market, vacant lots and abandoned buildings could eventually be homesteaded by anyone willing to do the work of occupying and using them. Poor people could use abandoned spaces within their own communities for setting up shop, for gardening, or for living space. In Miami, in October 2006, a group of community organizers and about 35 homeless people built Umoja Village, a shanty town, on an inner-city lot that the local government had kept vacant for years. They publicly stated to the local government that "We have only one demand . . . leave us alone."

That would be the end of the story in a free market: there would be no eminent domain, no government ownership, and thus also no political process of seizure and redevelopment; once-homeless people could establish property rights to abandoned land through their own sweat equity—without fear of the government's demolishing their work and selling their land out from under them. But back in Miami, the city attorney and city council took about a month to begin legal efforts to destroy the residents' homes and force them off the lot. In April 2007 the city police took advantage of an accidental fire to enforce its politically fabricated title to the land, clearing the lot, arresting 11 people, and erecting a fence to safeguard the once-again vacant lot for professional "affordable housing" developers.

Had the city government not made use of its supposed title to the abandoned land, it no doubt could have made use of state and federal building codes to ensure that residents would be forced back into homelessness—for their own safety, of course. That is in fact what a county health commission in Indiana did to a 93-year-old man named Thelmon Green, who lived in his '86 Chevrolet van, which the local towing company allowed him to keep on its lot. Many people thrown into poverty by a sudden financial catastrophe live out of a car for weeks or months until they get back on their feet. Living in a car is cramped, but it beats living on the streets: a car means a place you can have to yourself, which holds your possessions, with doors you can lock, and sometimes even air conditioning and heating. But staying in a car over the long term is much harder to manage without running afoul of the law. Thelmon Green got by well enough in his van for ten years, but when the Indianapolis Star printed a human-interest story on him last December, the county health commission took notice and promptly ordered Green evicted from his own van, in the name of the local housing code.

Since government housing codes impose detailed requirements on the size, architecture, and building materials for new permanent housing, as well as on specialized and extremely expensive contract work for electricity, plumbing, and other luxuries, they effectively obstruct or destroy most efforts to create transitional, intermediate, or informal sorts of shelter that cost less than rented space in government-approved housing projects, but provide more safety and comfort than living on the street.

Constraints on Making Income

Turning from expenses to income, pervasive government regulation, passed in the so-called “public interest” at the behest of comfortable middle- and upper-class Progressives, creates endless constraints on poor people’s ability to earn a living or make needed money on the side.

There are, to start out, the trades that the state has made entirely illegal: selling drugs outside of a state-authorized pharmacy, prostitution outside of the occasional state-authorized brothel “ranch,” or running small-time gambling operations outside of a state-authorized corporate casino. These trades are often practiced by women and men facing desperate poverty; the state’s efforts add the danger of fines, forfeitures, and lost years in prison.

Poor Shut Out

Beyond the government-created black market, there are also countless jobs that could be done above-ground, but from which the poor are systematically shut out by arbitrary regulation and licensure requirements. In principle, many women in black communities could make money braiding hair, with only their own craft, word of mouth, and the living room of an apartment. But in many states, anyone found braiding hair without having put down hundreds of dollars and days of her life to apply for a government-fabricated cosmetology or hair-care license will be fined hundreds or thousands of dollars.

In principle, anyone who knows how to cook can make money by laying out the cash for ingredients and some insulated containers, and taking the food from his own kitchen to a stand set up on the sidewalk or, with the landlord’s permission, in a parking lot. But then there are business licenses to pay for (often hundreds of dollars) and the costs of complying with health-department regulations and inspections. The latter make it practically impossible to run a food-oriented business without buying or leasing property dedicated to preparing the food, at which point you may as well forget about it unless you already have a lot of start-up capital sitting around.

Every modern urban center has a tremendous demand for taxi cabs. In principle, anyone who needed to make some extra money could start a part-time “gypsy cab” service with a car she already has, a cell phone, and some word of mouth. She can make good money for honest labor, providing a useful service to willing customers—as a single independent worker, without needing to please a boss, who can set her own hours and put as much or as little into it as she wants in order to make the money she needs.

But in the United States, city governments routinely impose massive constraints and controls on taxi service. The worst offenders are often the cities with the highest demand for cabs, like New York City, where the government enforces an arbitrary cap on the number of taxi cabs through a system of government-created licenses, or “medallions.” The total number of medallion taxis is capped at about 13,000 cabs for the entire city, with occasional government auctions for a handful of new medallions. The system requires anyone who wants to become an independent cab driver to purchase a medallion at monopoly prices from an existing holder or wait around for the city to auction off new ones. At the auction last November a total of 63 new medallions were made available for auction with a minimum bidding price of $189,000.

Besides the cost of a medallion, cab owners are also legally required to pay an annual licensing fee of $550 and to pay for three inspections by the city government each year, at a total annual cost of $150. The city government enforces a single fare structure, enforces a common paint job, and now is even forcing all city cabs to upgrade to high-cost, high-tech GPS and payment systems, whether or not the cabbie or her customer happens to want them. The primary beneficiary of this politically imposed squeeze on independent cabbies is VeriFone Holdings, the first firm approved to sell the electronic systems to a captive market. Doug Bergeron, VeriFone’s CEO, crows that “Every year, we find a free ride on a new segment of the economy that is going electronic.” In this case, VeriFone is enjoying a “free ride” indeed.

The practical consequence is that poor people who might otherwise be able to make easy money on their own are legally forced out of driving a taxi, or else forced to hire themselves out to an existing medallion-holder on his own terms. Either way, poor people are shoved out of flexible, independent work, which many would be willing and able to do using one of the few capital goods that they already have on hand. Lots of poor people have cars they could use; not a lot have a couple hundred thousand dollars to spend on a government-created license.

Government regimentation of land, housing, and labor creates and sustains the very structure of urban poverty. Government seizures create and reinforce the dilapidation of ghetto neighborhoods by constricting the housing market to a few landlords and keeping marginal lands out of use. Government regulations create homelessness and artificially make it worse for the homeless by driving up housing costs and by obstructing or destroying any intermediate informal living solutions between renting an apartment and living on the street. And having made the ghetto, government prohibitions keep poor people confined in it, by shutting them out of more affluent neighborhoods where many might be able to live if only they were able to share expenses.

Ratcheting Costs Up and Opportunities Down

Artificially limiting the alternative options for housing ratchets up the fixed costs of living for the urban poor. Artificially limiting the alternative options for independent work ratchets down the opportunities for increasing income. And the squeeze makes poor people dependent on—and thus vulnerable to negligent or unscrupulous treatment from—both landlords and bosses by constraining their ability to find other, better homes, or other, better livelihoods. The same squeeze puts many more poor people into the position of living "one paycheck away" from homelessness and makes that position all the more precarious by harassing and coercing and imposing artificial destitution on those who do end up on the street.

American state corporatism forcibly reshapes the world of work and business on the model of a commercial strip mall: sanitized, centralized, regimented, officious, and dominated by a few powerful proprietors and their short list of favored partners, to whom everyone else relates as either an employee or a consumer. A truly free market, without the pervasive control of state licensure requirements, regulation, inspections, paperwork, taxes, "fees," and the rest, has much more to do with the traditional image of a bazaar: messy, decentralized, diverse, informal, flexible, pervaded by haggling, and kept together by the spontaneous order of countless small-time independent operators, who quickly and easily shift between the roles of customer, merchant, contract laborer, and more. It is precisely because we have the strip mall rather than the bazaar that people living in poverty find themselves so often confined to ghettoes, caught in precarious situations, and dependent on others—either on the bum or caught in jobs they hate but cannot leave, while barely keeping a barely tolerable roof over their heads.

The poorer you are, the more you need access to informal and flexible alternatives, and the more you need opportunities to apply some creative hustling. When the state shuts that out, it shuts poor people into ghettoized poverty.

The Fear of Free Trade

Addressing Protectionists' Fear of Job Loss

DECEMBER 01, 2007 by Mark W. Hendrickson

It's hard to think of an issue that is more polarized than the one between free traders and protectionists. Those of us who favor free trade believe in the ethical principle that people should be free to buy from whomever they choose, and in the economic truth that wealth and efficiency increase as prices fall.

We sometimes forget, however, how unrealistic and even heartless those positions seem to people on the other side of the issue—nice-sounding theories that would work in a perfect world, but totally impractical and harmful in light of the allegedly unfair trade practices employed by foreign business competitors and the governments in their home countries.

Protectionists aren't interested in what they consider abstract intellectual notions. Their opposition to free trade is visceral and passionate. They are driven by two fears: that without government protection (tariffs, quotas, and the like) against unfair foreign competition, they may lose their jobs—their livelihood—and also that the country as a whole will go down the tubes. The first concern is justified, the second is not; however, both fears need to be addressed head on by the free-trade camp if we wish to allay suspicions that we don't care about our country and compatriots and that we are not interested in justice.

Let's tackle first the issue of lost jobs. It is an economic fact of life that in a competitive marketplace less efficient (higher cost) providers of goods and services are replaced by more efficient (lower cost) providers. Protectionists routinely concede this point. Their standard line is that they have nothing against competition, as long as it's fair competition. Indeed, "fairness" is the primary (and often the only) issue on which protectionists rest their case, so we need to examine the relative fairness of free trade and protectionism.

The first point that must be made is that American labor unions, which are some of the most vociferous advocates of protectionism, are being disingenuous at best if they pretend to welcome free and fair competition. By their very nature, unions today are anticompetitive and by law are often able to extract above-market wages from employers. In effect, labor unions have been the beneficiaries of domestic protectionism—legal protection from other American workers—so naturally they feel they also should be protected from foreign workers. One of the tragic ironies of unionism is that if unions hadn't forced wages unnaturally high, then American businesses would be in a much more competitive position vis-à-vis foreign competition—that is, fewer American jobs would be in danger of being displaced by foreigners. In fact, what some American industries need to survive against foreign competition isn't trade barriers, but simply for their own cost structure to be rationalized, such as by letting wages be determined by supply and demand and productivity, rather than by the monopoly bargaining power of unions.

Business Favored Protection

Of course, major business leaders in America favored protection from foreign competition throughout the nineteenth century, when unions had little influence.

Even if you agree that any clamor of labor unions for fair competition rings hollow, most American workers aren't unionized, so let's address their concerns about unfair foreign competition. Some Americans have a legitimate concern that they may lose their jobs as a result of such "unfair" trade practices as dumping or subsidies.

Dumping is one of those slippery concepts that is difficult to define and even more difficult to prove even when adjudicated by a panel of experts. The layman's definition of dumping is: "selling goods below their cost of production." This concept is problematical for several reasons. First, businesses do this all the time, and there is nothing inherently sinister about it. Think of loss-leaders and end-of-the-year clearance sales. In business there is a phenomenon known as "experience curve pricing" whereby a company will set prices low so as to accelerate sales and move down the learning curve as fast as possible. The issue is further complicated by uncertainty about how to calculate the cost of production. Should a business's long-term fixed costs be amortized over ten years, 20, 30? Yes, there are times when a firm sacrifices profits for market share in what some call "predatory pricing" and laymen call dumping (either way, consumers reap a windfall from the discounted prices), but so what? The theory is that this is how one firm will gain a monopoly. In practice, there are those who claim that no company has ever engaged in constant perennial dumping. I can't vouch for that assertion, but I challenge those who cite "dumping" as a bogeyman to name one industry now dominated by a monopoly as a result of dumping. Dumping is nothing more than a red herring used by protectionists to drum up support.

Foreign Subsidies to Industry

Unlike with dumping, the viability of some American businesses and jobs is undoubtedly jeopardized when foreign governments subsidize certain industries. Let's overlook the fact that Uncle Sam subsidizes many American businesses and assume that an American business about to be crushed by foreign competition isn't unionized, receives no subsidies, and would survive if it weren't being undersold by the subsidized foreign competitor. Clearly, this is an unfair situation. It isn't fair to the taxpayers of the foreign country whose government is conferring the subsidy on a favored enterprise, and it isn't fair to the innocent Americans whose lives will be disrupted by the subsidies.

But look at what happens if the U.S. government erects trade barriers to reduce or eliminate the importation of the subsidized products. Yes, this can help the domestic competitor and preserve those particular jobs, but is it fair for American consumers to have to pay more for things than foreigners pay? At this juncture, the protectionists argue that jobs come first and consumers second. The problem is, when Americans have to pay a higher price than necessary for something, they have less purchasing power left to buy the product of other people's labor, and so employment elsewhere is less than it could be.

Protectionism may indeed preserve specific American jobs, but it often does so at the expense of other American jobs. This is particularly evident when the protected good is used as a factor of production here. For example, when the domestic steel industry received tariff protection from lower-priced imports in the 1980s and in 2002–03, many more American jobs were lost in steel-consuming industries than were saved in the steel-producing companies. (This is predictable from an economic standpoint: if an American automobile manufacturer has to pay more for steel than a German carmaker, then the Germans' lower costs will give them a competitive advantage over the Americans.) What is fair about the U.S. government saving the jobs of some Americans, however innocent, by introducing policies that inflict job losses on other innocent Americans—especially when the protectionist policies result in more jobs being lost than the absence of such policies would produce?

Here is an analogy: a ship is about to sink; the only lifeboat is filled with 12 small passengers; then eight large passengers persuade the ship's officers to remove the 12 small passengers from the lifeboat—dooming them—so that the eight large passengers may have their places. That is the reality of protectionism. I'm not knocking the survival instinct, but let's drop the pretense that such actions restore "justice" or "fairness."

On a more elementary level, what is fair about protectionism in general when the U.S. government stands by and allows millions of jobs to disappear every year (outnumbered, thankfully, by newly created jobs) and then intervenes to save jobs for just certain Americans? Clearly, protectionist policies don't produce the "level playing field" that protectionists claim to favor. Protectionism, unlike free trade, is discriminatory and confers a privileged political status on a minority of workers, thereby violating the first principle of justice: equality before the law.

In sum, protectionism makes our country poorer, while free trade makes us richer; protectionism's inefficiencies reduce employment, while free trade's efficiencies increase employment; protectionism curtails individual liberty, while free trade is an expression of liberty; protectionism corrupts justice, while free trade enshrines equality before the law.

Ah, but will free trade ruin the United States of America? That is the other major reason why so many Americans are leery of it.

Unlimited Work

The notion that free trade will gut any nation's economy could only be valid in a zero-sum world with a fixed number of jobs, where one country's gain would be another's loss. In fact, though, the number of jobs, both at home and abroad, is locked into a clear uptrend. New businesses and industries continually emerge in the never-ending attempt to satisfy humankind's insatiable wants. We can never run out of jobs.

Free trade doesn't reduce employment, but rearranges it to more efficient applications, just as economic competition across town, across the state, or across the country causes some jobs to supplant others. This process is natural and healthy, not sinister or harmful. Yes, as counterintuitive or perverse as it may seem, a healthy economy is one that destroys jobs—by replacing them with new jobs. Just as a healthy human body undergoes a constant process of renewal by shedding dead cells and replacing them with living cells, so a healthy economy is one in which more-efficient providers of goods and services displace less-efficient providers.

If that sounds cold and clinical, ask yourself if you would rather be part of the U.S. economy (as hampered as it is) or to have been a worker in the Soviet economy. The Soviet Union had the most protectionist system possible—the government guaranteed everyone's job so that there was never any unemployment. The price for guaranteed employment was an economy without flexibility or adaptability. With employment and the economy frozen in place, the Soviet planners in effect outlawed economic progress, resulting in devastating stagnation and impoverishment in the so-called "workers' paradise."

By contrast the dynamic, relatively free U.S. economy has always pushed people out of old jobs and into new ones. While challenging for the individuals affected, these are the inevitable growing pains associated with progress for us all. Look at American agriculture, for example. Over the past 250 years, farm employment has shrunk from over 80 percent of the American population to less than 2 percent. We may sympathize with the anguish of millions of Americans who have had to abandon farming as their source of income, but our society is much richer today as a result of this shift. Because so few people are needed to produce agricultural commodities, tens of millions of other Americans are now free to provide countless other goods and services that wouldn't even exist if their providers were still back on the farm.

The slogan "Buy American" resonates within and appeals to our patriotism, but insofar as it means to shop for American-made products instead of the lowest-price, highest-quality products, it is a rejection of economic rationality. Economists going back to Adam Smith have understood that the true measure of "the wealth of nations" is how affordable is John Q. Public's cost of living. If the United States had been closed to foreign trade over the past 50 years, we might be paying $40,000 for a Ford Pinto IV, $15 for a gallon of gasoline, and $5 for a quart of orange juice. We would all be a lot poorer.

Richer Households

What actually has happened over the past 50 years is that protectionist barriers have been lowered. It is estimated that the average American household's income is $10,000 a year higher as a result of tariff reductions in the past half-century ("A Case For Trade," Investor's Business Daily editorial, September 14, 2006).

In 1992, Reform Party presidential candidate Ross Perot warned of "a giant sucking sound" from U.S. jobs moving to Mexico if the North America Free Trade Agreement (NAFTA) were adopted. Since NAFTA took effect in 1994, the United States has enjoyed a net increase of nearly two million jobs per year, with compensation in three-fourths of the new jobs above the national medians (U.S. Department of Commerce, "A Profile of U.S. Exporting Companies, 2000-2001," February 2003).

What, then, in the face of all the evidence to the contrary, explains the persistent warnings about trade's alleged threat to the country? These cries are protests from those Americans whose jobs are most threatened by lower-cost foreign competitors. Those workers will need to reinvent their careers as American production continues to evolve in the direction of higher value-added, digital- and knowledge-based goods and services, and away from low-tech or semiskilled physical labor. Who can blame these Americans for being unhappy? But like generations of bankrupt farmers before them, the travail of some individuals necessarily accompanies general economic advancement. Moreover, the need to adjust to change inspires people to grow and excel. As one who has suffered unemployment, I sympathize with those who are forced to change their jobs, but the overarching fact is that as long as our economy keeps generating new jobs, the country's economic future is bright.

There are two major risks to this bright future. One would be if Americans have lost the will, energy, and can-do spirit that enabled earlier generations to surmount prodigious challenges. The other is the "government disease"—the myriad government interventions, like burdensome taxation, hyper-regulation, business privileges, unfair labor laws, and more that are so many Lilliputian strings threatening to tie down the American Gulliver. We need free trade if we are not to become global laggards, but we also need government to get out of the way so we can compete (and cooperate) with the rest of the world without one arm tied behind our back. Great economic success awaits America's businesses and entrepreneurs unless the U.S. government, by meddling in the economy, snatches defeat from the jaws of victory.

Immigration Control, Circa AD 175

A Lesson from Ancient Greece on Illegal Immigrants and Employment

DECEMBER 01, 2007 by Harold B. Jones Jr.

Last January the Wall Street Journal reported on the aftermath of federal agents' success in rounding up Hiics on charges of immigration violation. The Georgia company where these"illegals" had been employed sought to obtain replacements by paying higher wages and offering free transportation. It was soon involved in a series of legal challenges that a company representative traced to the sentiments of people who were not really interested in working. Turnover skyrocketed and productivity fell off. Seeking to justify the native-born employees' poor attitudes and performance, a professor at a nearby university said the work was something to which no American would ever aspire. She neglected to add that it was something to which the Hiics did aspire and to which they gave their best, making them exactly the right people for the job. She neglected also to point out how regulations were standing in the way of personal freedom and economic efficiency.

The story is an old one. There has been more than one time in history when the effort to restrict immigration has hindered the progress both of those who were trying to improve themselves and of the civilization that was trying to keep them out. It is worth the time it takes to review a lesson from the late second century and the story of an emperor whose policies were not as wise as his philosophy.

Marcus Aurelius was born in AD 121, at the high point of what Adam Smith's friend Edward Gibbon said was the historical period during which humanity enjoyed the greatest prosperity and happiness it had ever known. Aurelius was 15 when the Greek orator Aelius Aristides announced that it was time for the whole world to lay down its arms as if at a festival; the only tasks with which the cities of the Empire needed to concern themselves were those associated with the construction of public buildings—fountains, gymnasia, temples, arches, schools, and workshops.

It was in many respects a time like our own. The general population was more interested in athletic contests than in business or the affairs of state. Epictetus offers a vivid account of the Romans' love for gladiatorial contests and chariot races, the partisans of the whites, reds, blues, and greens debating endlessly the merits of their respective teams. "Freedom" had come to mean order, stability, regularity, and the maintenance of ancient social distinctions. Plutarch said the Romans had as much liberty as the government allowed them and it was just as well that they were not given more. Like motivational speakers in modern America, "philosophers" (who were said to have been as common as cobblers) toured the Empire offering easy answers to difficult questions. Two of the young Aurelius's teachers, in fact, had become wealthy on the lecture circuit.

The education of Roman children was for long centuries entrusted to private enterprise, but late in the first century Vespasian brought the more important schools of rhetoric under imperial control by turning professors into government employees, complete with a pension after 20 years' service. Early in the second century, the financing of secondary education became a municipal responsibility. Aurelius records his gratitude for the fact that rather than sending him to a government school, his father had decided to have him home-schooled.

Actually, this was his maternal grandfather, Antoninus Pius, who had adopted three-month-old Marcus when the boy's father died. The Emperor Hadrian, who was a frequent visitor in the home, took a liking to the child, and when Antoninus Pius was selected to succeed Hadrian, it was with the specific provision that Marcus Aurelius would succeed Antoninus Pius. The tasks of government were mastered in a series of political appointments, the offices assigned carrying increasing authority as youth gave way to manhood and manhood became maturity. When Aurelius became emperor in AD 161 he was almost as well prepared for the job as anyone could have been.

But only "almost": the new emperor had gained no experience with military action, the necessity for which confronted him as soon as he assumed the throne. A half century of peace had encouraged Rome's leaders to neglect what Adam Smith said was a government's primary obligation, that of protecting its society from military violence on the part of other societies. An attack from Parthia (modern-day Iran) caught the Romans off guard. The assets of the imperial household were auctioned off to raise funds, an army was formed, and Aurelius's adoptive brother Lucius Verus took command of it.

Looking for Trade

Along the Empire's northern borders, meanwhile, German tribes were on the move. The record of negotiations with them suggests that they were less interested in conquest than in opportunities for trade and land on which to settle. There had been a time in history when they might have been welcomed, a time, Gibbon said, when Rome had been open to the contributions of every slave, stranger, or barbarian who was willing to play a part in making her great. By the self-indulgent second century that time had passed, and the tribesmen were treated as a threat to imperial security. Aurelius assembled another army and commanded it in a series of campaigns along the Danube. Between battles he entered his thoughts in a diary, which was found among his things after he died and published as Meditations.

Libertarian Author

The ideas contained in this small volume seem to mark its author as a libertarian. At one point, he comes close to suggesting that the tribesmen have as much right to occupy the land as the Romans do to keep them off it. The spider that captured a fly, he said, the man who trapped a boar, and the solider who killed a "Sarmatian" (the generic term for the peoples who lived along the Danube) might all be regarded as predatory thieves.

The philosophy of the Meditations is part of an intellectual tradition going back to the third century BC, to the city of Tarsus, and to a man named Zeno. Aristotle's opinion that people were from the hour of their birth marked out either for subjection or for rule found no echo in the teaching of Zeno. He believed that society should not be divided into classes, for all could become wise. Men and women might have different roles and different capacities, but they were equal as free moral agents. The ideal state would embrace the whole world, and its laws would be dictated by nature rather than convention.

Called “Stoics” because of the porch (stoa) on which their teacher gave lessons in Athens, Zeno’s followers believed that everything from the falling of a leaf to the rise of an empire could be explained in terms of a single underlying principle, or logos. In The Economy in Mind, Warren Brookes grasps the essence of this concept when he talks about how the natural ecosystem maintains its own balance. All of its elements, he says, are so closely interrelated that even the best-intentioned efforts at regulation bring about reactions and distortions throughout the system. The accommodations by which the ecosystem moves toward equilibrium are part of nature’s tendency to preserve, protect, and strengthen itself. Such adjustments may entail some discomfort, but the results they lead to are better than anything that could be produced by means of intervention from the outside.

The Stoics said the universe, as animated and directed by the logos, tends toward harmony, and the wise person seeks to live with this in mind. This meant, first of all, tending to one’s own business. Aurelius said that each person should focus on his private concerns because these were his particular thread of the universal web. Such a focus might draw criticism from external observers, but it was the only way to happiness and peace of mind. Your critics have reasons of their own, Aurelius told himself, but you cannot afford to concern yourself with those. Do not look around for praise or encouragement. Just keep your eyes fixed on your purposes.

Not Narrow Self-Interest

Using a term that was popular during the eighteenth century, Adam Smith called this “self interest.” In Aurelius’s mind it referred not to a narrow selfishness but to the simple truth that his own concerns are the only things about which a person can know enough to be effective. And this, remember, was the opinion of an emperor, a man whose authority reached so far that even the Chinese knew about him. His concerns included much that was not strictly private. He could oversee the management of imperial affairs and direct the operations of an army, but he refused to pry into other people’s motives, and he wished they would resist the temptation to pry into his.

Focus on the issues of your own life, Aurelius said, because that is how you can make the maximum possible contribution to the good of the universe. To each individual thing Nature has assigned enough time and energy, and in the case of human beings enough intelligence, for a limited number of tasks. The wise person therefore concentrates his attention on what is actually in his power. The fig tree does a fig tree's work, a dog does a dog's work, and a bee does the work of a bee. The sun has one job, the wind another, storm clouds a third, and all play a part in the final result. Just so, each human being has his own particular tasks, and no one knows more about how to do them than the person to whom they have been assigned.

This being true, it is not merely foolish but barbarous, to deny a person the privilege of pursuing what he believes to be his proper concerns. A man is always justified in seeking what he imagines to be his own good. We are all working together for the same end, Aurelius insisted, some of us knowingly and others unconsciously. Even the malcontent who is trying to stand in the way will be found in the end to have played an important part. The best of all possible governments would therefore be concerned primarily with upholding the liberty of the subject.

Detailed regulation on the part of the state was counterproductive because of the unseen rationality already built into the nature of things. Early in the fifth book of Meditations Aurelius said, "Look at the plants, sparrows, ants, spiders, bees, all busy with their own tasks, each doing his part towards a coherent world order." Adam Smith went into some length with a paraphrase of these lines and the surrounding passages in The Theory of Moral Sentiments, which was published 17 years before The Wealth of Nations. It seems probable that the notion of an "invisible hand" was something he discovered in the writings of Marcus Aurelius.

This idea was destined to work a revolution first in the intellectual and then in the economic life of the eighteenth century. It had little impact on the life of the second. It is true that Aurelius initiated a systematic effort to reduce the extent of slavery, not quite a campaign for general emancipation, but a policy of granting freedom whenever it was possible to do so. Again and again the surviving documents report that a slave had attained his freedom in accordance with the emperor's command. This policy may bear witness to an understanding of the relationship between economic efficiency and the Stoic insistence on personal liberty. Aurelius writes of having spent a long time with Cato's Agriculture, which argues that cultivation could be accomplished more effectively by free men than by slaves.

Debasing the Currency

To the extent that liberation was carried on in defiance of popular beliefs, it was the exception rather than the rule. In other respects, Aurelius's policies paid homage to expectations. Returning to Rome after a military campaign, he granted the citizens' demand for eight gold coins per person. The old practice of paying the peasants to have children reached its widest expansion. Imperial extravagance was funded by debasing the currency. The philosophic emperor's greatest downfall, though, came in the way he dealt with his problems on the northern borders.

Repeating the sentiments of Zeno, he had described all the world's inhabitants as fellow citizens of a single city. A consistent application of this insight might have been the salvation of Rome. The soldiers coming back from the war with Parthia carried with them a plague, which infected every area to which they were later assigned. In Rome itself, the death rate rose to over a thousand a day, and corpses were carried out of the city in heaps. Whole cities reverted to jungle or desert. For this depopulation the tribes of the north were a ready solution, the very friends and allies of which Mediterranean civilization was desperately in need. Treated instead as enemies, they responded in kind, and years were wasted in expensive wars.

These wars, in turn, were a major cause of the military chaos that overtook Rome during the third century. Aurelius's son Commodus made a hasty treaty with the tribes along the Danube but retained the prerogatives his father had assumed for the sake of military operations. Unresolved tensions along the northern frontier and the hostility of Parthia led Commodus's successors to expand the army. With additional legions came additional expenditures, and the competition for scarce resources produced new centers of power. Roman generals began to direct their forces against each other rather than the "barbarians," and a once tightly-knit polity unraveled. The Empire of which Diocletian assumed control in AD 285 was a mere shadow of what it had been a hundred years before.

The situation facing the United States at the dawn of the 21st century is similar to the one Rome faced in the evening of the second. There are on the one hand implacable enemies, who seem to be bent on the destruction of

Western civilization. There are on the other hand potential friends, who would like very much to share in and contribute to the abundance they see just across the border. Modern America is like ancient Rome in that it seems to be incapable of distinguishing between its enemies and its friends.

Some may reply that the members of this latter group must be treated with hostility because crossing the border is a violation of our laws. Those who say this should consider the words of Aurelius's forebear in Stoicism, Cicero, as reported by Will Durant late in eighteenth chapter of Caesar and Christ: "True law is right reason in agreement with nature, world-wide in scope, unchanging, everlasting. . . . We may not oppose or alter that law, we cannot abolish it, we cannot be freed of its obligations by any legislature, and we need not look outside ourselves for an expounder of it."

Natural Order

There is a law that no legislation can rightfully attempt to override. What Adam Smith described as every person's uninterrupted effort to improve his own condition is one expression of that law. It is as much a part of the natural order as the forces that bring springtime and fall. Left to operate freely, such forces tend toward harmony, progress, and improvement. Hindered or bottled up, they may become destructive. Today's leaders might do well to consider the unfortunate example of Marcus Aurelius.

In Praise of an Uncommon Woman

School-Choice Entrepreneur Alberta Wilson and the Faith First Educational Assistance Corporation

DECEMBER 01, 2007 by Lawrence W. Reed

Popular literature is full of praises for "the common man," but I am much more impressed by the men and women who stand apart from the crowd. Some wise observer once said that only three kinds of people exist in the world: a very few who make things happen, a somewhat larger number who watch things happen, and then the vast majority who find out later what happened.

To be sure, some people are uncommon because of the harm they do, but the ones I'm grateful for are those who are people of peace, character, initiative, and goodwill—the exemplars who make change for the better. They are notable not for what they take, but for what they inspire, create, build, and improve. They can be motivated entirely by material self-interest; or they may derive enormous personal satisfaction by simply making others happy. They include inventors, entrepreneurs, and social activists. They often are dismissed at first as boat rockers and then acknowledged later to have been ahead of their time.

The uncommon person I want to tell you about is a humble black woman from Philadelphia named Alberta Wilson, whom I've come to know over the past two years. She saw a grievous problem firsthand—atrocious government schools—and is doing all in her power to help the victims escape. And she does it on a shoestring.

The "city of brotherly love" is one of the most violent cities in the United States. As of October there had been 339 murders this year. In such an environment the safest school may not be the "free" one the government assigns you to because of your zip code.

Safety is a prime concern of Philadelphia parents, but educational quality can't be far behind. In October 2006 Nathan Benefield of the Commonwealth Foundation in Harrisburg authored a revealing commentary with the pithy title, "Is Our Kids Learning?" Pennsylvania, he says, spends more on government-run education per-student than all but five other states (adjusting for cost-of-living differences) and ranks fourth in average teacher salary. Taxpayers spent about $11,000 per government-school student in 2004–05, an increase of 46 percent in eight years. Yet in the state's inner-city schools, the results are appalling. In Philadelphia, only 33 percent of 11th graders are proficient in reading. For math the figure is a dismal 27 percent.

Alberta Wilson bears the scars of that urban environment and a tough family upbringing to boot. As a child she received little affection or attention from an aloof father and an alcoholic mother. When she reached junior high, her neighborhood was torn by race riots. She became a ringleader of a violent neighborhood gang. At 16 she was an unwed mother and dropped out of high school. Her life was drenched in sex, alcohol, and drugs—exacerbated by dependency on government welfare. She wore a bracelet made from shotgun shells.

Though tough on the outside, Alberta on the inside was a troubled soul searching for a better way. In 1976 she attended a church at the invitation of a friend and became a born-again Christian. Four years later, on Christmas Eve 1980, she married Woody Wilson. Her life stabilized and her faith deepened. Woody's naval career took the couple to San Diego and then to Virginia Beach, where Alberta earned three degrees, including a doctorate in religious education. By 1997 they were back in Philadelphia and Alberta was looking for a school-administrator position.

That very autumn Alberta was interviewed and offered the position of principal at the new Beulah Baptist Christian Day School. It started with just five children, but by the time she left five years later, the school boasted nearly a hundred, many of them from broken homes. Parents who wanted discipline and focus for their children found it at this school, just as Alberta had found purpose in her personal life. It was there that she came face to face with a stream of parents dissatisfied with government education yet unable to afford a private alternative. Wanting to tackle that problem head on, she decided to get involved in the school-choice movement by founding Faith First Educational Assistance Corporation in 2002. In the five years since, it has provided private scholarship help to hundreds of children who would otherwise be forced into the failing Philadelphia school system.

Alberta's inspiration comes from an Old Testament proverb: "Train up a child in the way he should go and when he is old he will not depart from it." She saw no way parents could abide by that admonition within the confines of government schooling. She sees herself as "allowing God to use me to see that children be given a chance at a quality Christian education." A Mackinac Center summer intern, Ben Stafford, notes in a recent essay that in Pennsylvania a business can donate to educational scholarship organizations and receive a tax credit of as much as 90 percent, up to $200,000. With the tax credit, almost $300 million has been donated by businesses to organizations similar to Faith First.

Faith First grants scholarships to low-income parents and then helps them make informed decisions about private schools and curricula. Alberta, with her husband often at her side, spends much of her time raising the contributions that make it all happen. Faith First awarded more than 100 school-choice grants at an average of $500 each to low-income children in Pennsylvania and Virginia in 2006, and has provided nearly 400 scholarships since its inception.

Makes the Difference

A $500 scholarship may not seem like enough money to make a difference, but because tuition at a private school can be as little as $3,000—still a steep challenge for a poor family—a scholarship from Faith First often tips the balance. The organization's volunteers build strong personal relationships with the recipient families. Educating for character, not only for knowledge, is a central feature of the program.

Watching Alberta Wilson in action for any length of time leaves one breathless. When she's not holding a "parent engagement meeting" in Philadelphia, Scranton, or northern Virginia, she's working to open a new Faith First office in San Diego or sitting down with anyone who will listen to her case for supporting private alternatives to government schools.

Other local school-choice leaders are making a difference across the country: Virginia Walden-Ford in Washington, D.C., and Pilar Gomez in Milwaukee are two more good examples. Like Alberta, they understand the value of a good education and strong character and have been willing to stand up for those values at no small expense to themselves.

Someday, when entrenched interests and government-knows-best notions are finally swept aside, parents will be seen as customers, not captives, in the matter of educating children. Schools that fail them will shape up or go out of business. No child will be left behind for the sake of keeping a bureaucracy well paid. We will all look back in puzzlement at how we could have ever expected government monopolies, minions, and mandates to produce a quality product in a modern competitive world. Alberta Wilson will be among the heroes we will thank for helping to pave the way when it was clogged with daunting barriers.

Marching to Bismarck's Drummer: The Origins of the Modern Welfare State

DECEMBER 01, 2007 by Richard Ebeling

Soviet socialism may now be a thing of the past, but there is one form of statism that still dominates the world, including the United States: the modern welfare state. Its tentacles of paternalistic control reach into every corner of personal and social life. It has made all of us "children of the state," and weakened our desire and appreciation for self-responsibility.

Of course, things were not always this way. And it is worth recalling how this state of affairs came about. The modern welfare state had its birthplace in late nineteenth-century Imperial Germany under Chancellor Otto von Bismarck. In the 1870s the Social Democratic Party gained increasing support from the voters in elections to the parliament, the Reichstag. Fearful that the socialists might win a majority, Kaiser Wilhelm and the conservative parties resolved to thwart this dangerous challenge to their power and the existing order.

In the early 1880s the Kaiser agreed to support the first welfare-state legislation sponsored by Bismarck. A decade later, Bismarck explained to an American sympathizer the strategy behind these laws that guaranteed every German national health insurance, a pension, a minimum wage and workplace regulation, vacation, and unemployment insurance. "My idea was to bribe the working classes, or shall I say, to win them over, to regard the state as a social institution existing for their sake and interested in their welfare," he said.

But it would be a mistake to view the birth of the modern welfare state simply as a cynical political move to win over the workers by preempting the appeal of the socialists. It was also argued for on the basis of a supposed higher "social good" and a conception of human freedom superior to the "mere" protection of life, liberty, and property.

In 1915, an American admirer of the German welfare state, Frederic Howe, explained the nature of the system in a book called Socialized Germany:

> The state has its finger on the pulse of the worker from the cradle to the grave. His education, his health, and his working efficiency are matters of constant concern. He is carefully protected from accident by laws and regulation governing factories. He is trained in his hand and in his brain to be a good workman and is insured against accident, sickness, and old age. While idle through no fault of his own, work is frequently found for him. When homeless, a lodging is offered so that he will not easily pass into the vagrant class.

Howe admitted that under the German system, with its extensive controls and regulations, "The individual exists for the state, not the state for the individual." But he insisted that this did not mean a loss of freedom. "This paternalism does not necessarily mean less freedom to the individual than that which prevails in America or England," he argued. "[T]he German enjoys a freedom far greater than that which prevails in America or England. This freedom is of an economic sort. . . . It protects the defenseless classes from exploitation and abuse. It safeguards the weak."

If the state were to take on these new responsibilities, how far would the new powers extend? The answer was that there were no limits. The only rule was political expediency. Howe explained this as well: "In the mind of the Germans the functions of the state are not susceptible to abstract, a priori deductions. Each proposal must be decided by the time and the conditions. If it seems advisable for the state to own an industry, it should proceed to own it; if it is wise to curb any class or interest, it should be curbed. Expediency or opportunism is the rule of statesmanship, not abstraction as to the philosophical nature of the state."

In this new world there was no place for universal and enduring principles concerning the individual's rights to life, liberty, and property, or for constitutions to prevent governments from encroaching on freedom. Every policy issue was to be guided by the pragmatic interests of the day.

This German conception of government and the welfare state slowly but surely made its way across the Atlantic to America. In the late nineteenth century there were very few American universities that offered doctoral degrees. So an American student wishing to earn one as a capstone to his education often had to go to Europe. German universities, in the land of poets, philosophers, composers, and modern progressive thinkers, were especially appealing. Hundreds of young American economists, political scientists, historians, sociologists, and philosophers made the pilgrimage, many of them studying with leading members of the German Historical School, advocates of "state socialism." The Americans returned home imbued with ideas about the paternalistic state and became leaders of the movement for "social reform" during what is known as the Progressive Era in the early twentieth century.

These American converts to the Bismarckian welfare state believed they were an elite on a mission from God. One such influential person was Richard Ely, a professor of economics at the University of Wisconsin who had studied in Germany and then co-founded the American Economic Association in 1885 to advance the welfare-state agenda. In 1895 he expressed this view in a book on socialism: "Looking into the future we may contemplate a society with real, not merely nominal freedom, to pursue the best; a society in which men shall work together for the common purposes, and in which the wholesale cooperation shall take place largely through the government. . . . We have reason to believe that we shall yet see great national undertakings with the property of the nation, and managed by the nation, through agents who appreciate the glory of true public service, and feel that it is God's work they are doing, because church and state are as one."

Not only would material interests be secured from cradle to grave, but so, too, the spiritual and intellectual interests—education, art, literature. Here was the welfare statist's alternative to both Marxian socialism and classical liberalism.

Classical-Liberal Critique

The classical liberals and free-market economists of the nineteenth century were highly critical of state intervention in social and economic affairs. They doubted that the political authority had either the knowledge or the wisdom to manage the complex and ever-changing currents of social and commercial life. And they were suspicious of government's having the power to regulate people's lives because while those powers may be couched in the language of the "public interest," they understood that the actual motive behind them was to serve some special interest at the expense of the rest of society.

Though not as visually dramatic as the damage done in Eastern Europe, the harm wrought by the welfare state has nonetheless been destructive of our political, economic, and cultural life. It has been and is eating at us from the inside. And to a great extent its success has been due to the fact that, after several generations, people do not even know it for what it is. The welfare state, for many, is a "just" and "caring" society. It is the "American way."

Our task in the 21st century is to reverse this trend and restore the ideal of liberty in the hearts and minds of our fellow citizens.

The Medicalization of Everyday Life

The Medical Classification of Disease as Social Strategy

DECEMBER 01, 2007 by Thomas S. Szasz

In my October column I discussed the concept of medicalization and its role in modern societies. In this column I propose to answer the question: How are we to understand the contemporary confusion about what counts as a disease?

Medical classification—the linguistic-conceptual ordering of phenomena we call "diseases" and of the interventions we call "treatments"—is a human activity, governed by human interests. In the United States today, the forces of medicalization rule virtually unopposed, indeed unrecognized for the economic, moral, and political interests they represent. Our drug policies are illustrative. For millennia, the regulation of drug use was a matter of self-control, custom, religion, and law. In part, this is still the case. More importantly, however, drug use is regulated by laws and ostensibly scientific "facts," exemplified by a broadly based drug prohibition consisting of prescription laws and criminalization of the trade in many drugs, such as opiates, cocaine, and marijuana. This is drug medicalization from above. Drug medicalization from below is pursued no less zealously by individuals who, while ostensibly opposed to our drug laws, promote so-called medical-marijuana initiatives, physician-assisted suicide, and similar schemes. The result is loss of self-ownership and the right to self-medication—the classical liberal/libertarian perspective on drug use.

Diseased Mind?

Because the mind is not an object like the body, it is a mistake to apply the predicate disease to it. Hence, as I asserted half a century ago, the "diseased mind” is a metaphor, a mistake, a myth.

Actually, this idea is not as novel as it might seem. Emil Kraepelin (1856–1926), the creator of the first modern psychiatric nosology, acknowledged the fundamental analytic truth that there are no mental illnesses. In his classic, Lectures on Clinical Psychiatry (1901), he stated: “The subject of the following course of lectures will be the Science of Psychiatry, which, as its name [Seelenheilkunde] implies, is that of the treatment of mental disease. It is true that, in the strictest terms, we cannot speak of the mind as becoming diseased.” Half a century earlier, the Viennese psychiatrist Ernst von Feuchters-leben (1806–1849) explicitly emphasized the analogical-metaphorical character of mental illnesses: “The maladies of the spirit alone, in abstracto, that is, error and sin, can be called diseases of the mind only per analogiam. They come not within the jurisdiction of the physician, but that of the teacher or clergyman, who again are called physicians of the mind/soul only per analogiam.”

The transformation of religious explanations and controls of behavior into medical explanations and controls of behavior is one of the momentous consequences of the Enlightenment. The waning power of religion and the Church and the waxing power of science and the State are manifested, among other things, by the political control of medical practice and the drug laws that deny access to the layperson to drugs (except those classified as over-the-counter). To legally obtain or possess a “prescription drug,” the layperson must establish a professional relationship with a licensed physician and receive a diagnosis for an illness; that is, he must be a patient who suffers from a proven or putative illness. For example, to receive a sleeping pill, the person must “suffer from insomnia.” This charade contributes mightily to the medicalization rampant in our society. In turn, medicalization is mindlessly equated, especially by the cognoscenti, with scientific, moral, and social progress, and contributes further to its popularity.

Although medicalization encompasses more than psychiatry, we must be clear about one thing: Psychiatry is medicalization through and through. Whatever aspect of psychiatry psychiatrists claim is not medicalization, is not medicalization only if it deals with proven disease, in which case it belongs to neurology, neuroanatomy, neurophysiology, neurochemistry, neuropharmacology, or neurosurgery, not psychiatry.

Psychoanalysis is medicalization squared. It is important, in this connection, not to be fooled by lay analysis, clinical psychology, or social work. These and other nonmedical mental-health and counseling "professions" are medicalization cubed: as if to compensate for their lack of medical knowledge and qualifications, nonmedical mental-health "professionals" are even more deeply committed than psychiatrists to their claim of special expertise in the diagnosis and treatment of mental illnesses.

Freud's Contribution

By the time Sigmund Freud (1856–1939) appeared on the historical stage, medicalization was in full swing. The birth of psychoanalysis is, in fact, a manifestation of the increasing popularity of this trend at the end of the nineteenth century as well as a cause of its explosive growth during the twentieth century. The gist of Freud's thesis was that the symptoms of mental illnesses are the "products" of the same "mental processes" that are responsible for the thoughts and actions of normal persons. In other words, Freud rediscovered that "there is method in madness," or as he preferred to put it, that sane and insane behaviors are subject to the same "psychological laws." To create his special brand of pseudoscience, he titled his book The Psychopathology of Everyday Life. He could just as well have titled it The Everyday Normality of Psychopathological Life. There would, of course, have been neither fame nor fortune in that. Instead, he fanned the flames of medicalization and transformed a smoldering fire into an all-consuming conflagration. At the same time, because he knew better, Freud's attitude toward medicalization was ambivalent and opportunistic.

People do not have to be told that malaria and melanoma are diseases. They know they are. But people have to be told, and are told over and over again, that alcoholism and depression are diseases. Why? Because people know that they are not diseases, that mental illnesses are not "like other illnesses," that mental hospitals are not like other hospitals, that the business of psychiatry is control and coercion, not care or cure. Accordingly, medicalizers engage in a never-ending task of "educating" people that nondiseases are diseases.

Formerly, people felt depressed or were depressed. Now they have depression. Formerly, some depressed persons killed themselves, but most did not. Now people do not kill themselves, depression kills them, and (virtually) everyone who kills himself is said to have been depressed. And just as people can have cancer and not know it, so they may have depression and not know it, and hence need to be tested for it, lest “it” kill them. On its website, the Depression Is Real Coalition emphasizes: “Indisputable scientific evidence shows depression to be a biologically-based disease that destroys the connections between brain cells.”

Cui bono? The peddlers of psychiatric snake oil who are unfailingly silent about two important risks inherent in every professional contact between an individual and a psychiatrist, namely, stigmatization by psychiatric diagnosis and loss of liberty by psychiatric incarceration. Why do the promoters of psychiatric slavery regularly fail to mention the potential downside of “mental health services”? Because they self-servingly define psychiatric oppression of the patient as beneficial for him, much as the promoters of chattel slavery regarded oppression of the slave as beneficial for him. Lincoln’s answer to this outrage remains relevant: “But, slavery is good for some people! As a good thing, slavery is strikingly peculiar, in this, that it is the only good thing which no man ever seeks the good of, for himself.”

In short, medicalization is neither medicine nor science; it is a semantic-social strategy that benefits some persons and harms others.

“[T]he medical treatment of [mental] patients began with the infringement of their personal freedom,” warned Karl Wernicke (1848–1905), the pioneer German neuropathologist. It still begins with the infringement of their personal freedom.

The Real Argument about Government

Collectivism versus individualism.

DECEMBER 01, 2007 by Stephen Davies

A lot of contemporary political debate centers on how big government should be. The debate tends to have two main features.

First, it uses measures such as government spending as a proportion of GDP or the share of total income taken in taxation. Figures such as these show a dramatic rise in the size of government during the twentieth century.

The second element concerns how much economic activity, broadly defined, the government should undertake, whether directly or indirectly. Here there has been a shift in focus in recent years. Until the later 1980s it was often argued that a large part of actual production should be directly controlled by government through the "public" ownership of productive assets. That argument is now seldom heard. Instead we hear that government should intervene in the distribution of income and should provide, or at least fund, key services such as health and education.

All this is very familiar. What we may not realize is that the contemporary debate concerned only a part of a larger, more general argument. Moreover, while debates about the nature and appropriate role of government have been going on since at least the 1760s, the one described above, with its focus on measurable size and the government's economic role, has only really been a feature of the last 120 years or so. It began originally with the transformation of public administration during the nineteenth century and the rise of socialism and modern theories of economic management toward the end of that century and during the early twentieth century. Before then the debate was much wider ranging and was concerned with more fundamental issues having to do with the very nature of government and the relation between the individual and society. We may define this earlier and more fundamental debate as one between individualism and collectivism.

The crucial point is that the size of government, as defined above, is not the same thing as its scope or extent. The wider and more basic question is: what should the range or scope of government be? What areas of life should be of interest to government and the subject of collective choice, and which areas should be purely private and a matter of individual, personal choice? It is perfectly possible to have a government that is active and concerned with a large part of human life and yet is small in terms of its share of GDP. The main reason why contemporary governments are so large is not just because their scope has grown but also because the areas they have become involved in require employing large numbers of people, which is costly. The fundamental choice is between a government that is concerned with only a small part of human affairs and one that is concerned with a large part. In the second case there is a further choice between an extensive government that is large in terms of the resources it consumes and one that is extensive and active but small. (The fourth possibility, that of a government that is restricted yet large, is unlikely.)

Public as a Whole

The debate started with the appearance of a new way of thinking about government that appeared in Europe following the Treaty of Westphalia in 1648 and more particularly in the years after about 1740. Its main exponents came from the German-speaking parts of Europe, although they also drew on the ideas of French thinkers. Known collectively as Kameralists, their argument was that rulers and governments should be concerned with the interests of the public as a whole rather than their own personal interest or that of a small group. They saw government as having three main aspects. The first was public finance, the funding of the state. The second was "oeconomy," which meant more than what we now call "economics." It implied that the whole political society was like one large household, with government aiming to run its affairs in an orderly manner and to maximize the wealth and prosperity of the whole by direct action. The third was "polizei," or public policy. This meant that governments should be concerned with anything and everything that had a bearing on the well-being of the public, from health to education to morals to security.

The implications of this way of thinking were profound. It meant that in theory any part of life was a proper concern of government, from the kinds of clothes people wore to the way they brought up their children. Above all this was a collectivist approach that saw society as a collective whole rather than seeing the individual as primary and society as the product of the interactions of individuals. This meant that human flourishing was a collective good rather than an individual and personal one. It meant also that the whole (the nation or society) was an entity with a real existence and real interests, which were prior and superior to the existence or interests of the individuals who comprised that whole. The logical conclusion was that, if necessary, the interests and desires of individuals could be properly sacrificed to those of the whole.

The Kameralists and others did not favor anything like socialism. In fact they were strong supporters of private property and markets, but on the grounds that they served the collective interest.

These ideas became the orthodoxy in most parts of Europe during the latter years of the Ancien Régime and, if anything, became even more influential after the French Revolution and the rule of Napoleon. However they also provoked a response from thinkers such as Adam Smith and Wilhelm von Humboldt. The latter's major work, The Sphere and Duties of Government, was a direct response to Kameralist ideas as found in his native Prussia. (Paradoxically, in his capacity as a civil servant he was a major practitioner of the ideas he opposed, particularly in the sphere of government-run education.) The ideas of the U.S. Declaration of Independence can also be read as an attack on this view of government. This alternative view, which was perhaps best expressed by John Stuart Mill, is that individuals were primary and were the best judges of their own interests, that each individual had to pursue his own personal and distinctive kind of happiness, that consequently government was the servant of individuals and should exist only to enable people to pursue happiness by providing a framework of impersonal rules, and that each individual should have a large and extensive sphere of personal autonomy. In other words, personal choice rather than collective choice should be the default position.

This division between a collectivist view that led to an extensive role for government (but not necessarily a large state) and an individualist one that led to a highly restricted and diminishing role was at the heart of political argument in most of the nineteenth century. Both sides triumphed in some areas and lost in others. Thus religion was moved from the public to the private sphere, a huge victory for the individualists, while education became a central government responsibility. With the rise of socialism the argument came to focus specifically on government's role in narrowly defined economic matters.

Since 1989 we have reverted to the older argument. We are now bombarded with assertions that the lifestyles, diets, childrearing practices, and cultural choices of people are the proper concern of politics and government. The kinds of arguments made by Kameralists are once again the staple of many of our public intellectuals and politicians. Time to dust off those copies of Humboldt and Mill and make the case for individuality and personal autonomy.

Medical Competition Works for Patients

How the Free Market Keeps Health-Care Costs Low and Quality High

DECEMBER 01, 2007 by John Stossel

Health-care costs overall have been rising faster than inflation, but not all medical costs are skyrocketing. In a few pockets of medicine, costs are down while quality is up.

Dr. Brian Bonanni has an unusual medical practice. His office is open Saturdays. He e-mails his patients and gives them his cell-phone number.

"I need to be available 24 hours a day," he says. "I want to be there when a patient has questions, and I want to be reachable."

I'll bet your doctor doesn't say that. Bonanni knows he has to please his patients, not some insurance company or the government, because he's paid by his patients. He's a laser eye surgeon. Insurance rarely covers what he does: reshaping eyes so people can see without glasses.

His patients shop around before coming to him. They ask a question that people relying on insurance don't ask: "How much will that cost?"

"I can't get away with not telling the patient how much exactly it's going to cost," Bonanni says. "No one would put up with it. And the difference of a hundred dollars sometimes makes their decision for them."

Lower Prices, Higher Quality

He has to compete for his patients' business. One result of that is lower prices. And while the procedure got cheaper, it also got better. Today's lasers are faster and more precise.

Prices have fallen and quality has risen in other medical fields where most people pay for care themselves, like cosmetic surgery. Consumer power works—even in medicine.

When government and insurance companies are kept away from the transaction, good new things happen.

A doctor in Tennessee I talked to publishes his low prices, such as $40 for an office visit.

Most doctors would say you can't make money this way. But Dr. Robert Berry told me you can. "Last year, I made about the average of what a primary-care physician makes in this country," he said.

Berry doesn't accept insurance. That saves him money because he doesn't have to hire a staff to process insurance claims, and he never has to fight with companies to get paid.

Uninsured Patients

His mostly uninsured patients save money, too. Unlike doctors trapped in the insurance maze, Berry works with his patients to find ways to save them money.

"It's coming out of their pockets. And they're afraid. They don't know how much it's going to cost. So I can tell them, 'OK, you have heartburn. Let's start out with generic Zantac, which costs around five dollars a month.' " When his patients ask about expensive prescription medicines they see advertised on television, he tells them, "They're great medicines, but why don't you try this one first and see if it works?"

Sometimes the $4 pills from Wal-Mart are just as good as the $100 ones.

Speaking of Wal-Mart, medical clinics are popping up in Wal-Mart stores and in other similar markets. The clinics offer people with simple problems like sore throats and ear infections relatively hassle-free care cheap. Almost everything costs $59 or less. And the clinics are typically open seven days a week.

Grace-Marie Turner, president of the Galen Institute, a health-policy research organization, explains how these clinics thrive: "They're figuring how to do something faster, better, cheaper! They're responding to consumer demand because they see that they might make some money on this."

When consumers pay for medicine themselves, saving insurance for the big things, and doctors deal directly with consumers, doctors begin to compete. They start posting prices and work to keep them low.

And consumers gain more control of their health care. Instead of governments and insurance companies deciding for patients, patients decide.

Competition gives consumers more choices. And choice gives them power. Remember that when you hear a politician promise to make health care accessible and affordable through the force of government.

The Lesson of Ebenezer Scrooge

Raising Taxes to Expand Welfare Programs is Not Compassion but Coercion

DECEMBER 01, 2007 by David R. Henderson

In 2003, I co-led a successful fight against Measure Q, which would have increased the Monterey County, Calif., sales tax to fund a failing government hospital. One proponent of the tax labeled me a Scrooge. She was referring, of course, to Ebenezer Scrooge, the protagonist of Charles Dickens's famous novel A Christmas Carol—and of the film by the same name.

She wasn't alone in this usage. Many people use the word "Scrooge" to refer to someone who opposes government programs. That usage puzzles me. I wonder if these people and I watched the same movie. Because, at least the way I understood the story, it was about opening your heart and being generous to those in need, and it had little to do with government. In fact, to the extent that government welfare programs were mentioned, the "good guys" in the film put them down. Yet many people today talk as if they think A Christmas Carol advocates higher taxes to fund more government programs. Who's right? To figure it out, we need to consider what happens in the novel and movie. The quotes below are taken from the novel, and the scenes I describe are from the 1951 movie starring Alastair Sim.

The movie opens with Scrooge as a wealthy but lonely man who is stingy with everyone, including himself. His narrow selfishness has made him bereft of love and friends. When two portly gentlemen approach him on Christmas Eve to make a contribution to help "the Poor and Destitute," the following dialogue ensues.

"Are there no prisons?" asked Scrooge.

"Plenty of prisons," said the gentleman, laying down the pen again.

“And the Union workhouses?” demanded Scrooge. “Are they still in operation?”

“They are. Still,” returned the gentleman, “I wish I could say they were not.”

“The Treadmill and the Poor Law are in full vigour, then?” said Scrooge.

“Both very busy, sir.”

“Oh! I was afraid, from what you said at first, that something had occurred to stop them in their useful course,” said Scrooge. “I’m very glad to hear it.”

The treadmill, poor law, and union workhouses to which Scrooge refers were all punitive government ways of either helping the poor or of giving the poor an incentive not to be poor. So, for example, anyone finding himself in poverty could enter a workhouse where he would work hard and receive some small amount of food in return. The two men who ask Scrooge for aid are not asking for higher amounts of food to be handed out by government agencies. Instead, they are asking for private, voluntary charity to those they deem worthy.

After turning them down, Scrooge goes home and to bed. In the middle of the night he sees, in turn, the ghosts of Christmas past, present, and future. He sees how he has turned gradually from a loving brother into a bitter, stingy old man. He also sees how unmourned he will be in death if he fails to be generous, with himself and others, in life. When Scrooge wakes up, he realizes that indeed he can change. In my favorite scene in the movie, Scrooge dances around in his nightshirt like a kid in a candy store, celebrating his power to change. And what is the change? Does he say, “Oh, boy, now I’ll support a politician who will tax me, as well as other people less rich than me, to help poor people?” Of course not. An author or a movie producer who tried to set up such a scene would have produced a much less compelling novel or movie. Scrooge is excited because now he can change, now he can get pleasure from helping others who are worse off. In other words, the lesson of A Christmas Carol is the importance of being generous, not the importance of supporting higher taxes on oneself and others.

Indeed, the modern Scrooge, instead of asking, “Are there no prisons?” would ask, “Is there no Medicaid? Are there no food stamps?” The modern

Scrooges, in short, are those who advocate government programs for the poor rather than charity for the poor.

But aren't government programs for the poor a form of charity? That issue came up in the sales-tax controversy. The short answer is no. But the longer answer is worth stating also. During the campaign over the measure to increase the sales tax, my co-leader, Lawrence Samuels, and I were in a debate with two doctors from Natividad Hospital, which was to receive the large subsidy if the sales tax measure passed. The 200-person audience was composed almost entirely of Natividad workers and their families and friends. As you might expect, they were fairly hostile to Lawrence and me. At one point Melissa Larsen, one of the doctors on the other side, said that increasing the tax and giving the money to the hospital was "the compassionate thing to do." I ignored her gall in calling "compassionate" a tax that would clearly have benefited her personally. Instead I responded, "No, it's not. It has nothing to do with compassion. If you gave your own money to the hospital, that would be compassionate. But taking other people's money without their consent is not compassion; it's coercion."

When I said that, there was a one- or two-second silence rather than the usual jeering. I think the silence happened for two reasons. First, probably 90 percent of the audience thought the tax increase was compassionate, and I had given them something new to think about. Second, probably 90 percent of the audience thought their pro-tax side had the moral high ground and I had just cut it out from under them. My pointing out the distinction between compassion and coercion, in short, had a powerful effect.

The failure to distinguish between compassion and coercion is all around us. It's a failure that people on many parts of the political spectrum exhibit. Take, for example, the recent controversy about the difficulty subprime mortgagors are having. One can certainly feel compassion for them, especially for those who were lied to or misled by mortgage brokers. But what are we to make of the following? Andrew Samwick, a Dartmouth University economics professor and former chief economist of President Bush's Council of Economic Advisers, said he felt more than a "pang of sympathy" for people who were misled. Did he then go on to say that he would send some of his own high income to help them? Not at all. Instead, Samwick supported a proposal to change the bankruptcy laws so that owners of houses who lost their homes could stay in the homes by paying a “fair-market” rent. In other words, Samwick’s “pangs of sympathy” led him to support retroactive law-making to undercut the property rights of the lenders—even if those lenders had not misled the borrowers at all. What does this violation of property rights have to do with sympathy?

So here’s my modest suggestion. Next time you hear someone advocating a coercively financed government program to help those in need, call him a “Scrooge.” I guarantee that you’ll catch him off guard. Moreover, he’ll likely ask why you called him that. Then you can tell him the truth about Ebenezer Scrooge and A Christmas Carol.

About Sheldon Richman

Sheldon Richman is the former editor of *The Freeman* and TheFreemanOnline.org, and a contributor to *The Concise Encyclopedia of Economics*. He is the author of *Separating School and State: How to Liberate America's Families*.

About Joshua C. Hall

About George C. Leef

George Leef is the former book review editor of *The Freeman*. He is director of research at the John W. Pope Center for Higher Education Policy.

About Beth Hoffman

About Christopher Lingle

About Charles Johnson

FEE

About Mark W. Hendrickson

About Harold B. Jones Jr.

FEE

About Lawrence W. Reed

Lawrence W. ("Larry") Reed became president of FEE in 2008 after serving as chairman of its board of trustees in the 1990s and both writing and speaking for FEE since the late 1970s. Prior to becoming FEE's president, he served for 20 years as president of the Mackinac Center for Public Policy in Midland, Michigan. He also taught economics full-time from 1977 to 1984 at Northwood University in Michigan and chaired its department of economics from 1982 to 1984.

He holds a B.A. in economics from Grove City College (1975) and an M.A. degree in history from Slippery Rock State University (1978), both in Pennsylvania. He holds two honorary doctorates, one from Central Michigan University (public administration, 1993) and Northwood University (laws, 2008).

A champion for liberty, Reed has authored over 1,000 newspaper columns and articles and dozens of articles in magazines and journals in the United States and abroad. His writings have appeared in *The Wall Street Journal, Christian Science Monitor, USA Today, Baltimore Sun, Detroit News* and *Detroit Free Press*, among many others. He has authored or coauthored five books, the most recent ones being *A Republic—If We Can Keep It* and *Striking the Root: Essays on Liberty*. He is frequently interviewed on radio talk shows and has appeared as a guest on numerous television programs, including those anchored by Judge Andrew Napolitano and John Stossel on FOX Business News.

Reed has delivered at least 75 speeches annually in the past 30 years in virtually every state and in dozens of countries from Bulgaria to China to Bolivia. His best-known lectures include "Seven Principles of Sound

Policy" and "Great Myths of the Great Depression," both of which have been translated into more than a dozen languages and distributed worldwide.

His interests in political and economic affairs have taken him as a freelance journalist to 81 countries on six continents. He is a member of the prestigious Mont Pelerin Society and an advisor to numerous organizations around the world. He served for 15 years as a member of the board (and for one term as president) of the State Policy Network. His numerous recognitions include the Champion of Freedom award from the Mackinac Center for Public Policy and the Distinguished Alumni award from Grove City College.

He is a native of Pennsylvania and a 30-year resident of Michigan, and now resides in Newnan, Georgia.

About Richard Ebeling

Richard M. Ebeling is BB&T Distinguished Professor of Ethics and Free Enterprise Leadership at The Citadel in Charleston, South Carolina. He was president of the Foundation for Economic Education (FEE) from 2003 to 2008.

About Thomas S. Szasz

About Stephen Davies

Stephen Davies is a program officer at the Institute for Humane Studies and the education director at the Institute for Economics Affairs in London.

About John Stossel

About David R. Henderson

FEE