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- Jurassic Mart: Digging with the Invisible Hand
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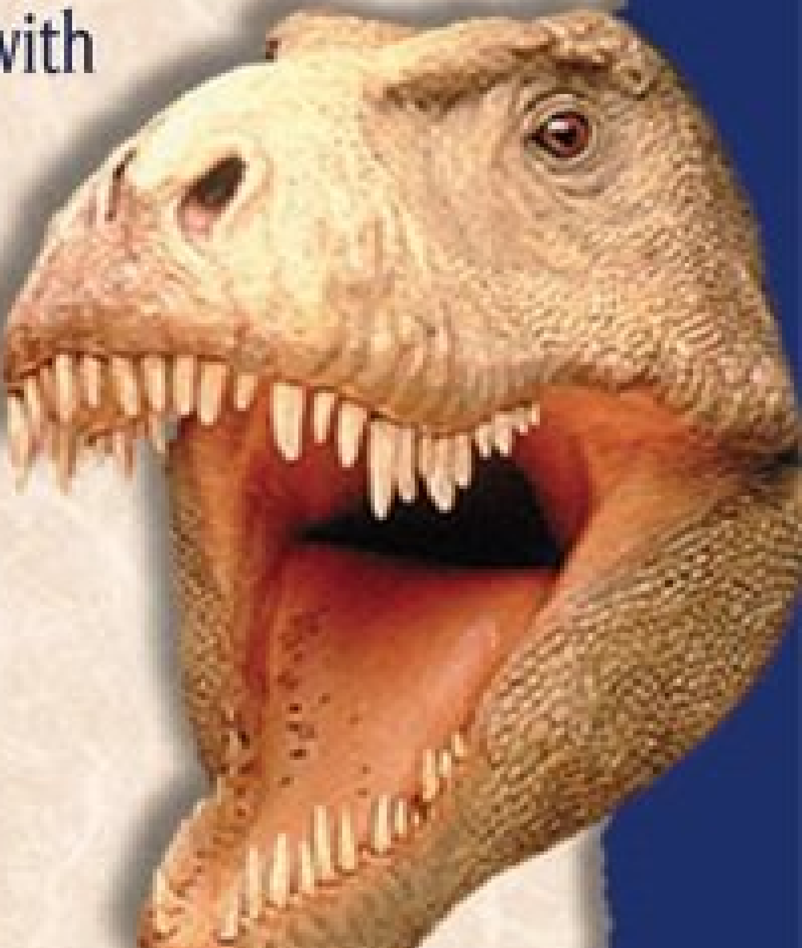

JANUARY 2001

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Money Can Buy Happiness

JANUARY 01, 2001 by Daniel Oliver

Daniel Oliver is a research associate at the Washington, D.C.-based Capital Research Center and a freelance writer.

Defenders of capitalism often argue that its chief justification is its unparalleled ability to produce wealth, provide a multitude of goods and services, and raise the general standard of living in a society. With the failure of the Soviet command economy, there is today little serious doubt that freer economies outperform less free ones.

Economic Freedom of the World: 2000 Annual Report, published by the Vancouver-based Fraser Institute, rates 123 countries on seven factors: the size of government, the structure of the economy and use of markets, monetary policy and price stability, freedom to use alternative currencies, legal structure and property rights, freedom of international exchange, and freedom of exchange in capital and financial markets. It presents overwhelming evidence that countries with the most economic freedom generally have the highest standards of living, while those with the least economic freedom tend to have the lowest. For example, per capita income in nations ranked in the top quintile is over $20,000 while in the lowest quintile it is a meager $2,000.

Others have defended capitalism on moral grounds, arguing that it requires people to practice such virtues as rationality, honesty, and uncoerced exchange. But there is another reason for advocating capitalism: people are happier in capitalist societies.

In *Happiness in Nations* (Rotterdam: Erasmus University, 1992), Professor Ruut Veenhoven analyzes survey data on self-reported happiness among people in several dozen countries. He finds that four variables—material comfort, social equality, freedom, and access to knowledge—explain 77 percent of the variation in happiness among these nations. Moreover, “economic prosperity is one of the strongest predictors of happiness.” Significantly, Veenhoven argues that differences in cultural understandings of happiness do not account for variations in reported happiness. For example, he notes that although Germans have a common cultural history, easterners before unification were significantly less happy than westerners. This, he argues, was largely due to East Germany's lower standard of living.

Are the Free Happy?

Intrigued by Veenhoven's findings, I decided to compare them to those of *Economic Freedom of the World* to see if there is more evidence that happiness and economic freedom are related. *Economic Freedom* measures economic freedom on a 1-to-10 scale with 1 indicating low freedom and 10 high freedom. Veenhoven's data is drawn from the World Database of Happiness, a 50-year longitudinal study of 93 nations. Its most commonly asked question, "Taking all things together, would you say you are . . .?" is answered on a 1-to-4 scale with 1 being "not at all happy" and 4 "very happy." Data on both economic freedom and self-reported happiness in 1996 are available for 49 countries.

As Table I shows, six of the ten countries whose citizens report being the happiest are also among the ten most economically free. (Unfortunately, there is no data on happiness for the well-known economically free countries of Hong Kong and Singapore.) Additionally, the other four countries whose citizens report the highest levels of happiness are also well above average in economic freedom.

Ten Economically Freest Countries

1 = low economic freedom / 10 = high economic freedom

mean average = 6.37

New Zealand 9.1

United States 9.0

Ireland 8.7

Australia 8.6

Canada 8.6

Netherlands 8.5

Switzerland 8.5

Argentina 8.4

Denmark 8.4

Belgium 8.3

Ten Happiest Countries

---

1 = “not at all happy” / 4 = “very happy”

mean average = 2.674

Venezuela 3.47

Iceland 3.40

Ireland 3.36

Netherlands 3.34

Australia 3.33

Philippines 3.32

Switzerland 3.31

United States 3.30

Denmark 3.30

Sweden 3.30

Countries in bold appear on both lists.

Sources: Economic Freedom of the World: 2000 Annual Report (Vancouver: Fraser Institute, 2000) and Ruut Veenhoven, Happiness in Nations (Rotterdam: Erasmus University, 1992).

Table II shows that of the ten countries reporting the least happiness, four are among the least economically free. And similarly, five other countries reporting low happiness are also among the least economically free. Only Croatia is above average in happiness, although only slightly. Significantly, Russia and nine other countries in eastern Europe—a region that has only tentatively embraced capitalism—are the ten least happy countries.

Ten Least Economically Free Countries

1 = least free / 10 = most free

mean average = 6.37

Ukraine 4.5
Romania 4.6
Croatia 4.7
Nigeria 4.7
Bangladesh 5.3
Bulgaria 5.3
Russia 5.4
India 5.8
Brazil 5.9
Venezuela 6.0

Ten Least Happy Countries

1 = “not at all happy” / 4 = “very happy”

mean average = 2.674
Bulgaria 2.33
Ukraine 2.44
Russia 2.51
Slovakia 2.51
Lithuania 2.55
Estonia 2.61
Latvia 2.62
Romania 2.63
Czech Republic 2.67
Croatia 2.69

Countries in bold appear on both lists.

Sources: Economic Freedom of the World: 2000 Annual Report (Vancouver: Fraser Institute, 2000) and Ruut Veenhoven, Happiness in Nations (Rotterdam: Erasmus University, 1992).

The relationship between economic freedom and happiness becomes more convincing when all 49 countries are considered. A Pearson's Rank Correlation Coefficient can be calculated to measure the degree of association between economic freedom and happiness. It is an impressive 0.71 at the p << 0.001 level (just one chance in one thousand that the relationship between economic freedom and happiness is due to chance), indicating a very strong statistically significant relationship. In other words, people in countries with high levels of economic freedom are more likely to report high levels of happiness than people in countries with little economic freedom.

Of course, this does not mean that economic freedom *causes* happiness. But it does strongly suggest that economic freedom is a very important foundation (a necessary but not sufficient condition) for happiness.

This should not come as a complete surprise. As *Economic Freedom of the World* shows, countries with freer economies are more likely to be wealthy, and countries with less free economies poor. Quite simply, it is difficult to be happy when you're poor.

Veenhoven notes that "happiness research has as yet had little relevance for major political discussions." Advocates of a free society should ponder that remark. We have used both economic and moral arguments to make the case for capitalism. Perhaps it is time to use the “happiness” argument as well.

Jurassic Mart: Digging with the Invisible Hand

JANUARY 01, 2001 by J Bishop Grewell, Matthew Brown

J. Bishop Grewell and Matthew Brown are associates of PERC in Bozeman, Montana.

International acclaim greeted the Chicago Field Museum's unveiling of the *Tyrannosaurus rex* Sue last May. The best-preserved and most complete skeleton of a *T. rex* ever found, Sue offers an opportunity to learn more about where the planet has been and where it might be going. Unfortunately, unless the rules of the game are changed, more scientific discoveries like Sue will be destroyed before they are found.

Currently, the Bureau of Land Management, claiming the authority of the 1976 Federal Land Policy Management Act, requires that anyone wishing to dig for fossils on federally controlled land must apply for a permit from the Bureau. Furthermore, permits are limited to professional paleontologists. With almost 50 percent of the western United States in the public trust, there is a lot of land to cover and not enough permitted paleontologists to do it. According to *Science* magazine, "The thousands of amateur dinosaur fossil hunters greatly outnumber the 50 or so academic professional dinosaur paleontologists working in the United States." The National Science Foundation Survey of Earned Doctorates found only 107 paleontology doctorates awarded from 1987 to 1991, an average of 21.4 a year. That is hardly enough professionals to scour the vast area of public lands in the United States for fossils, which is why only a tiny fraction of possible discoveries are actually made. Unfortunately, in paleontology, delayed discovery ultimately means no discovery.

Erosion helps the field of paleontology each year by bringing fossils to the surface. Once the fossils reach the surface, though, erosion no longer works to paleontology's benefit. Its corrosive agents, wind and water, begin to whittle away at the newly unearthed relics. Dinosaur bone or other unearthed fossilized remains must either be collected by a fossil hunter or they will be destroyed by the liberating elements. Outpacing erosion, therefore, is the main challenge to protecting fossils and their scientific, educational, and aesthetic value. According to the Paleontological Society's Code of Fossil Collecting, "to leave fossils uncollected assures their degradation and ultimate loss to the scientific and educational world through natural processes of weathering and erosion." This is where the government makes matters worse. By limiting the number of people allowed to collect fossils on public lands, the government ensures that many fossils will never be collected and many scientific discoveries will never be made.

On private lands, it is another story. Anyone can set up an agreement with a landowner to collect fossils on private land because fossils on the land belong to the landowner. It is the potential for personal ownership and profit that drives the collection of fossils on private lands. Amateur collectors and private fossil hunters scavenge to find valuable pieces in order to keep them or to sell them to other collectors and museums. Adam Smith's powerful invisible hand saves many a private-land fossil from erosion's crushing grasp. Storrs Olson of the Smithsonian Institution points out that "A lot of this material would never be dug up if it were not for the commercial incentive." Eric Buffetaut, director of the Laboratory of Vertebrate and Human Paleontology at the University of Paris VI, also notes the importance of amateur collectors in fighting erosion. Buffetaut states that amateurs often find recently exposed fossils in cliffs or sites uncovered by floods, which would otherwise be destroyed by erosion.

The way to protect fossils from weathering effects is to increase their chance of being found. Allowing private companies and amateurs to share in the bounty with professional paleontologists achieves this goal. Public lands should be opened up for fossil collection to all, not just professional paleontologists.

Creating Financial Incentives

Allowing fossils found on federal land to be bought and sold will create a financial incentive that will increase the number of people making important discoveries. Paleontologists generally work for universities and museums, both of which are traditionally strapped for cash. The private sector can provide the additional financial resources to assure that new equipment, new techniques, and the best-trained personnel are brought into the field.

Fossils have a second foe in addition to the eolian and hydraulic forces of nature. Improper removal decreases the fossils' scientific value. The context in which a fossil is found provides important clues regarding the nature of prehistoric time. According to David W. Krause of the State University of New York at Stony Brook, a former president of the Society of Vertebrate Paleontology (SVP), "Every fossil has a story to tell and if one isn't collected right, it loses its context, its story, and essentially becomes an art object." Most professional paleontologists who are against opening up public lands to private fossil hunters express this view in conjunction with a fear of the fossils' being lost to a private collector.

Another member of the SVP, paleontologist Michael Woodburne of the University of California, Riverside, makes it clear that the SVP does not want to cut out amateurs from the collection process. He says it wants to "educate people that a lot of fossils get destroyed by amateurs" and the members of the SVP "want to increase the ability of amateur participation in securing fossils." The best way to increase the ability of amateurs is training, and that requires financing. At the very least, compensation is required to pay for the professional paleontologists' time. One source for funding such an education project is the sector that can profit most from such education: the private fossil hunters. By increasing their knowledge of the product, private hunters can increase its value to their final purchaser whether a museum, university, or private collector.

The paleontologists can also gain from this process. First, they receive money for their efforts, which equates to more equipment and labor for their own digs. Second, the paleontologists benefit from better documentation and dig techniques by private hunters, thereby increasing the knowledge of the scientific record. Third, better interaction between paleontologists and private fossil hunters improves the odds that private fossil hunters will give scientifically interesting, but commercially worthless pieces to the paleontologists in return for paleontological advice from the professionals.

Still, it is not clear that the professionals are necessarily any better in the field than the amateurs and the private collectors. Marion Zenker of the Black Hills Institute points out that professional paleontologists often make mistakes because they are usually highly specialized rather than generalists.

Zenker says, "One of the major assets of having commercial and amateur paleontologists in the field doing reconnaissance and collecting is that many more of them are generalists and are much more apt to recognize fossils across a broad range of specialties—from invertebrates to vertebrates as well as from a small gastropod to a crinoid to a mammal jaw to a dinosaur rib bone." As an example, she cites the discovery of the world's second largest and most complete mounted *T. rex* skeleton, which is on display at the institute. The skeleton was originally misidentified by a professional collector as "only *Triceratops*" and subsequently left in the field. It was not until the find was shown to the institute that the true value was recognized.

Out for Money

Richard Stucky of the Denver Museum of Natural History, vice president of the SVP, argues that private hunters are only out for money, which leads to a variety of damage in their collection processes. He says of a scientifically valuable, but monetarily worthless piece, "A dealer would probably ignore it, or might destroy it, looking for commercially valuable bones." The best way to counter such actions is to provide dealers with something in return for preserving commercially non-viable, but scientifically valuable finds. Gains from trade combat poor dig techniques. Paleontologists increase the value of specimens for fossil hunters by improving the hunters' knowledge of their product as well as how to extract it with the value intact. Fossil hunters provide the labor and capital for finding scientifically, as well as commercially, valuable specimens and sharing their discoveries with the professional scientists. Michael Triebold of Triebold Paleontology insists that he gives away approximately 80 percent of the pieces he finds to museums because they aren't valuable commercially. As for the relationship between collectors and paleontologists, Triebold believes, "They use our eyes and ears and time in the field, and we use their time and experience in the lab and classroom to educate ourselves."

Many professional paleontologists look down on private firms' digging for dinosaurs. They claim that the profit motive would lead to quick, poor-quality expeditions that only retrieve pieces valued by the market, not those that could make important scientific contributions. That way of thinking is behind the times.

A number of joint ventures among museums, universities, and businesses are ensuring that valuable scientific discoveries are made in paleontology. The Chicago Field Museum's acquisition of Sue was made possible by financial support from McDonald's, Disney World, and other groups. Because it was discovered on private property in South Dakota, the fossil could be sold at auction. Despite the great uproar from scientists who didn't want it put up for sale, the auction of Sue showed that valuable scientific discoveries can be distributed through the market. Even if Sue had been purchased by a private collector, that collector would have had a strong financial incentive to allow scientists to study the fossil, since its value would only increase with each important discovery.

Paleontologist Robert Bakker, curator of the Tate Museum in Casper, Wyoming, admits, "There is a class system. We guys with PhDs think that we have a God-given right to dictate where and how specimens are collected. That is narrow minded, and not in the public interest." Greg Retallack, a teacher of paleontology at the University of Oregon notes, "Most professional paleontologists owe at least part of their success to amateurs." Among the debts owed to amateurs?

- Amateur fossil hunters discovered 21 of the world's thirty *T. rex* skeletons. Only one was found by a degreed paleontologist. One more was found by a paleontology student.
- All six existing skeletons of the most ancient bird fossil *Archaeopteryx* were found by quarrymen in southern Germany.
- A Kenyan farmer discovered the site of the fossil ape *Kenyapithecus*.
- The American Museum of Natural History in New York began its dinosaur collection with contributions from wealthy adventurers who sought them just for fun.
- Most of the major fossil repositories in English museums, including the famed London Museum of Natural History, owe their impressive collections to the work of a single English family, the Annings, that took up fossil hunting to support themselves in the early 1800s.

Dinosaurs have captured man's imagination ever since they were first discovered and thought to be the remains of dragons and magical monsters. Rather than limiting the discovery of these magnificent beasts of yore, paleontologists should encourage private groups to become involved in the process. While it would mean more competition for professional paleontologists, more importantly it would mean an increase in scientific discoveries and a greater understanding of the planet's past.

Taking cues from the structure and muscle-attachment markings of Sue's jaw, sculptor Brian Cooley was able to reconstruct what many of Sue's victims saw in their last moments before death. Cooley used educated speculation to add the details that bring Sue to life, placing large air sacs in front of her eyes and completing her formidable countenance with a pebbly green hide. (Field Museum)

Farm Credit Fraud

JANUARY 01, 2001 by James Bovard

James Bovard is the author of Feeling Your Pain: The Explosion and Abuse of Government Power in the Clinton-Gore Years *(St. Martin's Press, September 2000)*.

The federal government has been busy foisting new billions in loans onto uncreditworthy farmers. The lending binge is accelerating and paving the way for another massive loan collapse and another taxpayer bailout. The circumstances leading to the current binge are worth examining in order to understand why politicians are completely unfit to allocate credit.

For 81 days in 1996, federal agents and a group consisting largely of disgruntled farmers were locked in a standoff outside of Jordan, Montana. While the stranger aspects of the ideology of the self-proclaimed "Freemen" were widely reported, little attention was paid to the role of the U.S. Department of Agriculture (USDA) in paving the way to this confrontation.

Ralph Clark, the grade-school dropout who was the mastermind of the Freemen, and his partners had received over $650,000 in farm subsidy payments since 1985.[1] In addition, Clark received almost $2 million in federal farm loans. The federal government generously kept sending him annual payments of almost $50,000 to reward him for not growing crops on land he had bought with government loans—long after he effectively defaulted on those loans.

Why did Clark receive so many government loans? Because he was uncreditworthy. According to the Farmers Home Administration (FmHA), this alone made him worthy of a windfall of capital. And since he kept losing money year after year, that proved he deserved new loans. Clark symbolized the type of farmer favored by USDA: big—with a 7,000-acre, government-paid spread—and incompetent. Clark was a poster boy for farm aid lobbyists—portrayed sympathetically in *Life* magazine, with

Geraldo Rivera on ABC's "20/20," and elsewhere. But when Clark's racism and anti-Semitism became evident, his cachet with the Willie Nelson crowd suffered.[2]

For many farmers, the road to hell was paved with cheap government credit. FmHA encouraged many struggling farmers to continue farming until they financially destroyed themselves. According to the agency's own records, by far the most frequent cause of bankruptcy among its borrowers is "poor farming practices." The General Accounting Office (GAO) estimated that a quarter of FmHA bankruptcies occurred because the farmers received too many subsidized loans.[3] GAO noted: "In some cases, continued FmHA assistance has actually worsened the financial condition of farmers who have entered the program."[4]

In 1994, the Clinton administration forgave $138 million in losses from 74 farm borrowers—almost $2 million per farmer.[5] In many cases, federal officials made scant effort to collect on the loans or to compel borrowers to surrender other assets to cover the government's financial bloodbath. As of early 1996, 47 percent of farmers with direct FmHA loans were delinquent —a delinquency rate more than ten times higher than that of the average private bank.[6]

Clinton and Congress looked at a rural landscape littered with loan defaults and rushed to provide more subsidized loans. After the Freemen debacle, USDA continued to give scores of millions to farmers who had defaulted on earlier federal loans.[7] But each inefficient farmer that the government kept on a tractor made it more difficult for efficient farmers to earn an honest living in the marketplace.

The 1996 farm bill authorized the Agriculture Department to make over $20 billion in direct and guaranteed loans to farmers in the following six years. Clinton sought even more subsidized farm loans, declaring in July 1997 that "we should expand eligibility for direct and guaranteed loans."[8] In a teleconference with rural radio stations in July 1998, Clinton summarized his ongoing farm-aid deliberations with Congress: "And I, finally, asked for a provision that would improve credit ability and modify the one-strike policy for farmers who have had a debt write-down."[9] The "one-strike policy" meant that if a farmer had defaulted on previous federal loans, he was ineligible for future subsidized loans. Characterizing this as "one-strike" makes the policy seem harsh and unfair—as if any farmer should be entitled to several cracks at squandering a few hundred grand of other people's money. New loans for "socially disadvantaged" would-be farmers were a high priority for Clinton's USDA. Unfortunately, there is nothing that a person learns from being socially disadvantaged that qualifies him or her to grow wheat efficiently.

Subsidies Doubled

The USDA almost doubled the amount of subsidized farm loans and loan guarantees it doled out between 1998 and 1999, reaching almost $4 billion. Congress authorized the department to make almost $6 billion in subsidized loans and loan guarantees to farmers in fiscal year 2000—the highest amount of federal agricultural lending since the mid-1980s.[10] The guaranteed loan limit per uncreditworthy farmer was raised to $700,000. Agriculture Secretary Dan Glickman testified to Congress on September 17, 1999: "Demand for USDA loan assistance continues to increase. More and more farmers are becoming highly leveraged, with limited equity and low incomes. . . . They are turning to USDA for help. For these farmers, commercial credit sources are not available. . . . Additionally, the recently increased loan limits for FSA [Farm Service Agency] guaranteed loan programs is increasing the demand for guaranteed loan funding."[11] By Glickman's logic, the fact that there was a strong demand for free money proved farmers were suffering terribly and deserved more loans.

Clinton's pro-deadbeat farm policy continued a cycle that goes back to the 1930s. Politicians create new programs and then pressure bureaucrats to lend farmers as much money as possible. Then, when loan default levels reach politically embarrassing heights, programs are "reformed," lending criteria are tightened, and politicians summon bureaucrats to Capitol Hill and denounce them for their stupidity. Later, when the agricultural economy goes into another cyclical downswing, lending criteria are "loosened" and politicians again arm-twist bureaucrats to bail out as many potential voters as possible.[12] The federal government wrote off $15 billion in bad farm loans between 1989 and 1996.[13] None of that mattered to Clinton and to congressmen who hungered to expand farm lending in the late 1990s.

But the Clinton administration did learn something from the farm-lending debacle. The name of the Farmers Home Administration was changed in 1995 to the Consolidated Farm Service Agency. The Clintonites upheld a hallowed tradition: FmHA's predecessor agency, the Resettlement Agency, generated so much bad press that it was rechristened the FmHA in 1946. After FmHA wore out two generations of auditors, its name was retired to the Agricultural Boondoggle Hall of Fame.

Clinton's Bogus Farm Emergency

Clinton's farm credit policies were part of his campaign to make Americans believe that farmers as a class were suffering terribly. From 1995 onwards Clinton ceaselessly proclaimed his devotion to "strengthening the farm safety net."[14] In a September 15, 1998, speech to the National Farmers Union, Clinton declared that "we have a farm crisis more extensive than we've had in decades. . . . [T]here is suffering on the farm. There is agony on the farm. This is a horrible affront to everything we have worked so hard to achieve to lift the economy for all Americans."[15] A few months before, Clinton had proclaimed that "from the point of view of the farmers, it's a terrible emergency."[16]

Clinton's farm policy was based on the myth of the deserving needy farmer. In 1998, the bankruptcy rate for farmers was less than .05 percent—less than one farmer in 2,000.[17] The bankruptcy rate for all households, by comparison, was 1.3 percent—roughly one in 70.[18] Though the bankruptcy rate for all households was more than 25 times higher than the rate for farmers, Clinton favored forcibly transferring more money from average families to farmers.

Clinton justified perpetuating farm subsidies because of the supposed uniqueness of agriculture. Clinton derided subsidy opponents in 1998 for not understanding "the intersection between global impacts on farm prices, the financing challenges that family farmers . . . face, and what happens to you just by getting up in the morning if it happens to be a bad day."[19] Because some farmers feel woebegone or hung over on Monday mornings, Uncle Sam must perennially throw money at them. When Clinton signed a farm bailout package on October 23, 1998, he declared that he was "pleased about other provisions in the bill that address the long-term need for farmers to get a fair income from the market."[20] But the legislation flooded specific favored farmers with cash that they would not have received from voluntary exchanges with their fellow citizens. Clinton's concept of "fair income" simply meant income provided by politicians.

Politicians profit from government credit programs not according to the soundness of the loans but according to their generosity. In early 1987, the FmHA proposed new regulations to rate applicants for loans according to the riskiness of the loans. Congress was outraged. Representative Byron Dorgan exclaimed, "These regulations could effectively be used to destroy the mission of the agency, to disqualify from loans exactly the type of farmers Congress intended the agency to serve."[21] The FmHA loses money because Congress designs the program that way. You can't win votes with programs that don't do borrowers any favors.

Whenever subsidies are being distributed on the basis of vague or illogical criteria, political pull will soon determine who gets the handouts. Local and state FmHA offices received numerous calls from congressmen's offices, pressuring them to lend to campaign contributors and other politically preferred borrowers. The FmHA became a petty-cash drawer for farm-state congressmen.

Zero-Sum Game

Farm credit handouts present a classic case of self-defeating humanitarianism: Government cannot help the individual without hurting the group. "One farmer's good fortune is his neighbor's misfortune," as the old saying goes. The more the government helps an individual farmer to plant, the less all other farmers will receive for their harvest. Every time congressmen say they are helping a farmer, they are subsidizing competition for all the other farmers. Every federal farm loan goes either to a creditworthy farmer who could obtain loans elsewhere—or to an uncreditworthy farmer who is kept on the land to the detriment of creditworthy farmers.

Congress has created a two-class system of farmers—welfare farmers and self-reliant farmers. But every dollar of aid the government gives to welfare farmers makes it more difficult for self-reliant farmers to prosper and survive. Good farmers had to pay inflated prices to acquire more land because the government bombarded bad farmers with cheap money to bid up the price of farmland.

Farm credit policies are among the clearest refutations of the competence of politicians to manage the economy better than private citizens can. A rational capital-allocation policy directs capital to wherever its returns are highest and shifts capital away from lower-paying investments. But for decades federal agricultural credit policy has consisted solely of jamming as many loans into agriculture as possible, regardless of the effects.

There is a limited amount of capital in America. Every subsidized loan to a near-bankrupt farmer means fewer loans for other Americans to buy a house, pay for an education, or start an independent business.

Wheeler McMillen, author of *Too Many Farmers*, observed in 1929 that "if a farmer doesn't have enough pride and business about him to keep his credit good, certainly no one in the world is going to be able to do much for him."[22] Though McMillen's sentiment may seem harsh in contemporary times, the record of bankruptcies and delinquencies by government borrowers vindicates his judgment. Unfortunately, politicians have completely avoided paying the price for the bad loans they authorized.

Notes

1. James Brooke, "Freeman Depended on Subsidies," *New York Times*, April 30, 1996.
2. Ibid.
3. General Accounting Office, "Farmers Home Administration: Problems and Issues Facing the Emergency Loan Program," November 1987.
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16. “The President’s News Conference,” Public Papers of the Presidents, June 25, 1999, p. 1189.
17. Fax from Jerome Stam, USDA Economic Research Service farm bankruptcy expert, April 6, 2000.
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20. ”Statement on Emergency Assistance to Farmers and Ranchers,” Public Papers of the Presidents, October 23, 1998, p. 2114.
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Working-Family Gibberish

JANUARY 01, 2001 by E. Frank Stephenson, Wilson Mixon

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Nothing was sillier in the late presidential campaign than the political rhetoric about so-called working families.

Politicians of both major parties frequently invoked working families as the intended beneficiaries of this policy or that program. A typical refrain called for "tax cuts for working families." Implicit in such rhetoric is the notion that working families are low- or middle-income; Bill Gates does not count even if he works 100 hours per week. However, a study of work hours and income by Robert Rector and Rea S. Hederman of the Heritage Foundation reveals the phoniness of the working families rhetoric.*

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* "Income Inequality: How Census Data Misrepresent Income Distribution" is available at www.heritage.org/library/cda/cda99-07.html.

The table on the next page shows the study's findings. Households are sorted according to their 1997 incomes. Next, they are divided into five groups (called quintiles) each containing 20 percent of the households. The lowest quintile contains the 20 percent of households with incomes less than $15,396, the second quintile the 20 percent of households with the incomes between $15,400 and $29,200, and so forth.

The table also shows the average weekly number of hours worked by the working-age adults in each quintile. (Focusing on working-age adults controls for the different number of children and retirees in each quintile.) Hours worked differ substantially across income levels. Adults in the lowest quintile work an average of only 14.4 hours per week, less than one-half of a typical 40 hour workweek. By contrast, adults in the top quintile work an average of 34.6 hours per week. This difference in hours worked indicates that the true *working* people are not predominantly the low- and middle-income people as some politicians would have us believe. Instead, the people in the top quintile actually work the most hours per week rather than enjoying lives of leisure. Of course, political silliness notwithstanding, there is nothing surprising about this finding. More hours worked, after all, lead to more income thereby placing the harder-working household into a higher income bracket.

Hours Worked and the Income Distribution

Quintile	Income Lower Limit	Income Upper Limit	Average Weekly Hours Worked Per Working-Age Adult	Average Working-Age Adults Per Household	Average Weekly Hours Worked Per Household
1	—	$15,396	14.40	0.89	12.82
2	$15,400	$29,200	26.66	1.22	32.53
3	$29,204	$45,996	28.87	1.60	46.19
4	$46,000	$71,700	33.43	1.93	64.52
5	$71,705	—	34.56	2.15	74.30

Source: Rector and Hederman, Tables A1 and A5, and authors' calculations.

Focusing on average hours worked per working-age adult actually understates the difference in the amount of work done by families at different income levels. This is because, as shown in the table on the next page, the number of working-age adults differs across families. On average, households in the lowest quintile have less than one working-age adult compared to over two such adults in the top-quintile households. (Evidently two-career couples with teenaged children who work are common in the upper quintile.) Households in the bottom quintile average less than 13 hours of work per week, while families in the top quintile average more than 74 hours of work per week. (One might object that this is an unfair comparison since some families in the bottom quintile may consist of retirees. This critique points to the fluidity of the American income distribution, for most retirees were in higher quintiles while they were working.) That the families in the top quintile work some six times more per week than families in the lowest quintile undoubtedly explains much, though not all, of the difference in income.

That higher income people work more than lower income people does not imply that lower income people are morally inferior or lazy. Since work is the means by which people earn the income necessary to buy goods and services, the decision to work more or fewer hours amounts to trading off between goods and services and time spent at home. A person who works fewer hours may just be someone with a weak preference for consuming goods and services or someone who places a high value on home-based activities. But while there is no reason to cast moral aspersions at those who work fewer hours, the fact that some people have lower incomes because they choose to work fewer hours does not give them a claim on the higher incomes earned by those who choose to work more hours. Hence, the politicians should abandon the redistributionist pandering and get on with a more meaningful discussion of the issues.

Confiscating Guns from Americas Past

JANUARY 01, 2001 by Clayton Cramer

Clayton Cramer is the author of Concealed Weapon Laws of the Early Republic: Dueling, Southern Violence, and Moral Reform *(Praeger Press, 1999).*

By now you have probably heard about the new book by Michael A. Bellesiles, professor of history at Emory University. *Arming America: The Origins of a National Gun Culture*[1] is receiving all sorts of positive attention from the usual figures in the academic community and the media. For these reasons, it is important to understand what Bellesiles claims, and why he isn't just wrong—he is intentionally deceptive.

Before examining Bellesiles's deceptions, we must understand why *Arming America* is receiving such rave reviews from the left end of the political spectrum. For several decades now, supporters of restrictive gun control have argued either that the Second Amendment was never intended to protect an individual right, or that the right is obsolete—a leftover from another time, when guns were less dangerous than today, our cities smaller, and the social problems less severe.

The first claim—that the Second Amendment was never intended to protect an individual right—has collapsed under the onslaught of recent scholarship on the subject. Dozens of law review articles on the possession of firearms have been published in the last 20 years, and they overwhelmingly take the position that the Second Amendment protects an individual right.[2] In addition, several scholarly books about the English origins of the Second Amendment, its adoption, and adjudication here in America have been published since 1984.[3]

The second claim—that the Second Amendment is now obsolete—is more complex. As social scientists have weighed in on the effects of gun ownership, many of the traditional assumptions about gun control have been found to be incorrect. For example, two criminologists with a clear preference for restrictive gun control recently studied the effects of the Brady Handgun Violence Prevention Act and concluded that there was no statistically significant change in homicide or suicide rates caused by the law.[4]

Rewriting History

So what is left for the supporters of restrictive gun control seeking an intellectual justification for their position? They are counting on a complete rewrite of American history. Bellesiles's *Arming America* is a startling book that demolishes many long-held beliefs about early America concerning violence, guns, and the effectiveness of the militia. Bellesiles argues that the militia was, throughout American history, an ineffective force; that guns were very scarce in America before about 1840; and that few Americans hunted.

The first of Bellesiles's claims—that the militia was quite ineffective—is really the least controversial (at least to historians). Many Americans have grown up with a vision of Minutemen running out the door, Kentucky long rifle in hand, to take on them "Redcoats." However, historians have recognized for at least 40 years that for every success of the "citizen soldier" in defending home and nation, there were far more examples of militias turning tail in battle or simply leaving for home because harvest time had come.

Bellesiles, however, can't content himself with an evenhanded portrayal of the militia's failures. He blackens their reputation, apparently as part of his campaign to demonstrate that armed civilians simply can't perform any military function. His reason is to destroy the rationale for the Second Amendment.

The Second Amendment wasn't about hunting. It wasn't about individual self-defense—though this was widely assumed to be a right of Englishmen, and therefore of free, usually white Americans. It wasn't even, primarily, about militias turning out to defend the United States from foreign invasion, though even Bellesiles admits that many of the framers hoped to avoid the expense of a large standing army by maintaining a militia. *The Second Amendment was about keeping the government afraid of the masses.*

Antifederalists such as Patrick Henry sought both a militia and an armed population out of fear that a standing army would become the weapon of oppression of the new central government. "[T]he President, in the field, at the head of his army, can prescribe the terms on which he shall reign master, so far that it will puzzle any American ever to get his neck from under the galling yoke."[5] If, as Bellesiles overstates, armed civilians were *never* a realistic counterforce to a professional military, then the core reason for the Second Amendment evaporates.

Bellesiles is correct that militias were never as well trained as standing armies, and seldom very effective in fighting against regular troops—hence, James Madison's assumption in Federalist 46 that a militia 25 times as large as the standing army would be more than sufficient to defeat them in battle.[6] Similarly, there was really no realistic alternative to at least a small standing army, especially on the sparsely populated frontiers. But the ineffectiveness of the militia is really a sideshow in Bellesiles's book. The truly novel part is Bellesiles's claims that guns were scarce in America until nearly the Civil War.

Were Guns Scarce?

Why were guns scarce? Because not only were they expensive, but also "the majority of American men did not care about guns. They were indifferent to owning guns, and they had no apparent interest in learning how to use them."[7] Bellesiles claims that marksmanship was extraordinarily poor and large numbers of adult men had no idea how to load a gun or how to fire one.

To hear Bellesiles tell it, this lack of both interest and knowledge was because of the fundamentally peaceful nature of early America and that hunting was rare here until the mid-1830s, when a small number of wealthy Americans chose to ape their upper-class British counterparts.[8] Indeed, he would have us believe that by the 1830s, a pacifist movement, fiercely hostile not only to gun ownership, but also to a military and hunting of any form, was becoming a major influence on American society.[9]

As I researched my book *Concealed Weapon Laws of the Early Republic*, I read through dozens of eyewitness accounts of the early republic. I found that guns and hunting were common in nearly all regions of the United States, and so I concluded that Belles-iles wishfully misread his sources. This, unfortunately, is a problem common to many historians, especially those with a strong ideology.

But Bellesiles wasn't just wrong. When I started checking his sources for the more amazing claims, I found that they didn't check out. He quoted sources out of context, then inaccurately reported what the rest of the sentence said. I looked up the sources he listed in his notes and found that while one page confirmed his claim, many other pages he listed contradicted it. In many cases, *none* of his sources matched his claim.

For example, Bellesiles claims that there were few firearms in Massachusetts at the start of the American Revolution, and most of them were publicly owned. He writes, "Massachusetts conducted a very thorough census of arms, finding that there were 21,549 guns in the province of some 250,000 people." Bellesiles claims that this included all privately owned firearms.[10]

His source is an inventory of "Warlike Stores in Massachusetts, 1774." But when I examined the inventory, I found no indication of the categories of firearms that were counted. It included stockpiles owned by towns and at least those guns with which the militia showed up at musters, both publicly and privately owned.[11] But does it include *all* privately owned arms, as Bellesiles claims?

The only description of this arms census that I can find is an order of February 13, 1775, telling a committee to inquire "into the state of the militia, their numbers and equipments, and recommending to the selectmen of the several towns and districts in this province, to make return of their town and district stocks of ammunition and warlike stores to this Congress."[12] This seems to say that only military weapons possessed by militia members and publicly owned weapons were counted. There is no indication that *all* privately owned arms were counted.

The evidence from the rest of Bellesiles's source for this claim suggests that firearms were plentiful and that the inventory of "Warlike Stores" recorded only a part of all firearms in the province. A committee appointed to examine the problem of soldiers lacking firearms reported on May 9, 1775 (just weeks after Redcoats fired on Minutemen at Lexington), "Whereas, a few of the inhabitants of this colony, who are enlisted into its service, are destitute of fire arms, bayonets, and other accoutrements. . . ."[13] Not "most of the inhabitants of this colony, who are enlisted into its service" are without firearms; not "many," not "some," but "a few"—and it isn't clear whether the problem is a shortage of firearms, bayonets, or "accoutrements" (for example, cartridge pouches).

Certainly, it is possible that a person who used a musket primarily for hunting would lack a bayonet. The following paragraph directs the selectmen of each town to purchase or borrow "arms and accoutrements" for the unarmed militiamen, which sounds like the Provincial Congress thought that there were quite a number of privately owned weapons out there available for purchase. Perhaps the revolutionary government of Massachusetts didn't know how well its own population was armed—at least, not as well as Michael Bellesiles knows.

There are later discussions of soldiers "who are destitute of arms," but there is no indication that this was a problem of great concern.[14] If there were a serious shortage of firearms or ammunition for the militia, as Bellesiles claims, it seems strange that the Provincial Congress on June 17, 1775 (almost two months after the Revolution started), recommended to nonmilitia members "living on the sea coasts, or within twenty miles of them, that they carry their arms and ammunition with them to meeting on the [S]abbath, and other days when they meet for public worship."[15] Somehow, there was a shortage of guns and ammunition for the militiamen, but nonmilitia members still had enough arms and ammunition that they were encouraged to bring them to public meetings.

The Price of Guns

Were guns rare in colonial Massachusetts, as Bellesiles claims? If so, you would expect the value of guns to be high, especially once the Revolutionary War started, and there was no way to import more guns from Europe. (Bellesiles claims that there were almost no guns made in the colonies.[16]) The Provincial Congress of Massachusetts bought weapons from many private owners in the first few months of the war, sometimes purchasing as many as 100 weapons in a single transaction. The *Journals* that Bellesiles used show that the Provincial Congress purchased at least 483 guns, "fire-arms," and "small arms" from private parties and appraised their value.[17]

The average value of these weapons was just under £2. Perhaps some of those weapons contained in transactions labeled “small arms” were actually pikes or swords; let’s give Bellesiles the benefit of the doubt and only look at transactions labeled “fire-arms” and “guns,” and assume that *none* of the “small arms” are guns. Those transactions (a total of 89 weapons) average £2 5 *s*. 1 *d*.—not a trivial amount of money for the time, but about the same as a sergeant’s monthly wages in the Massachusetts army.[18] If guns were scarce, it doesn’t show up in their valuation.

If the revolutionary government of Massachusetts were desperately short of arms, one would expect them to have used eminent domain to obtain privately owned firearms. Instead, the private owners were told, “[I]t is strongly recommended to such inhabitants . . . , that they supply the colony with same.[19] A request of June 15, 1775, also seems quite voluntary: “*Resolved*, that any person or persons, who may have such to sell, shall receive so much for them, as the selectmen of the town or district in which or they may dwell, shall appraise such arms at.”[20] Desperate times often bring on desperate measures, and yet this supposed scarcity of guns seems to have resulted in polite requests, not demands.

There are dozens of examples in *Arming America* where Bellesiles mischaracterizes what his sources say. Perhaps the most blatant is his claim that “an examination of 80 travel accounts written in America from 1750 to 1860 indicate that the travelers did not notice that they were surrounded by guns and violence.”[21] I read more than two dozen travel accounts of the period for my last book, and four of those were among Bellesiles’s 80. I know that for *at least* those four sources, Bellesiles is not telling the truth. At least those four accounts show that the travelers were surrounded by guns. Two examples of Bellesiles’s dishonesty will suffice.

Not Surrounded by Guns?

Bellesiles claims to have read Baynard Rush Hall’s memoir of 1816 Indiana life and found that Hall was not aware he was “surrounded by guns.” Somehow Bellesiles missed Hall’s detailed description of how hunting was a common part of life for most settlers, done partly for sport and partly because it supplied fresh meat at little expense.[22] Not surrounded by guns? Hall devotes an entire chapter to the joy of target shooting with rifles, opening the chapter with: “Reader, were ever you *fired* with the love of rifle shooting? If so, the confidence now reposed in your honour will not be abused, when told my love for that noble art is unabated.”[23]

Hall also describes target shooting matches as common and takes pride in participating in a match that he happened upon where the prize was a half-barrel of whiskey. As the president of the local temperance society, his goal was to win the prize and pour the whiskey out on the ground.[24]

The rifle was so common an implement, and target shooting so common a sport, that when Hall went out evangelizing in a sparsely settled part of Indiana, one of his fellow preachers switched in mid-sermon to a metaphor involving rifle matches to sway the audience. They were becoming restless with analogies that meant nothing to them—but rifle matches they understood.[25] Hall also describes the use of rifles both by settlers pursuing criminals and by criminals trying to avoid arrest.[26]

Hunting and target shooting were common enough that Hall describes nonlethal accidents.[27] Hall also makes occasional references to pistols with no indication that they were either rare or regarded with any particular concern.[28] Yet his references to pistols are far exceeded by mentions of rifles and shotguns. Hall’s discussions of hunting, use and misuse of guns, and target shooting take up 41 pages of his book—all of which Bellesiles seems to have either missed or disregarded.

Even when Bellesiles admits that there is a mention of guns in one of the travel accounts, he distorts what it says. For example, “Similarly, Ole Rynning advised his Norwegian readers to bring ‘good rifles with percussion locks,’ as such good guns are far too expensive in America and can be sold there for a good profit. Guns thus had an economic value, but if thought requisite for self-protection, it remained an unstated assumption.”[29]

But what did Rynning *actually* say? He wrote to bring “good rifles with percussion locks, partly for personal use, partly for sale. I have already said that in America a good rifle costs from fifteen to twenty dollars.”[30] Bellesiles didn’t actually lie and say that the *only* possible value of a gun for a Norwegian immigrant was to sell it here; instead, he misleads, by giving the impression that the value of bringing a good gun to America was to sell it, not to use it yourself. Rynning is clear that one should bring guns both to sell and for personal use.

I could point to the dozens of other travel accounts that Bellesiles seems to have missed—including common works such as Alexis de Tocqueville's *Journey to America*—that clearly demonstrate that guns and violence were a common part of American life in the early republic. Clearly, Bellesiles's "research" runs from, at best, careless to egregiously deceptive.

Perhaps Bellesiles is right and dozens of eyewitnesses and official documents of the time are wrong. But when a historian repeatedly mischaracterizes, quotes out of context, or simply ignores sources because they do not fit his claims—well, let's just say that it's a bit early to start revising the textbooks to fit the new wisdom from *Arming America*.

Notes

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2. See David B. Kopel, Clayton E. Cramer, and Scott G. Hattrup, "A Tale of Three Cities: The Right to Bear Arms in State Supreme Courts," *Temple Law Review* 68 (1995), p. 1178 n.2 for a complete list through 1995; see www.2ndlawlib.org for more recent scholarly works.
3. Joyce Lee Malcolm, *To Keep and Bear Arms: The Origins of an Anglo-American Right* (Cambridge, Mass.: Harvard University Press, 1994); Stephen P. Halbrook, *That Every Man Be Armed: The Evolution of a Constitutional Right* (Albuquerque, N.M.: University of New Mexico Press, 1984); Stephen P. Halbrook, *A Right to Bear Arms: State and Federal Bills of Rights and Constitutional Guarantees* (Westport, Conn.: Greenwood Press, 1989); Clayton E. Cramer, *For the Defense of Themselves and the State: The Original Intent and Judicial Interpretation of the Right to Keep and Bear Arms* (Westport, Conn.: Praeger Press, 1994); Stephen P. Halbrook, *Freedmen, the Fourteenth Amendment, and the Right to Bear Arms* (Westport, Conn.: Praeger Press, 1998); Clayton E. Cramer, *Concealed Weapon Laws of the Early Republic: Dueling, Southern Violence, and Moral Reform* (Westport, Conn.: Praeger Press, 1999).
4. Jens Ludwig and Philip J. Cook, "Homicide and Suicide Rates Associated with Implementation of the Brady Handgun Violence Prevention Act," *Journal of the American Medical Association* August

2, 2000, pp. 585–91 (http://jama.jamanetwork.com/article.aspx?articleid=192946).

5. Jonathan Elliot, *The Debates of the Several State Conventions on the Adoption of the Federal Constitution*, (New York: Burt Franklin, 1888), pp. 59–60.
6. James Madison, Federalist 46, in Jacob E. Cooke, ed., *The Federalist* (Middletown, Conn.: Wesleyan University Press, 1961), pp. 320–21.
7. Bellesiles, p. 295.
8. Ibid., pp. 314–15, 320–23.
9. Ibid., pp. 300–301.
10. Ibid., p. 180.
11. Massachusetts Provincial Congress, *The Journals of Each Provincial Congress of Massachusetts in 1774 and 1775* (Boston: Dutton and Wentworth, 1838), p. 756.
12. Massachusetts Provincial Congress, p. 98.
13. Ibid., pp. 209–10.
14. Ibid., p. 332.
15. Ibid., pp. 348–49.
16. Bellesiles, pp. 188–91.
17. Massachusetts Provincial Congress, pp. 536–37, 584–93.
18. Ibid., p. 413.
19. Ibid., p. 210.
20. Ibid., pp. 336–37.
21. Bellesiles, p. 304.
22. Robert Carleton [Baynard Rush Hall], *The New Purchase, or Early Years in the Far West*, 2nd ed. (New Albany, Ind.: Jonathan R. Nunemacher, 1855), pp. 66, 82, 139–49, 153, 160–63, 375, 448–51.
23. Ibid., pp. 100–13.
24. Ibid., p. 104.
25. Ibid., pp. 228–30.
26. Ibid., pp. 189–90.
27. Ibid., pp. 262–63.
28. Ibid., pp. 449, 452.
29. Bellesiles, p. 339.
30. Ole Rynning, *Ole Rynning's True Account of America*, ed. and trans. Theodore C. Blegen (Freeport, N.Y.: Books for Libraries Press, 1971 [1926]), p. 99.

Learning from the Ancient Greeks

JANUARY 01, 2001 by Kathleen Melonakos

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I have a five-year-old to educate. Troubled by the high costs, substandard performance, dwindling parental involvement, and increasing violence in government schools, my husband and I have chosen an alternative for our daughter: a combination of private school and homeschool. Before making this difficult decision, I not only thoroughly investigated our local options, but also reviewed many books and articles on the state of American education and what to do about it.

In doing this survey, I encountered an excellent book titled *Market Education: The Unknown History* by Andrew Coulson.[1] Then, after visiting Greece this year, I reread Plato's *Republic*, along with *The Oxford History of the Classical World*.[2] The ancients laid the foundations for so much of our civilization; can digging into our roots shed light on current problems? A brief sketch of the educational systems of ancient Sparta and Athens supports the case for a free-market in education.

Plato's *Republic* is the timeless classic, which, more than any other book with the exception of the Bible, has influenced our educational ideals. Plato first introduced the idea of state control of schools. But the great Greek did not have the hindsight that we have now. Coulson reviews educational systems in different times and places in world history in order to compare the outcomes. He highlights ancient Greece, early Rome, various periods in England, the early medieval Middle East, pre-Civil War America, and sectors of modern-day Japan as examples of societies where two things have simultaneously flourished: free-market education and cultural advancement. He particularly points to ancient Athens, where, without legal compulsion, parents creatively arranged various ways for their children to learn. He contrasts it with Sparta, whose leaders tightly controlled intellectual and cultural life.

Sparta's Compulsory System

Athens and Sparta may have had some of the "shared blood, shared language, shared religion, and shared customs" that constituted *hellenikon*, or Greekness, as Herodotus tells us,[3] but their systems of government and education were radically different. By the mid-sixth century B.C., Sparta was an inland agricultural oligarchy that depended on its peasant-slaves to provide food for its warrior citizens. After helping Athens to defeat Persia in the 470s and 460s, its leaders then turned to three major tasks: crushing its constant slave rebellions; trying to conquer other city-states, especially Athens; and forging its new generation into the Spartan mold, using coercion and brute force.

Its "educational system" was part of the totalitarian military society. The oligarchy running the state machine dictated every aspect of life, including the rearing of children. It strictly regulated marriage and procreation. A child could only be conceived with permission of the rulers, and it had to pass their inspection before it was allowed to live. "Educationists" took children taken from their mothers at age seven and placed them in government boot camps, where they would live in mess halls with other soldiers-in-training until the age of 30. Women trained along with men, but in separate barracks. In their 20s, young people might be allowed to marry if the elders approved, but men could not live with their wives. Training consisted of physical exercises and survival skills. Overseers regularly used corporal punishment.

Sparta succeeded in producing fierce warriors who were widely admired and feared. Many Greek oligarchic city-states allied with it, often out of self-preservation. But Sparta was unique in its stringent state control of raising children. It became a rigid, insulated society, whose soldiers, Plato believed, were stupid,[4] and whose leaders rejected new ideas in favor of the status quo. It had trouble maintaining a replacement-level birth rate. Creative endeavors, like trade, a money economy, free travel, art, architecture, science, philosophy, and even written language never developed in Sparta; in fact, its leaders banned these activities. Sparta remained one of the least literate societies of the time. It left no immortal temples, scientific advancements, written documents, or books. Coulson says "her legacy to modern times is negligible, apart from being a beacon to those advocating totalitarian systems of education during the French Revolution, nineteenth-century America, and the rise of Germany's National Socialist (Nazi) Party."[5] (He provides documented examples.)

Athens Lets Parents Decide

In contrast, Athens embraced trade, shipping, foreign visitors, a diversified economy, and a free exchange of ideas. Karl Popper, in *The Open Society and Its Enemies*, said that the Athenians began that greatest of all revolutions, "the transition from the closed to the open society."[6] Athens is unimaginable without the *agora*, or marketplace, where merchants met to sell their wares. The *agora* also became a social center, where interested parties met to hear scholars give lectures, engage in debates about current affairs, or hire instructors to teach their children. Rules regulating trade were decided on by democratic councils, in which every free-born male citizen was expected to participate.

Literacy was not a crime, far from it—one needed it to participate in Athenian society. Both the propertied class and the artisans used it for a wide range of activities, from "composing poetry to cursing enemies, from displaying laws to voting, from inscribing tombstones or dedications to writing shopping lists."[7] It is estimated that well over half the male population could read and write, which meant the Athenians were the most literate people of the time. Women were not encouraged to read, but many of them could. Because slaves were expected to help balance accounts and keep records, many could read and write.

Marriage, family, religion, and the education of children were important duties of *parents* in ancient Athens, not the state. Citizens gave the state due allegiance, as military protection was a critical necessity and primary purpose of government; however, militarism did not become an all-encompassing end in itself as it did in Sparta. Service in the military was voluntary, but considered an honorable obligation. Athens had an effective military and governing apparatus without state control of education.

Pericles contrasted the educational systems of Athens and Sparta in his famous funeral oration:

> The Spartans, from their earliest boyhood are submitted to the most laborious training in courage; we pass our lives without all these restrictions, and yet are just as ready to face the same dangers as they are . . . . There are certain advantages, I think, in our way of meeting danger with an easy mind, instead of with a laborious training, with natural rather than state-induced courage.
>
> He names other ways in which the city is admirable:
>
> Our love of what is beautiful does not lead to extravagance; our love of things of the mind does not make us soft.

And:

> In our own homes we find a beauty and a good taste which delight us everyday and which drive away our cares . . . . [8]

Citizens belonged to a number of voluntary associations, which served specific purposes, gave a sense of belonging, and provided education for the young. The village, or *deme*, formed the local political unit based on geography, but just as important was the *phratry*, a kind of brotherly and religious association composed of relatives and nonrelatives, where children were presented to the group at birth and adolescence in special ceremonies, and young people had special ties to adults. The *phratry*, and other social organizations such as benefit clubs, burial clubs, and clubs associated with specific trades and activities, provided children and young people with opportunities to associate with peers and adult mentors.

Oswyn Murray of Oxford says organized schools appear as early as the end of the sixth century and became widespread by the end of the fifth century B.C. Education was paid for by parents, but the cost was low. Parents either taught children themselves, or saw that they received instruction, as most wanted their children to succeed in Athenian society. Schooling often began at age seven. For some it continued only until basic skills were mastered, but for many it continued ten years or more.[9] Except for a mandatory military training for all young men between the ages of 18 and 20, state involvement with education was minimal. And yet training schools for statesmen emerged, such as Isocrates' school of rhetoric and Plato's Academy. These schools, and the services of traveling lecturers from other cities displaying knowledge in mathematics, linguistics, anthropology, and public speaking, form the basis for what is now known as higher education.

Athens Was Smarter

The results of the free exchange of ideas and parental responsibility for learning are what Coulson wants to stress in his comparison of Athens and Sparta. He thinks we should re-evaluate our notion of state control of schools, with its heavy-handed compulsion and forced uniformity. To me it seems ironic that Plato suggested state control of education, admiring the Spartan system, when his own society was the brilliant one. Even more ironic is that many of the supporters of government education in America, like Benjamin Rush, John Dewey, and various union leaders, have espoused the Spartan idea that "children are the property of the state," therefore contradicting the bedrock principle of the American founding that proclaimed that the family precedes the state, and citizens are free agents with inalienable rights to freedom of association.

More and more we hear of schools becoming like jails with metal detectors and armed guards. Are we becoming like Athens or Sparta? Athens had unity without uniformity, a voluntary, yet effective defense, extraordinary achievements, and free-market education. Why can't we?

Notes

1. Andrew Coulson, *Market Education: The Unknown History* (New Brunswick: N.J.: Transaction Publishers, 1999).
2. John Boardman, Jasper Griffin, and Oswyn Murray, eds., *The Oxford History of the Classical World, Greece and the Hellenistic World*, vol. 1 (Oxford, England: Oxford University Press, 1995 [1986]).
3. Ibid., p. 121.
4. Desmond Lee, translator's introduction to *The Republic*, characterizing Plato's attitude toward the Spartans based on comments in pp. 359-67 (Middlesex, England: Penguin Classics, 1974 [1955]), p. 24.
5. Coulson, p. 50.

6. Karl Popper, *The Open Society and Its Enemies*, vol. 1 (Princeton, N.J.: Princeton University Press, 1971 [1943]), p. 175. Sir Karl defines the closed society as characterized by tribal collectivism, authoritarian rule, and social stasis, as opposed to an open society typified by equalitarianism, personal responsibility, and social mobility.
7. Oswyn Murray, "Life and Society in Classical Greece," in Boardman, Griffin, and Murray, p. 222.
8. Thucydides, *The Peloponnesian War*, trans. Rex Warner (Middlesex, England: Penguin Classics, 1978 [1954]), pp. 146-47.
9. Murray, p. 222.

Graduation Advice for the Global Economy

JANUARY 01, 2001 by Gerald Gunderson

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Graduation this spring seems a long way off to students, but college administrators are necessarily well into the planning cycle for speakers and honorary degrees. Unfortunately, if the pattern of the recent past holds, most of those opportunities to slip a few useful insights into the celebration will be squandered. Most of what the audiences have been hearing comes from outmoded or, worse yet, destructive notions.

Almost every speech neglects one of the keys to the world that the graduates will be entering. Markets now organize a majority of the world's economy, and their influence continues to grow. This profoundly changes what information is valuable and how best to compile and evaluate it. When governments and bureaucracies predominate, partial bits of information, some of which is intentionally distorted, rule. But markets are dispassionately honest. The pooled, weighted information reflected in the price of a product or service is more accurate than the rules of thumb or judgments based on selected observations that individuals naturally resort to. Contrary to the egocentric predisposition of people to assume they know what is best, markets mobilize more useful knowledge about a product or service than can any participant, no matter how well situated and informed.

A wise graduation speaker, therefore, will check his temptation to offer personal advice and will instead encourage the graduates to look to the messages of prices and markets. Learning to infer the changes they reflect, along with the incentives they imply for behavior generally, is one of the most powerful skills one can take into the world.

The worst graduation advice is often tied to a mindset that ignores or even denigrates markets as a means to organize human affairs. In the more detrimental addresses, speakers tell graduates that the world is riddled with inequities so glaring that simple justice demands their immediate confrontation. Such speakers skip over the distinctions between unsatisfied wants and misallocations on the one hand, and between intentions and results on the other. After all, who would want such details at a graduation? The unstated implication in such a view of the world is that on its own it works poorly, requiring active management by enlightened folks to salvage it.

Another unstated implication is that those greater concerns trump the skills you developed in school. You must subordinate what you learned and what you would like for goals that others see to be overriding. Lending a hand at the soup kitchen is more important than what you prepared for in school.

If "the world demands your full energy" graduation speaker goes as far as to offer examples, the short list will include the environment and helping the disadvantaged. The former likely includes preserving natural resources by recycling and saving the rain forest—recently upgraded from being called the jungle. The latter requires transferring incomes from the rich to the poor whether within the economy or internationally. If the recycling advocates had looked at the evidence of markets they would discover that considerable recycling already takes place, having organized itself spontaneously through the self-interest of the participants from the earliest that we can ascertain human activity. Markets would also tell objective observers that the reason recycling does not occur in some materials currently is that the cost in resources is greater than the returns.

Many graduation addresses edge toward career guidance. The graduates are advised to begin to act like adults, in effect, jump-start themselves to the longer time horizon that people develop as they age. Begin saving now (preferably in a tax-deferred plan). Keep improving your skills; lifetime learning and reappraisal are crucial. Think of yourselves as a capital asset. Plan your work and training after school to maximize your value. Such rules of thumb are helpful to discuss, and for many graduates they may well be the best lifetime strategies. But they grow out of particular assumptions about the forces that drive the world. You begin saving early if the (after-tax) return on savings is greater than your alternative uses. This may be good discipline for a salaried worker who would otherwise be tempted to consume that amount, but for others creating a business or developing skills in themselves putting capital away could sap more valuable uses.

More often than not, the stronger, instinctive forces that drive markets contradict the advice given graduates. People naturally seek their comparative advantage, specializing in one form of production to the exclusion of others, in order to gain the most from their circumstances. Each person benefits by specializing in the work that combines his skills with the interests of buyers as mediated through markets. The critical corollary is that you must specialize, leaving all remaining activities for others pursuing their own comparative advantages. So if helping others is truly your first priority, concentrate on what you do best, improving the benefits you can then share with others. That creates a bigger pie for everyone, including the disadvantaged.

Scarcest Skills

Schools attempt to impart a new, more productive comparative advantage to their students. In America the scarcest things continue to be the analytic and adaptive abilities of people, not manual labor, capital, or natural resources. In addition to learning to evaluate and organize, probably the most important capacity is mastering further skills in response to changes. The start-ups building on the new digital technology are tangible examples, initiated by young entrepreneurs barely out of school—often started while they were still in school.

Meanwhile the graduates continue to receive advice much like that they would have heard two decades ago. A typical example is, “If you hope to run your own business someday learn such building blocks as accounting and financial analysis on someone else’s nickel, while you work for him.” While such skills are certainly valuable, change in the economy—and, as a consequence, in the students’ current comparative advantage—make that strategy less attractive now. Not too long ago—before the global economy really began to take effect—you pursued innovation and wealth by simultaneously creating an innovation and a business to produce and market it. A successful entrepreneur had to know enough about such elements as finance, marketing, and production to get a business running and to oversee its operations. Now, many of these jobs can be farmed out to specialists; witness offshore manufacturing, e-commerce fulfillment, and venture capitalists. At the same time, innovation, always naturally unpredictable, has become even less structured. Digital technology is so all-encompassing that applications are possible all across the economy. Imagination and initiative can now be more important than a thorough grounding in that market niche. On top of all this, globalization has accentuated the comparative advantage of the American economy in innovation, as distinguished from production of established goods and services.

What to Do?

So what should a smart graduate do? Cut out the warm-up exercises and jump right into your own enterprise. You already have many of the technical skills, and you can pick up what else are necessary as you work. Opportunities have been opened up for improvements everywhere that information, communications, measurements, calculations, and control systems are used—in other words, virtually all human activity. Your effort and imagination will pay off more than pausing to gear up for a profession that might well be made obsolete by change in any case.

Self-interest as expressed in comparative advantage is working its way in the capital markets as well. The American economy's disproportionately large share of the world's innovations is translated into equity, mostly stock in growth firms. That leads to a net inflow of capital as foreigners buy into such enterprises. This is commonly called a trade deficit, and many see its persistence as a sign of economic weakness that must pull down the economy eventually. In actuality it shows that the rest of the world is willing to exchange goods and services for Americans' innovations.

Graduation speakers and many parents emphasize the importance of saving, starting early and making it automatic to avoid the temptation of dipping in for "emergencies." But saving is better done in economies with fewer options for their resources. Americans can create more opportunities as well as reserves for contingencies by creating wealth through entrepreneurial efforts rather than the passive process of not spending. Graduates might well expect to earn far more on the time they invest in a start-up than socking away 10 percent of a salary. Just one modestly successful entrepreneurial venture among otherwise false starts is likely to give an individual more opportunities than a lifetime of faithful saving.

So if you want to really help the world or yourself—or both, for that matter—follow the prodding of the markets. While others see problems in the way the world presently works, you can build new ways that supersede the drawbacks and provide serendipitous opportunities as well. And while others are denying themselves now to build security, you can enjoy creating opportunities that go much beyond insurance. Today’s global reach allows you to leverage your directed creativity on an unprecedented scale. Set aside the expectations derived in earlier eras in favor of the surprising, unprecedented opportunities emerging from the interplay of markets.

Egalitarianism Run Amok

JANUARY 01, 2001 by Christopher Mayer

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There has seemingly been nothing but ebullient praise for the SEC's new disclosure regulation. Dubbed Regulation FD (for "full disclosure"), the new rule has been hailed by journalists in financial magazines and newspapers across the country as a big win for the "little guy." As *Washington Post* columnist Fred Barbash wrote in his Sunday column, "The Securities and Exchange Commission's new 'fair disclosure' regulation is definitely a plus for the individual investor. The agency deserves our thanks."

However, on further examination, it does not seem that Reg FD is a boon for the individual investor at all. Rather than creating a more open dissemination of market information, it will constrict the flow of information. Rather than leveling the playing field, it will foster opportunities for some professionals and companies at the expense of many others.

The regulation requires that the intentional or unintentional disclosure of "material nonpublic information" to individuals or groups that may trade on that information (that is, shareholders or stock market professionals) must also be made available to the public. If the company in question knows ahead of time that it is going to make such a disclosure, it is supposed to make it available to everyone. If it is an unintentional slip, the company is supposed to make the information available within 24 hours or before the start of the next trading day, whichever is later.

These public disclosures can be made by filing a form with the SEC, holding a press conference or Webcast, or issuing a news release. The regulation does not apply to communications made during initial public offerings or secondary stock offerings, nor does it apply to "road shows."

The SEC's motivation for creating the regulation was clear and is available for all to see on its Web page:

> We have become increasingly concerned about the selective disclosure of material information by issuers. As reflected in recent publicized reports, many issuers are disclosing important nonpublic information, such as advance warnings of earnings results, to securities analysts or select institutional investors or both, before making full disclosure of the same information to the general public. Where this has happened, those who were privy to the information beforehand were able to make a profit or avoid a loss at the expense of those kept in the dark.

The central aim is to prevent a select group from profiting from the ignorance of the mass of investors. But let us see how this rule may shake out and who will benefit.

Some participants in the securities industry believe the regulation will result in less information being disseminated by companies out of fear of not complying with the new regulation. As analyst Jeff Tryka of RedChip recently wrote, "Most likely some companies will clam up, offering little if any commentary on the future prospects of their businesses to analysts or institutions much less individuals. Others may continue their current practices, though they may soon tire of filing a Form 8-K every time they talk to an analyst on the phone. The result, especially if corporate legal departments have their way, will be a significant slowdown in the flow of information." Why? To lessen the risk of liability from a Reg FD violation.

Inhibiting Analysis

This slower flow of information will inhibit security analysis by creating more opportunities for error. Management teams often tip analysts on their estimates, managing expectations up or down as the case may be. Earnings estimates and other forecasting will be even more of a crapshoot than they are now, especially if management teams are not able to converse freely with analysts. Rather than estimates being missed by pennies, errors are likely to get much wider and create even more volatility in stock prices.

Of course, as with any new law or regulation, the impact will largely depend on how it is enforced. There will likely be a lot of discussion about what is "material." Indeed, with literally thousands of conversations taking place daily between management and the public, the law may turn out to be virtually unenforceable. Enforcement will likely be capricious and haphazard. Certainly, one group that always benefits from any new law or regulation is the lawyers; they will be fortified with new material to litigate and defend against. There will also be increased demand for a variety of communication services.

In part, the reasoning of the SEC mirrors the position against insider trading. At the core of such reasoning is the notion that information of this type ought to be widely disseminated and that acting on such private information is inherently unfair.

However, investors constantly have information available to them that others do not have, whether they are aware of it or not. Locals in Baltimore, Maryland, know more about Baltimore-based companies than people in Seattle, Washington, do. They have friends and neighbors who work for these companies. They know where the companies do business. Local businesses are frequently covered in the local papers. With this information locals have a feel for a company that someone living far away does not have. Should the locals not be allowed to trade on information publicly known but not yet put out on a Webcast or in a news release?

Notwithstanding actual information, the ability of people to process this information is inherently unequal. Human beings are a diverse lot, with widely differing talents and intellects. Even with all the same information, different investors will have widely differing opinions about the attractiveness of an investment. Is the SEC going to likewise mandate that we all share our analyses with the public so as to not profit "at the expense of those left in the dark"?

There is nothing unfair about unequal information. It is a fact of life, one that all human beings must deal with in interacting with others. Buyers and sellers in transactions everywhere seldom have the same information. Their experiences and intellect, their basic uniqueness as individuals, assure that they won't.

It is well known that both parties to a voluntary exchange believe they benefit at the moment of the exchange or they would not have engaged in it. Likewise, the investment arena is not a coercive exercise. If an investor does not want to play the game, he doesn't have to. No one forces him to put his money in stocks he feels he knows little about.

Regulations like FD show an unbridled faith in government, a hatred for money-making, and a fervor for liberty-killing egalitarianism. All the while, the powers of the leviathan state are expanded under a murky, fickle regulation.

Disclosure laws in general are well loved by reformers. Yet the result, as with so much government regulation, is the opposite of what was intended. As analyst Tryka noted, “Individual investors will not get more information but investment professionals will get less.” Companies will spend more time and resources on compliance; securities analysts will be less useful in guiding their clients; and the lawyers will be busier. And what of the individual investor, the “little man”? Reviewing his stock tables, having no more information than he started with and no edge against the professionals in processing what information he does get, will he be thinking to himself: “Thanks, SEC”?

The problem with our securities markets is not that there is too little regulation. Regulations in this area have become highly complex, requiring expensive legal expertise to navigate safely. The creative forces of the market itself will provide solutions to problems of disclosure. The interaction of buyers and sellers will push the investment market to deliver what investors want, as all free markets are pushed to meet the wants of consumers.

Bill Brosnan: Railroad Free-Marketeer

JANUARY 01, 2001 by Charles Morgret

Charles Morgret's books on railroads include the two-volume Brosnan: The Railroads' Messiah (1996).

Dennis William (Bill) Brosnan (1903-1985) was a lifelong railroader. He began as an apprentice track engineer and rose through the ranks to become president and chief executive officer of Southern Railway Company, now part of Norfolk Southern Corporation.

In the course of his 46-year career with Southern, Brosnan, more than any other individual or group, must be credited primarily with keeping the U.S. railroad industry under private ownership and operation and out of the hands of government, unlike virtually all the world's railroads in his day. He did so in three principal ways.

First, at a time when railroads were among the least modern and most labor-intensive of all industries, he led a massive technological revolution that converted them into one of the most modern and least labor-intensive of all industries. As a key element in that revolution, he built the first of what has become a stable of specialized freight cars designed to meet the varying needs of shippers, instead of forcing them to adapt to the standard railroad boxcar.

Second, by winning a key five-year battle (the "Big John" case) over the Interstate Commerce Commission (ICC), which had closely regulated railroads for nearly a century, he broke the back of government regulation of pricing, thereby enabling railroads to exercise more effectively their low-cost pricing advantage over other modes of transportation.

Third, he established on the Southern Railway the first modern marketing department, which today is a hallmark of railroad sales and services.

Trains magazine of January 2000 ranked Brosnan as the top railroad man of the twentieth century. In another leading trade publication, *Railway*

Age, December 1999, he heads a list of 16 “outstanding railroaders” of the century.

Trains editors said of Brosnan: “Quickly and concurrently, he mechanized track maintenance, centralized car and locomotive repair, built automated hump yards, and consolidated operating regions and departments. If a machine to install crossties didn’t exist on the market, he and his tinkerers invented one and built it in the company shops.” *Railway Age* said “he invested in the first lightweight, mostly aluminum 100-ton coal hoppers, 100-ton ‘Big John’ covered grain hoppers, centralized computing, radio-controlled helper locomotives, and microwave communications.” Pointing out that Brosnan was *Railway Age*‘s “Railroader of the Year” in 1964, the editors quoted *Newsweek* as saying that Brosnan “changed the economy of the South and led the lethargic railroad industry in adopting modern methods.”

Recognition of what Brosnan meant to the railroad industry is thus well understood and fundamentally accurate. What is perhaps less understood and appreciated was his equal dedication and role in preserving the nation’s capitalist system and fighting efforts to undermine it. His prime contribution in that regard lay in providing the leadership that kept railroads under private ownership. During the Great Depression of the 1930s and before World War II, they were in grave danger of being taken over by government. In the early years of the war, and before, calls for railroad nationalization came from high-ranking government officials up to and including cabinet secretaries and Vice President Henry Wallace.

D. W. Brooks, then the executive vice president and general manager of the Cotton Producers Association, in Atlanta, said in 1967: “Except for the fact that Mr. Brosnan came into the railroad industry at the critical time, there was a good chance that all railroads would have moved into government hands.”

Fire Chief Father

Brosnan’s home environment in Albany, Georgia, was more government-oriented than business-oriented. His father, the first Dennis William Brosnan, was Albany’s internationally renowned fire chief during Bill’s early years and through college. It is perhaps not surprising therefore that Bill’s first job after college was as an engineer with the Georgia Department of Highways. Although the job lasted only three years, until 1926, it was long enough to convince him that he didn't want a government career. He would take his chances in private industry. He accepted a job as student apprentice engineer with Southern Railway, a company then of some 8,000 miles of railroad, serving primarily the 13 southeastern states.

Leaving a secure, well-paying job with the highway department to take an apprenticeship with a struggling railroad seemed to Bill's family and friends to be a step backward. A couple of years later, when he still had not received a promised promotion but instead had suffered a 50 percent reduction in take-home pay, their apprehensions grew.

The pay cut was not the result of a rate cut or a demotion. Rather, it was the result of declining business and revenue on Southern, which forced the company to spread the available work by halving the paid working time of the employees it wanted to keep.

The policy succeeded in saving jobs during the depression that was then beginning. But in Brosnan's case, it meant having to get by on $50 a month instead of the $100 he had been getting at the highway department and initially at Southern.

The work that Bill was required to do with Southern was also far more difficult and physically demanding than the job he left. Moreover, on the highway job he had supervised the work of others. As a student apprentice on Southern, he was required to do much of the pick-and-shovel labor of repairing and maintaining the track and roadway himself.

From that physically challenging experience, Bill learned what it was like to break loose a 200-pound crosstie that had been in track 40 or more years, with only a sledgehammer and pick to assist him. There, too, he came to realize that there had to be a better way to do such work—and that it would be up to him to find it.

Initially, Bill's apprenticeship with Southern was to last only six months. After that, he was to be promoted to assistant engineer. But as economic conditions worsened and jobs became harder to find, promotions were halted and the period of apprenticeship lengthened.

Slowly, almost agonizingly, he was finally allowed to assume minor engineering responsibilities. He started as a rodman, which on the railroad meant holding the surveying pole while his partner did the sighting. This was followed by promotion to foreman in charge of a section gang of five or six men who repaired and maintained a small section of track.

Despite his deep disappointment and impatience with his snaillike progress, Bill by then was thankful to have kept his job when so many others were let go. But the longer he worked with his hands—still using only the same basic tools as when railroads began a century earlier—the more he became convinced of the need for bringing railroads, a basic industry then as now, into the twentieth century technologically.

Certainly, he reasoned, the opportunity was far greater on Southern than it would have been at a government job run by bureaucrats and vulnerable to the winds and whims of political change. Therefore, he tackled the job with the vigor of one who sensed that only by experiencing the problems firsthand would he be able to find better solutions.

Not until October 1931, two years after the stock-market crash and six years after his first job with Southern, did Bill receive his first real promotion. The title change was only from assistant engineer, maintenance of way, to junior engineer. But it restored him to full-time.

That was the good news. The bad news was that Southern at about the same time had found it necessary to order a 10 percent pay reduction across the board. It was but the latest in a series of belt-tightening measures that had been forced on Southern's management by a severe business decline—which was destined to continue for the rest of the decade.

In just three years, from 1929 through 1931, Southern's operating revenues had plummeted by nearly one-third. Net income fell from $18.1 million in 1929 to a *deficit* of nearly $6 million in 1931. A year later, in 1932, the company's net income deficit soared to a record of over $11 million, a staggering sum at the time for a company its size.

Bankruptcy Threatens

Threatened as never before by the stark specter of insolvency, Fairfax Harrison, Southern's president of 16 years, gave an order that was tantamount to preparing to "abandon ship." He ordered his attorneys to prepare bankruptcy papers, which he held in his desk drawer expecting any day to have to sign and file them.

Nor was Southern Railway an exception. Among railroads generally, the level of business between 1929 and 1931 fell by one-third and net income plummeted by over 80 percent. In 1932 the entire industry reported a net income *deficit* of $121.6 million, again a staggering figure at the time.

The railroad industry, including Southern, slashed employment by 38 percent, adding over 600,000 persons to the swelling tide of those seeking jobs. Even the employees who were fortunate enough to keep their jobs often found their paychecks cut by ten percent or more for prolonged periods, for which they were unwarned and unprepared.

For most of the 1930s, as for the five years of World War II that followed, there was little opportunity for Bill to do more than work as hard as he knew how in middle-level supervisory jobs. His first job as a division superintendent, at Selma, Alabama, did not come until October 1938. After that he was moved, still as superintendent, first to division headquarters at Macon, Georgia, and in February 1943, to Birmingham, Alabama, then the most critically important division on Southern's system.

Because of its strategic location as the southernmost division of Southern's system connecting New Orleans and Birmingham, the importance of the Birmingham division was never in doubt. But with the entry of the United States into the war, it was almost immediately called on to handle, in addition to its normally heavy volume, the millions of gallons of oil traditionally shipped daily by tankers and barges. That water movement from the Gulf of Mexico to the manufacturing centers in the northeast had been halted by the armadas of German submarines then roaming at will in the coastal waters from Florida to New England. As the division's newly appointed superintendent, nothing in Bill's work was more important than to keep the oil flowing steadily northward by rail.

His tenure in that sensitive assignment lasted through the end of the war in August 1945. Three months later he accepted assignment for a year as chief engineer, Western Lines, with headquarters in Cincinnati. It was in that job that he began the work that ultimately changed the work of track construction and maintenance from hand labor performed by armies of workers equipped only with picks and shovels to the highly mechanized system used by all railroads today.

But it was not until 1947, when Bill was promoted to general manager, Central Lines, in Knoxville, that he began what became the second of his major technological changes. That was automating the work of freight car classification and movement in freight yards and terminals. As with the work on track, it too had been a function performed largely by human labor operating thousands of switching locomotives.

In 1952, Bill was named vice president, operations, a post he held for eight years. In that period, he launched many additional technological changes that, like mechanized maintenance and automated freight yards, were quickly embraced by the railroad industry. Among these were welded rail, microwave communications, computerization of railroad operations, modern assembly-line shops for freight car repairs, containerization, and specialized freight cars built to meet customer needs.

"Big John"

One of the new specialized freight cars became the focus of what would be a five-year battle before the ICC and the U.S. Supreme Court. The outcome of that battle led ultimately to deregulation of railroads and the restoration of competitive rate-making. The car was the renowned "Big John" for hauling grain.

Before "Big John" in the early 1960s, grain was carried in standard railroad boxcars, most only 50-ton capacity and as ill-suited for carrying grain as they were for loading and unloading it. Bill's "Big John" car revolutionized the hauling of grain. Like a bathtub, it was loaded from the top and unloaded from the bottom. And because of its lightweight aluminum, stainless-steel construction, it could be double the capacity of the standard box car.

With "Big John," Bill was able to lower Southern's freight rates on grain by 60 percent. But doing so required approval by the ICC, which since its beginning in 1887 had viewed its primary role as protecting other carriers from railroad competition. It prohibited the rate reduction.

Bill finally prevailed after five years and two trips to the Supreme Court. By winning, he not only restored free pricing to railroad rate-making, but also began what finally ended anachronistic ICC regulation itself.

By leading the technological and managerial revolutions that enabled railroads to remain under private ownership, Bill made his most important contributions to free enterprise. He seldom missed an opportunity to make known his support of freedom. The occasions to do so became more frequent after he became Southern's president and chief executive officer in 1962.

For example, in 1964 he spoke before the graduating class at his alma mater, Georgia Tech. (For that speech, he was awarded the George Washington Honor Medal by the Freedom Foundation at Valley Forge.) Bill expressed the philosophy that had guided his own life, saying that the erosion of individual freedom was caused by “herdlike acceptance of limitations on our rights to be individuals.” “It is important to recognize,” he said, “that the right to personal choice can be given away or voted away in a democracy as well as stolen away by a dictatorship.”

Bill also warned of a growing tendency on the part of too many young people to place a higher priority on security than on adventure, challenge, and opportunity. He warned against “the belief that cradle to the grave prosperity can be guaranteed if we turn over all our affairs to government. It gives the false promise that we need then have no concern about our personal contribution to our own advancement and welfare.”

South Africas Polarized Politics

JANUARY 01, 2001 by James Peron

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When Nelson Mandela left prison in 1990, the entire world was watching. This act was viewed as the final nail in the coffin of apartheid: an odious system of racial segregation that was combined with state socialism and called Christian Nationalism by the National Party (NP) government.

What was apparent long before Mandela's release was that, from the ruling party's perspective, apartheid wasn't working. The economic benefits of interracial trade were too great, and market forces were constantly undermining the state regulations that served as apartheid's foundation.

In its last term of office the National Party government had become irrelevant. The populace knew the government was on the way out and that reform was inevitable. For that short period South Africa became a de facto highly deregulated system. Censorship laws and the Board of Publications still existed, but the people ignored the laws, and films and magazines, long banned, suddenly were everywhere. Casinos popped up as well—not Vegas-style casinos, but something we might call mom-and-pop casinos with a few slot machines and the like. The various agricultural marketing boards were being ignored by the farmers and collapsed under their own dead weight. Unlicensed, unregistered, and untaxed businesses sprang up around the country.

The economy, which had generally been in decline from about 1982 to 1992, started picking up. In 1993 the country saw an increase in real GDP, which had declined six out of the previous ten years. Growth in GDP was only 1.2 percent in 1993, the year before Mandela became president of South Africa. But by 1996 it had risen to 4.2 percent. All in all, this wasn't considered too bad a performance for a third world country. But in 1997 the growth rate almost halved, and in 1998 it dropped again—from 2.5 percent to 0.5 percent. By 1999 the economy was once again losing GDP. Things looked worse on a per capita basis since the population was continuing to grow at an annual rate of 2 percent.

The government of Mandela's African National Congress (ANC) was imposing policy on the country. The de facto deregulation of the last years of NP rule gave way to the re-regulation of the ANC. Censorship laws that had been declared unconstitutional were rewritten, and the Board of Publications was once again in operation. In some ways its powers were expanded. The new board can also place legal restrictions on films, videos, and computer games for material that is deemed to be stereotypical or prejudiced regarding race, sex, ethnicity, or religion. The mom-and-pop casinos were replaced with a few licensed operations favoring ANC supporters. And while the marketing boards were dead, the ANC had a plethora of new legislation waiting in the wings.

The government decided to concentrate on unemployment and working conditions. Officials thought that high unemployment meant wages were too low. The ANC had to consider political realities: its partners in government were the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP). The closeness of this alliance was again made clear at a May Day rally organized by COSATU. At the rally ANC Secretary General Kgalema Motlanthe urged workers "to intensely hate capitalism and engage in a struggle against it." Responding to press queries, Motlanthe said the ANC is "not a bourgeois organization. The country's leading socialist minds are in the ANC. Anyone who argues for socialism will find allies in the ANC."

New labor laws were introduced to satisfy the Marxists in all three groups. A keystone measure was the Employment Equity Act of 1998 (EEA), which bans "unfair discrimination" on 19 grounds including race and sex. It also reverses the onus of proof and requires employers to prove their innocence if accused of violating the law. The law applies to all companies with more than 50 employees or that has financial turnovers over a specified amount. Once a company qualifies for the law it is required to draw up and submit to government its plans for affirmative action, including the setting of numerical goals for equitable representation of specified categories of people.

Reversion to Apartheid?

More than one commentator noticed that the new legislation was quite similar to the old apartheid laws, with the favored categories changing places with the previously unfavored groups. Apartheid legislation had light-skinned blacks seeking reclassification as "coloureds" (mixed-race) and coloureds seeking to be classified as white. Under the new legislation the racial migration was reversed. Suddenly very light-skinned Indians and coloureds publicly called themselves black. And many coloureds complained that while under the previous government they were "too black," now under the ANC they are "too white." The Chinese Association of South Africa has also complained about the law, saying that under apartheid laws they were excluded as nonwhites but are now excluded because they are nonblack. When Phil Ah Hing applied for a shop at the new Emfuleni Casino her application was rejected. The casino said that at least 30 percent of the businesses in the casino had to be black owned. She commented, "But we didn't count before [under apartheid] and I don't understand why we don't count now."

Companies that did not comply with EEA regulations faced stiff fines that could rise to almost 1 million rands per violation. Other new laws increased overtime wages, mandated retirement plans for domestic workers, and made it extremely difficult to fire dishonest or nonproductive workers. The results were predictable: over 1 million jobs disappeared from the economy during the first term of ANC governance. And in a population of just over 40 million this is a sizable drop.

Even the government has recognized that its labor policies are destroying jobs and recently said it would investigate "reforming" the laws to exempt small businesses. But so far the investigation has not borne fruit, and the raw numbers of jobs continue to decline. Finance Minister Trevor Manuel confessed: "It's a terrible admission but governments around the world are impotent when it comes to creating jobs." But they certainly know how to destroy them.

Government Health Care

Another area put under the government's spotlight was health care. The ANC announced that the most appealing health-care model was that of Fidel Castro's Cuba. Cuban medical personnel were imported into South Africa to work with the government, and for the most part they are still here. One Cuban doctor left the country in a hurry when his ineptness resulted in several deaths, and another was quickly deported when he married a South African and asked for political asylum.

Mandela announced free health care for children, and the government reallocated resources away from hospitals to rural clinics, which basically offer treatment for splinters, colds, and other minor problems. The result was an obvious drop in health-care standards at all the major government hospitals in the country.

Health Minister Nkosazana Zuma decided that health care needed a dose of coercion to achieve her goals. She banned smoking in all public workplaces, prohibited tobacco advertising and sponsorship of sporting or cultural events, and conscripted medical practitioners. When conscription was first proposed it was vigorously opposed, and Zuma dropped the measure. But she then replaced it with another measure mandating one year of service to the state, this time calling the service "training."

Zuma fired hundreds of qualified doctors from their positions and replaced them with students fresh out of medical school. At Chris Hani-Baragwanath Hospital in Soweto, 42 foreign doctors were fired, including pediatric specialists, and replaced with inexperienced graduates serving involuntarily. Many of the doctors who were fired had long records and wanted to work in public health care. The students typically stay for one year and then, by most reports, a huge percentage of them pack up and emigrate permanently. The policy forced doctors who wanted to work in South Africa to leave the country, to be replaced by doctors who didn't intend to stay. Dr. Arthur Manning, superintendent of Coronation and Helen Joseph hospitals, said: "In a country where we don't have enough skills, we are saying good-bye to our medical staff and leaving them no option but to go overseas."

New legislation will conscript pharmacists and dentists as well. And doctors who stay in South Africa will have to apply for permits to practice in specific areas. The government will use the permit process to force doctors into working in areas favored by the government as opposed to areas favored by the doctors themselves. The obvious results of such polices were completely ignored by the government. The medical brain drain continues unabated, and countries around the world are now benefiting from the skills of South African doctors, nurses, and dentists. In hopes of reversing the brain drain, Mandela, now retired, has asked the British government to pass a law forbidding South African-trained nurses from working in the United Kingdom—some 14,000 have already left the country.

Brain Drain: From Trickle to Torrent

The number of skilled South Africans leaving the country has been steadily increasing. One business journal wrote: “Five years after the dawn of majority democracy and the end of international pariah status, the reservoir of skilled people is still oozing out of the country. The so-called brain drain, or ‘chicken run,’ widely believed to have run its course, now appears to have shifted from a trickle to a torrent.”

Data from the United States, Britain, Canada, Australia, and New Zealand showed that from 1989 to 1997 some 233,000 South Africans emigrated to those countries. Official South African statistics showed only a third of that number “officially” leaving the country. Emigration attorney Hilliard Kassel said: “There is still a net out-flow of skills, and it has increased since 1994. Information technology people are in the forefront. They are mostly white, but there are Asians, coloureds and black people as well.”

According to a study by the Trade and Industry Monitor at the University of Cape Town, “Post 1994 annual immigration of professionals was 56 percent higher than for 1989-94. It is likely that between one eighth and one fifth of South Africans with tertiary education now reside abroad.”

While goodly numbers of skilled workers are leaving, it is mainly the young who are fleeing the country. A British program, which allowed young people to work there for two years, had some 30,000 South Africans apply for it in 1999 alone. Many use the program as an intermediary step before seeking residency in the UK. One youth told the press: “People find it difficult to compete in the affirmative-action job market.” Australian immigration agent Neil Hitchcock says that many school-aged South Africans are now studying in Australia: “What’s also happening is that some families who are not yet ready to migrate are having their kids educated in Australian tertiary institutions, as a preparatory step.” One report mentioned a Jewish school in Australia that has only one Australian student—the rest are South African emigrants.

The net losses of skill are compounded by the fact that capital is leaving the country just as quickly. John Kane-Berman, chief executive of the Institute of Race Relations, said, “Capital continues to leave South Africa in greater quantities than it arrives.” To make matters worse both trends have been accelerating. “Our direct investment abroad was only 10 percent higher than foreign holdings here in 1986, the margin had risen to 85 percent in 1998,” Kane-Berman said. “One two-year period—1986 to 1988—saw an actual decline in foreign direct investment in South Africa.” He added that 1999 was the sixth year in a row that saw a net loss of people: “This has never happened before during the period (from 1924) for which official statistics are available.”

Privatization

The ANC government early on committed itself to the privatization of the massive amount of state assets it inherited. But the rhetoric has far surpassed the reality. One problem is that the large element of avowed Marxists within the government opposes these measures vehemently. What measures were implemented were processed slowly and often amounted to nothing more than window dressing. The state-owned telephone company was turned into a private corporation owned by the state, as opposed to a government department. Eventually 30 percent was sold off but the government is still the majority stockholder. The government-owned South African Airways was privatized, but only in the sense that 20 percent of the company was sold to SwissAir. The remaining 80 percent remains government-owned. In other privatization schemes so-called “black empowerment” companies (which tend to be owned by former ANC officials or the trade unions) were given preference, even when their offers were below those made by others.

International financial bodies and experts tend to believe that privatization is now running at least a couple of years behind schedule. One financial columnist noted that government pronouncements on privatization are now ignored by the markets because “we have all heard the same words too often in the past few years.” The government recently released another plan to step up privatization, but opposition members of Parliament have pointed out that the plan is long on promises and short on implementation.

While the general climate still leaves much to be desired there have been some areas of improvement. Fiscal and monetary policies have remained relatively steady. The change in the consumer price index, which had been in double digits throughout the 1970s, ’80s and early ’90s, is now running in the 6-7 percent range. Interest rates, which were quite high (up in the mid-20s in 1998) have been dropping and now sit around 14 percent. But economists say that no further drops are expected and that the rates may begin to climb. Personal saving, which was 10 percent of personal disposable income in 1985, is now down to 1.4 percent.

Indecision and Uncertainty

One problem the ANC has is deciding what policies to pursue. Its intellectual foundation is firmly in the Marxist camp. This means that most policies, when first announced, tend to be interventionist, centralizing control in the national government. Reactions from the media, opposition parties, and world bodies usually force them to compromise. But this often leads to a policy that is a mishmash of contradictory ideas. For instance, the government recently nationalized all water sources in the country. Once this was done it announced that a market in water was necessary for efficient allocation. And since a water market requires prices, the government announced it would impose a price system; the government, not the market, would set prices.

What makes South Africa unique is the kind of debate being conducted in political circles. As noted, the ruling coalition government is fundamentally Marxist. Yet the Official Opposition in parliament takes a relatively libertarian, or classical liberal, stand on most issues. The Democratic Party (DP), now under the leadership of Tony Leon, was once the only parliamentary voice in opposition to apartheid. Today it is vocal in its support for free markets, the rule of law, private property rights, and limited government. Libertarian-oriented Americans would find it a far more satisfactory choice than the Republican Party. For instance, the DP opposes affirmative action and censorship. It stands for free-market capitalism, yet it also is the party of choice of the gay community.

The DP is closely identified by many people with the ideas of the Free Market Foundation, the classical liberal Institute of Race Relations, and the Helen Suzman Foundation. Tony Leon has called his politics “muscular liberalism," while the ANC has branded it "mutant liberalism" or "libertarianism." But opposition voters have rallied to the DP. In the previous election the DP held only seven seats in parliament. In the 1999 election support increased, giving the DP a total of 38 seats. However, the ANC still holds two-thirds of the seats in parliament.

The National Party, which previously was the Official Opposition, saw support collapse as its voters joined the DP bandwagon. Now the NP has officially closed up shop, and its leadership has followed its members into the DP under the new name: Democratic Alliance (DA). The Federal Alliance, a minor party with two seats, also joined the DA, bringing the total number of parliamentary seats under Tony Leon's leadership to 68.

In South Africa, politics is dividing into two camps. On one side is an alliance dominated by the ideas of Marx and Engels. On the other side is an opposition that has read, and to some degree understands, Hayek and Mises. Whatever the future may hold one thing is guaranteed: South African politics won't be dull.

Why All the Con Artistry?

JANUARY 01, 2001 by Donald Boudreaux

Donald Boudreaux is president of FEE.

Presumably the 2000 election is now history. This month, a new resident will move into America's premier public-housing project, and a new Congress—made up mostly of leftovers from past Congresses—will be gaveled into action. Now's a good time to reflect on the nature of modern politics.

When I lived near Washington, D.C., in the late 1980s, I often heard a radio commercial that was unfailingly irritating. The announcer had one of those "I'm-the-world's-most-folksy-and-friendly-guy" voices. He spoke of a coalition of corporations that annually brings hundreds of high-school students to Washington "so that they can see democracy in action!" He intoned these words as if he were announcing that the lucky youngsters were being given a rare key to radiant truth and eternal bliss. The background music re-inforced the loftiness of bringing students to gaze upon the seat of national power.

Of course, touring Washington is utterly unrevealing of the real nature of the place and its product. Gazing upon that city's monuments and public proceedings taking place on Capitol Hill is not to gaze upon evidence of modern democracy's logic; instead, it is to gaze upon props and stage plays. All that is on display in Washington is meant to convey a false sense of what transpires there. It's meant to con the public into believing that the politicians, bureaucrats, and lobbyists who toil there are working for some grand and noble purpose—for "the People" or "society" or "the common good." But it's a lie.

Politicians, bureaucrats, and lobbyists do toil. But they toil not for "the People" so much as for themselves and politically powerful interest groups. Together, they're ticks on taxpayers and consumers. How else to explain government subsidies to corporations to advertise their products abroad? Or government's paying farmers not to grow food? Or government's use of civil asset-forfeiture? Or the Gestapo-esque tactics often employed by bureaucrats to enforce environmental statutes?*

* For a detailed account of Washington's predations during the 1990s, see James Bovard, Feeling Your Pain: The Explosion and Use of Government Power in the Clinton-Gore Years (New York: St. Martin's Press, 2000).

Many readers of even this magazine will accuse me of being excessively harsh. But I stand by it.

Think about it. Free your mind of the romantic daze created by political pomp, grandiose job titles, and soaring marble monuments. Recognize that probably no one with power in Washington knows you personally. No one there has ever offered a whit of his own time or money to assist you when you needed a hand. If tomorrow you were to suffer an agonizing death, no one in Washington would grieve. Your misfortune would cause no representative, no senator, no president, no bureaucrat to lose a bite of appetite or a moment of sleep.

Such nonreaction is hardly what you expect from people who truly feel deep affection for you.

And yet politicians and bureaucrats routinely trumpet their heartfelt concern for your welfare. Indeed, as you think about it, you'll realize that these people boast that they are *more* concerned about your welfare than are your loved ones, your friends, or even you yourself. Their rhetoric is a torrent of promises to assist you in ways that no one else reliably will. Each candidate and officeholder assures you that he is that exceptional human being whose principal purpose in life is to help you and other strangers to achieve greater happiness—and that he, despite having never met you, somehow has unique knowledge about just how to make your life better.

Why are so many otherwise sensible people deluded by this humbug? Each of us would slam the door on any nonpolitician stranger who showed up at our home to announce that he's our servant—that he possesses singular insight into our preferences and circumstances—that if we only trust him with large chunks of our wealth and liberty, he will use this wealth and power, not for his own purposes, but for ours. Why isn't every politician accorded the same dismissive treatment that we give to other con artists?

Skeptics of my analysis will argue that politicians aren't con artists because people choose them in elections. But this common refrain is weak. *All* con artists are "chosen" by their victims because all con artists persuade their victims to trust them. That's the nature of con artistry. What is it about political settings that lower so many people's guard against con artistry?

I believe there's an answer. It's the fact that each vote is inconsequential. By "inconsequential" I mean that no voter incurs any material cost or receives any material benefit as a consequence of how he votes. Many voters get psychic satisfaction from casting a ballot for Mr. Jones or Ms. Smith (or *against* Mr. Jones or Ms. Smith). But for each individual voter, the material consequences of yanking lever A or B or C are non-existent. What the government will do after the election is independent of how any one voter votes.

The consequence of vote-inconsequentialism is that each voter has an inadequate personal stake in voting wisely. Vote-inconsequentialism encourages massive carelessness and imprudence in voting booths. The way is paved for con artists to achieve political power.

Compare voting to private decision-making. If a stranger taps on your shoulder proclaiming his great affection for you and yours, and promises that, in exchange for a large portion of your money and a great deal of power over you, he will improve your welfare, health, and happiness, you pay him no heed. You immediately recognize him as a scammer. The reason is that you're in control. Your reaction matters. Your reaction—and your reaction alone—directly and unconditionally affects the outcome. If you succumb to the scammer's charms, you'll suffer. If, instead, you tell him no, you protect your wealth and liberty. The decision is yours and yours alone. Therefore, you have powerful incentives to act wisely.

In private settings, con artistry is checked by each individual's incentives to avoid being conned. Scams happen, of course, but the immense majority of private exchanges and relationships are on the level because each person makes individual choices; private choices are consequential. Private choices matter. Businesspeople who treat customers as dupes are fast run into bankruptcy.

In political settings, though, con artistry is the norm. This outcome is just what we should expect from a system of making decisions collectively and in which constitutional fetters on government power are frayed.

Behind all the marble and pageantry in Washington is nothing more than a cabal of con artists out to rob innocent people of their wealth and liberties. Let’s be on better guard against them.

Get Rid of the Labels

JANUARY 01, 2001 by Lawrence W. Reed

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At least when it comes to political matters, Americans are hung up on labels. Everywhere you turn, somebody is calling somebody else some name—shorthand for what the other person's political philosophy or ideological leanings are perceived to be.

If labels inform, then they can be useful. But when they confuse or distort, they're worse than useless. Amid the general dumbing down of educational standards in recent years and the resulting degeneration of public debate, I confess to a disillusionment with the commonly used political labels. Most have become excuses for people to stop thinking.

Consider the tired, old dichotomy of "liberal" on the one hand versus "conservative" on the other. "Liberal" was once an honorable word to describe those who put "liberty" first. Over the twentieth century in America, it flip-flopped into a term for those who would gladly trade liberty for a mess of pottage from the state. Even that meaning rarely applies to any one person's view on every issue.

"Conservative" is sometimes used to describe one who wants to preserve the status quo, and at other times to describe one who wants to restore a limited role for government (at least in most economic matters), which today is hardly the status quo. The confusion only worsens when the labelers go to work on foreigners. When Mikhail Gorbachev was introducing reforms in the old Soviet Union, the American media called him a "liberal" and his old-line Stalinist opponents "conservative." American conservatives rightly wondered why their label was always attached to the figures the mainstream media could easily demonize, whether foreign communists or homespun, budget-cutting libertarians.

Quite often somebody attaches an adjective to an already-confusing label that rarely clarifies anything. "Compassionate" conservative, for example. I know a lot of very generous, caring, self-described conservatives who routinely give far more of their own resources to worthy causes than the most sanctimonious, guilt-ridden "liberals." These "conservatives" wonder why any adjective is necessary.

And how about that word "moderate"? That's been sanctified to describe one who occupies a lofty perch of enlightened and thoughtful objectivity. Look closer and you usually find a person who hasn't done his homework and can't make his mind up. And when he finally does come to a conclusion, it's strikingly inconsistent with other half-baked views he holds.

Maybe we need a new set of labels. Or perhaps we need to recognize that shorthand just won't do the job when talking about how complex principles apply to current-day issues.

In any event, if we must label people this or that, I suggest we do so in more meaningful ways, with fewer sound bites and single-word monikers. That suggests we not use one-size-fits-all descriptions, but rather that we describe traits and tendencies.

For starters: Why not differentiate between *those who are satisfied with rhetoric versus those who demand results?*

People who advocate government-financed and government-directed efforts to address problems once widely regarded as personal, private, or "civil society" responsibilities almost always settle for rhetoric alone. Perhaps that's because their handiwork rarely produces results worth bragging about. To these people, it is usually enough for someone to simply declare his concern for the poor to prove that he really cares. It doesn't matter that government programs to help the poor have decisively accomplished the very opposite, a painful fact that both experience and economics should have forecast in advance.

People who advocate nongovernmental solutions—changes in attitudes and behavior, strengthening the family, involvement of churches and private associations, for example—are not typically animated by rhetoric. They are focused on results, and they have the incredible story of the American experience to which they can proudly point. It wasn't rhetoric that carved a great civilization out of wilderness; it wasn't self-righteous breast-beating or mere professions of concern that fed, clothed, and housed more people at higher levels than any other society ever known in history. It was a combination of strong families, rugged self-reliance, effective volunteer associations, wealth-creating private initiative, and risk-taking entrepreneurship.

Here's another meaningful way to categorize people's thinking: *Those who are happy with short-term answers versus those who plan for the long run.*

Some people think only of the here-and-now, what strikes the eye, the present moment. Others see further ahead and recognize that quick fixes often yield long-term disaster.

In this regard, those who favor government "solutions" are on the short end of the stick. The primary answer they offer to problems such as poverty is to toss the poor a government check. They observe the subject spending the check on groceries and conclude that they have done good. But those who support nongovernment solutions know the meaning of the adage "Give me a fish and I eat for a day; teach me to fish and I eat for a lifetime."

Yet another possible method of drawing distinctions and applying accurate descriptions: *Those who exhibit little interest in liberty versus those who understand that without liberty, little else either matters or is possible.*

People who push government to "tax and tax, spend and spend, elect and elect" (in the words of FDR brain truster Harry Hopkins) are more than willing to sacrifice a little liberty for the sake of a handout. More appropriately, they are willing to sacrifice the liberties of everyone for the sake of handouts for a few. Those who prefer private, nongovernmental measures to address problems understand (1) that government has nothing to give anybody except what it first takes from somebody and (2) that government which is big enough to give you everything you want has become big enough to take away everything you've got.

Instead of settling for today's standard and increasingly confusing or irrelevant labels, we should concentrate on explaining that the ideas worth supporting are those that are tested and found worthwhile because they produce results, not rhetoric; that the ideas worth supporting are those that do not mortgage the future for the sake of the present; and finally, that the ideas worth supporting are those that do not treat other people's liberty as though it were so much scrap paper waiting to be cleared away.

Surely, for reasons I've already made apparent, one who values freedom and free markets can readily embrace these new criteria for pegging political/economic tendencies. We'll probably have a very hard time, however, getting the other side to go along. But that fact says volumes about the merits of their positions and certainly tells us all a lot more than the old mainstream *mis*labels. If insisting on this approach compels a few to dig a little deeper and learn more than what can fit on a bumper sticker, public debate will to some degree be better informed.

Appeasing China, Backing Taiwan?

JANUARY 01, 2001 by Doug Bandow

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One of the powers that governments most jealously guard is that of determining who visits one's country. Washington is notorious not only for barring people from coming to America permanently, but also for refusing to let people visit who might want to come permanently.

China goes further, however. It seems to believe that it should regulate visitation not only for itself, but also for other nations. Last year the State Department went out of its way to accommodate China's criticism of Taiwan President Chen Shui-bian's brief stopover in Los Angeles. As my colleague Ted Galen Carpenter uncharitably observed, "Clinton administration officials once again have their lips firmly planted on Beijing's boot."

Taiwan is isolated, but not alone. Twenty-nine nations still recognize the Republic of China, and President Chen was traveling to Central America to visit some of Taiwan's friends. That meant a stop in Los Angeles.

Naturally, this upset Beijing, which claims the island state as its own. Apparently no Taiwanese—at least, no Taiwanese official of note—is supposed to visit America, even for 16 hours, unless China approves.

The People's Republic of China (PRC) made much the same argument six years ago, when President Lee Teng-hui attended a reunion at Cornell University, his alma mater. The administration promised to deny Lee's visa application, until congressional protests forced it to retreat. (Then the State Department assured Beijing that Lee's visit was "private.")

On President Clinton's 1998 visit to Beijing, he uttered his famous "three noes"—no U.S. support for a two-China policy, Taiwan's independence, or even Taipei's membership in international organizations for which statehood is required. His effusive support for the PRC undercut Taiwan's quest to forge a separate identity.

Now comes President Chen's visit, which, Beijing declared, could "severely" damage Sino-American relations. Although the administration decided not to declare the nation that claims to lead the "free world" off limits to the head of state of a vibrant capitalist democracy, it did go out of its way to quarantine him.

Reassuring Beijing that the visit was private was always simple: no administration official need meet with Chen. But the administration attempted to prevent him from meeting with anyone else, including congressmen. It reportedly informed Chen that he could expect future visas only if he kept this trip totally private.

Even this timorous behavior did not satisfy the PRC. Foreign Ministry spokesman Zhu Bangzao expressed his government's "strong dissatisfaction and firm opposition" after Washington issued Chen a visa. Representative Dana Rohrabacher broke through the U.S. cordon and met with Chen at the latter's hotel. Otherwise, Chen might as well have landed in Phnom Penh or Cairo as in Los Angeles.

How could a U.S. president, representing the most important and powerful nation on earth, so abase himself? America's policy toward both Taiwan and China is bankrupt.

Good relations with the PRC are important. It is the world's most populous state; it could eventually generate the globe's biggest economy. It sits in the midst of the world's most dynamic economies.

Thus Washington should encourage the PRC to move in a more liberal direction. Particularly important is allowing private trade to flourish in order to encourage the sort of cultural and economic ties that make a freer, more democratic China more likely. Nothing is certain, but more private, and especially profitable private, contact makes more freedom more likely.

Equally important, America should not defend the Republic of China. In fact, the creation of a genuinely free society entitles the Taiwanese to chart their own future. But prudence requires the United States to exercise caution in backing that right.

Taiwan exercises a surprisingly powerful hold on Chinese emotions. More than a century of domestic weakness and foreign domination are yielding to growing affluence and influence. Strong is the desire to use that new power to reunify a country artificially dismembered in past years.

Nationalistic feeling toward Taiwan is not limited to communist officials. It is shared by many Chinese expatriates. A surprising number of westernized Chinese professionals turn into raving Sino-nationalists when the question of Taiwan arises.

That Beijing cares, and cares passionately, requires Washington policymakers to take seriously the possibility that China is willing to use force against Taiwan, is unlikely to treat American threats to intervene seriously, and is ready to take what Washington would consider to be irrational risks to "recover" Taiwan.

That means a defense guarantee cannot be offered in the belief that it represents cheap deterrence, a bluff that will never be called. To the contrary, such a step has a disturbing potential of leading to war between America and China, a nuclear-armed state.

Destabilizing Guarantee

Indeed, a perceived American guarantee would be destabilizing. It would directly confront Beijing, forcing the leadership to make a decision instead of putting off the issue. At the same time, such a policy would encourage Taiwanese political forces, which are already pushing toward independence. For instance, Lee Teng-hui has published a new book calling for it.

President Chen is so far following a more moderate course, but members of his own Democratic Progressive Party have forced him to retreat from his conciliatory endorsement of the "one-China" principle. The common belief that the Seventh Fleet will steam to Taiwan's rescue in any conflict not only encourages Taipei officials to be more assertive, but has caused some voters to support Chen. On election eve last March, one told the *Washington Times*: "Beijing will not resort to force carelessly" since the U.S. backs Taiwan.

But the United States should not risk war when the interest at stake is not vital. Taipei is an attractive friend, but that alone is not enough. Nor do threats make sense where there are alternative means to achieve the desired end. For instance, permitting U.S. manufacturers to sell weapons to Taiwan would ensure its deterrent capabilities.

Yet just as the consequences of defending Taiwan are potentially grave, so are those of appeasing the PRC. China's appetite for concessions is endless: Last July it sharply protested when Great Britain allowed former

President Lee to visit. Groveling before Beijing will merely generate new demands.

While Washington need not defend other nations' independence, it must protect freedom at home, including the right of Americans to allow others to visit their country.

Public Schools as Drug Delivery Systems

JANUARY 01, 2001 by Thomas S. Szasz

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One of the saddest aspects of America's monstrous war on drugs is the way drug warriors justify their sadism and selfishness with the rhetoric of protecting "kids." Our public schools not only fail to educate children, but also succeed in undermining the authority of parents as the proper guardians of their children's health and welfare.

School authorities deprive children, against their parents' wishes, of the self-controlled use of drugs for which they have genuine medical need and whose proper use they can competently monitor. For example, a 16-year-old high-school student gives her friend two Midol tablets to ease her menstrual discomfort. She is suspended for five days for carrying prohibited over-the-counter medication in her purse.

At the same time, school authorities encourage and force children, often against the parents' wishes, to use drugs for which they have no rational medical need. Dispensing caffeine in vending machines and compelling children to take Ritalin are now accepted functions of the public school system.

Pushing Caffeine

Government at every level—local, state, and federal—supports our public schools. Like all public services, the quality of the service public schools render deteriorates in direct proportion to the quantity of the funds they receive. When no amount of tax money seemed enough to satisfy their bulimic appetite for funds, state lotteries were justified with the promise that their revenues would remedy the schools' financial problems. We now spend some $500 billion annually on our schools and, not surprisingly, the experts tell us that our public schools are grievously underfunded. But not to worry, a solution is at hand.

Having been thoroughly corrupted by the courts and politicians, the schools were easy prey for the beverage industry. Companies such as Coke and Pepsi offer school districts a percentage of their sales in exchange for the exclusive right to sell their products. In the District of Columbia, for example, such a contract earns the school system up to $50,000 a month. Hundreds of school districts across the nation have chosen Coke or Pepsi as their exclusive soft-drink purveyor.

Dan DeRose, a broker of exclusive soft-drink contracts with schools, states: "Eventually every school of any size will have to ask the question: Can we do better in terms of revenue with the beverage contracts we now have? Does it make sense for us to walk away from the money Coke, Pepsi and the others will pay for an exclusive contract?"

Long before the Surgeon General discovered it, everyone knew that smoking cigarettes is not a healthy habit. Everyone knows that bubbly brown water sweetened with sugar and spiked with caffeine is not a health food. If cigarettes are "drug delivery systems," then so are cans of Coke, Pepsi, Mountain Dew, and Surge, the latter so named because it has even more caffeine than the original cola drinks. And so too are the public schools themselves, hooking children on caffeine and Ritalin. Now schools encourage the use of addicting, mind-altering drugs the government endorses, while admonishing them about the hazards of drugs the government forbids. As in other aspects of life, adults may miss, or deny, the hypocrisy obvious to children.

Is Caffeine a Drug?

Caffeine is the most widely used drug in the world today. It is a central nervous system stimulant whose effects range from mild increase in alertness to jitteriness, hyperactivity, heightened anxiety, and even agitation. It also depletes calcium in bone and can cause diarrhea and increased urination. Its regular use can be habit-forming, users experiencing withdrawal symptoms 12 to 16 hours after the last dose, such as drowsiness, headaches, lethargy, irritability, disinterest in work, and depression.

The International Olympic Committee lists caffeine as a restricted drug. Urinary levels above 12 mg/liter are viewed as achieved through a deliberate attempt at doping and disqualify the athlete from performing.

The American Psychiatric Association's *Diagnostic and Statistical Manual of Mental Disorders-IV* list four types of "Caffeine-Related Disorders," including "Caffeine Intoxication" and "Caffeine-Induced Anxiety Disorder."

According to the National Soft Drink Association, the caffeine content, in mgs per 12-ounce can of soda, is as follows: Afri-Cola, 100.0; Jolt, 71.2, Mountain Dew, 55.0; Surge, 51.0; Coca-Cola, 45.6; and Pepsi Cola, 37.2. Jolt and Surge owe their popularity to their high caffeine content. A 12-ounce can of non-diet soda contains 120 to 200 "empty" calories. According to statistics from the Beverage Marketing Corporation, in 1970 annual soda consumption was 22.4 gallons per person; in 1998 it was 56.1 gallons per person. Childhood obesity rates are double of what they were 20 years ago, another golden opportunity for medical statists to flex their muscles.

The War on Drugs Is a War on the Family

The war on drugs is a pretext for replacing loyalty to family and friends with loyalty to the Therapeutic State. For example, after listening to an anti-drug lecture, a junior high school student walks into the police station carrying a trashcan bag containing an ounce of cocaine, small amounts of marijuana, and some pills. By sunrise, her father and mother are arrested and jailed. Then-first lady Nancy Reagan explained: "She must have loved her parents a great deal." A 12-year-old girl turns her parents in to the police for growing marijuana and using cocaine. Declares a spokesman for the police: "She did the right thing. We don't see this as turning in parents. We would rather view this as someone requesting help for their parents and for themselves." The media report all this as if it were as ordinary as a weather forecast for a sunny summer day.

Betraying one's parents was not enough. When he was the drug czar, William Bennett instructed high school students to tell on their friends: "It isn't snitching or betrayal to tell an adult that a friend of yours is using drugs and needs help. It's an act of true loyalty—of true friendship."

Under the pretext of protecting children from "dangerous drugs," we jazz them up with caffeine, calm them down with Ritalin, and tell them to "Just say no to drugs" and yes to betraying their family and friends. The use of Ritalin in toddlers underscores the point that, in the view of contemporary mental health experts, the very nature of the young child, especially if he is a male, is a disease requiring treatment.

As we sow, so shall we reap. When we hand our children over to the government at age five and tell them to pay attention in school, we get what we ask for—they will never really learn when or why to say no.

More on Marginalism

JANUARY 01, 2001 by Dwight R. Lee

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

There are so many economic issues that cannot be understood properly without recognizing the importance of marginal considerations that I could continue writing columns on marginalism indefinitely. Indeed, marginal analysis will reappear both explicitly and implicitly in my future columns. But this month I will wrap up my emphasis on marginalism with some additional observations on this crucial economic concept.

We have all heard the advice, "If a job is worth doing, it's worth doing right." There is wisdom in this advice if we are careful about what is meant by "doing a job right." People sometimes suggest that if a job is worth doing, it's worth doing perfectly. But this advice, by ignoring the importance of marginal considerations, is a prescription for waste and inefficiency, as anyone who attempted to put it into practice would soon discover. No matter how much time is spent doing a job, it can almost always be done a little better by spending more time on it. But at some point the value of doing the job a bit better is less than the value of diverting a little more time to another activity. So even if perfection were possible, it would not be sensible. Instead of doing any one thing as well as possible, you are far better off doing several things not so well.

In general, you will accomplish the most by doing what economist call "equating at the margin." This means allocating your time over several activities so that the marginal value created from more time on each is the same for all. If your time isn't being allocated this way, then the marginal time spent on some things creates more value than on others. In this case, you can create more value in the same amount of time by shifting time into the higher-marginal-value activities and out of the lower-marginal-value activities. As this shift takes place, the marginal value of time in the former activities declines and the marginal value of time in the latter activities increases. Only when the marginal value of time in all activities is the same are you taking advantage of all opportunities to create more value for the time spent.

So "if a job is worth doing, it's worth doing right" is good advice as long as we keep in mind that doing a job right doesn't mean doing it as well as you can. "Don't do your best at anything, equate at the margin instead" may not be very inspiring, but it's good advice. Fortunately, it is advice that few need, since it is what we tend to do anyway. It should be emphasized that since all value is ultimately based on our subjective evaluations, the patterns of activities that equate at the margin vary enormously over different individuals. But all people's behavior reflects the advantages of doing less than their best at everything they do as they constantly adjust the margins toward equality.

Doing Well in School

Consider the objective of doing well in school. I often hear my colleagues complaining that their students are not taking their course work seriously. I often join in these complaints. We are convinced that many of our students would get more out of our courses if they attended lectures and read the texts more diligently. We are surely right in this, but as economists we shouldn't be surprised at, or critical of, our students' behavior. Being a good student can be important in achieving one's objectives, but so are lots of other things, such as working part-time, making friends, developing social skills, or just hanging out and having fun. Spending more time on class assignments adds value, but it necessarily means less time for other valuable activities. And long before a student has done the best job possible in his or her course work, the marginal value of time spent studying will have fallen below the marginal opportunity cost—the marginal value sacrificed in other pursuits.

So the student who did his absolute best in class is getting less value from the additional minute spent studying than he would if he spent that minute doing something else. He increases the value realized from his time by "equating at the margin"— reducing the time spent studying until study time has the same marginal value as time spent doing other things. Even if the student is a complete nerd, he will still tend toward equating at the margin over his different courses since he will learn the most by learning less than possible in each course taken.

Don’t Try to Do Too Much

I need to emphasize that “equating at the margin” only applies when the marginal value of time in every activity eventually begins declining relative to the marginal value of time spent in other activities. This is a plausible assumption, as is seen by considering what people would do if it were not true. If the marginal value of time a person spent, say, bowling increased indefinitely relative to other things, then we would expect to see him spending all his time bowling, since the more time spent bowling the more valuable another minute spent bowling would be compared to another minute doing anything else. This obviously doesn’t describe how people behave. Even the most dedicated bowler (or bird watcher, golfer, etc.) eventually takes time out for a beer, a burger, and bed. In other words, the marginal value of bowling declines relative to the marginal value of alternatives, and the bowler equates at the margin.

But it is important to realize that we get better at doing many things as we spend more time on them, which means that the marginal value of time in these activities does increase up to some point. This suggests that we don’t want to try to do too many things, never becoming very good at any of them. There is real advantage in choosing a relatively few things that we have talent for, or which we really enjoy (talent and enjoyment generally go together), and developing skill in them, which increases our enjoyment even more. But no matter how much we enjoy an activity, or how good we are at it, eventually the marginal value of doing it begins to decline relative to other things, and so we will want to equate at the margin over a number of activities. And although this means that we will end up doing nothing as well as we possibly could, we can still be extremely good at what we do.

Let me conclude by emphasizing that equating at the margin is not an excuse for shoddy and careless work. Not doing your absolute best at any one thing is quite consistent with doing everything you do very well. Furthermore, not doing your absolute best at anything is not the same as not doing your absolute best overall. The point is that being as successful as possible in general requires being somewhat less successful than possible in everything we do.

The Imperial Science

JANUARY 01, 2001 by Mark Skousen

Mark Skousen (http://www.mskousen.com ; /* <![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 an economist at Rollins College, Department of Economics, Winter Park, FL 32789, a Forbes columnist, and editor of Forecasts & Strategies. His new book, The Making of Modern Economics, will be published in February by M. E. Sharpe.

"I think it is quite likely that we are entering an era of much more interaction among the sciences."

—Kenneth E. Boulding[1]

During the 20th century it was popular to label economics the "dismal science," a term of derision coined by the English critic Thomas Carlyle in the 1850s. Carlyle lashed out against laissez-faire capitalism, which he defined as "anarchy plus the constable," for, among other things, being inconsistent with slavery.[2]

But attitudes are rapidly changing as we enter the 21st century. Economics, no longer dismal, has come a long way toward reinventing itself and expanding into new territories so rapidly that another descriptive phrase is needed. Like an invading army, the science of Adam Smith is overrunning the whole of social science—law, finance, politics, history, sociology, environmentalism, religion, and even sports. Therefore, I have dubbed 21st-century economics the "imperial science."

Boulding's Dream Comes True

The father of economics as an interdisciplinary movement is Kenneth E. Boulding, long-time professor at the University of Colorado in Boulder, who died in 1993. He published over 1,000 articles on more than two dozen eclectic subjects, ranging from capital theory to Quakerism. But Boulding's vision of every discipline borrowing ideas from other disciplines isn't exactly what has happened. Instead, economics has started to dominate the other professions.

The first breakthrough came in finance theory. Harry Markowitz, a graduate economics student at the University of Chicago, wrote an article on portfolio theory in the March 1952 issue of *The Journal of Finance*. It was the first attempt to quantify the economic concept of risk in stock and portfolio selection. Out of this work came modern portfolio theory and the "efficient market theory," which argues that short-term changes in stock prices are virtually unpredictable and that it is extremely difficult if not impossible to beat the market averages over the long run.

These ivory-tower theories were greeted with scorn by Wall Street professional managers, but eventually confirmed by numerous studies. Index funds, the economists' favorite investment vehicles, are now the largest type of mutual fund sold on Wall Street.[3]

James Buchanan and Gordon Tullock, both at the University of Virginia, published *The Calculus of Consent* in 1962 and forever changed how political scientists view public finance and democracy. Today public-choice theory has been added to every economics classroom's curriculum.

Buchanan and other public-choice theorists contend that politicians, like businessmen, are motivated by self-interest. They seek to maximize their influence and set policies in order to be re-elected. Unfortunately, the incentives and discipline of the marketplace are often missing in government. Voters have little incentive to control the excesses of legislators, who in turn are more responsive to powerful interest groups. As a result, government subsidizes vested interests of commerce while it imposes costly, wasteful regulations and taxes on the general public.

The public-choice school has changed the debate from "market failure" to "government failure." Buchanan and others have recommended a series of constitutional rules to require the misguided public sector to act more responsibly, including requiring supermajorities to raise taxes, protecting minority rights, returning power to local governments, and imposing term limits.[4]

Economics Enters the Courtroom

In 1972 Richard A. Posner, an economist who teaches at the University of Chicago Law School and serves as chief judge of the U.S. Seventh Circuit of Appeals, wrote *Economic Analysis of Law*, which synthesized the ideas of Ronald Coase, Gary Becker, F. A. Hayek, and other great economists at the University of Chicago. Today centers of "law and economics" are found on many campuses. Judge Posner states, "Every field of law, every legal institution, every practice or custom of lawyers, judges, and legislators, present or past—even ancient—is grist for the economic analyst's mill."[5] Economists apply the principles of cost-benefit and welfare analysis to all kinds of legal issues—antitrust, labor, discrimination, environment, commercial regulations, punishments and awards. In my October 1999 column, I reported on Chicago law professor John R. Lott, Jr.'s new work on the relationship between gun ownership and crime. He applied the incentive principle to demonstrate that well-armed citizens deter crime.

Chicago's Gary Becker has been in the forefront of applying price theory to contemporary social problems, such as education, marriage and divorce, race discrimination, charity, and drug abuse. Not surprisingly, he called his book for the general public *The Economics of Life*. But Becker warned, "This work was not well received by most economists," and the attacks from his critics were "sometimes very nasty."[6]

There are many other cases where economists have made significant improvements in other disciplines—in accounting (see July 1999 column on "Economic Value Added," or EVA), history (see the work of Robert Fogel and Douglass North), religion (Lawrence Iannaccone and Edwin West have shown that increased competition in religions increases attendance at churches), management (the Center for Market Processes at George Mason

University), and sociology (see the writings of Richard Swedberg). They've even changed the way Treasury bills are auctioned.

As we enter the 21st century, false theories still prevail in politics, law, history, sociology, and other disciplines. As Lord Acton once stated, "There is no error so monstrous that it fails to find defenders among the ablest men." The sooner the principles of market economics enter the fray and attack false doctrines, the better off we'll all be.

Notes

1. Kenneth E. Boulding, *The Skills of the Economist* (Cleveland: Howard Allen, Inc., 1958), p. 134.
2. For the complete background of Carlyle's racism and vile attack on market capitalism, see David M. Levy, "150 Years and Still Dismal!," in *Ideas on Liberty*, March 2000, and chapter 3 of my new book, *The Making of Modern Economics* (Armonk, N.Y.: M.E. Sharpe, 2001).
3. Two excellent books on modern portfolio theory are Burton Mankiel, *A Random Walk Down Wall Street*, 6th ed. (New York: W. W. Norton, 1996) and Peter L. Bernstein, *Capital Ideas* (New York: Simon & Schuster, 1992).
4. Buchanan and Tullock's *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962) is still worth reading. For an excellent summary, see chapter XI, "The Public Choice School: Politics as a Business," in Todd G. Buchholz, *New Ideas from Dead Economists* (New York: Penguin Books, 1989).
5. Richard A. Posner, *Law and Literature*, 2nd ed. (Cambridge, Mass.: Harvard University Press, 1998), p. 182. A comprehensive summary of the "law and economics" movement can be found in Nicholas Mercuro and Steven G. Medema, *Economics and the Law: From Posner to Post-Modernism* (Princeton, N.J.: Princeton University Press, 1997).
6. Gary S. Becker and Guity Nashat Becker, *The Economics of Life* (New York: McGraw-Hill, 1997), p. 3.

What Should One Do?

JANUARY 01, 2001 by Walter E. Williams

Walter Williams is the John M. Olin Distinguished Professor of Economics and chairman of the economics department at George Mason University in Fairfax, Virginia.

Let's do a thought experiment. I'm ordered by the Department of Health and Human Services (HHS) to perform, without compensation, cleaning services at a local retirement home. I've not been found guilty in a court of law of a crime for which I'm being punished. I've simply been ordered to work at the home in the name of promoting the public welfare. Failure to comply means going to jail.

I might seek a court injunction against HHS's edict. But suppose the court rules that HHS has the authority to order me to perform cleaning services. I might take my complaint all the way to the U.S. Supreme Court, only for the Court to rule: yes, under the U.S. Constitution's welfare clause and the authority it gives Congress, I'm compelled as ordered by HHS to perform cleaning services.

My question to you is, now that the courts have ruled, should I simply comply? You might rejoin by suggesting that the question cannot be answered unless additional information is supplied such as: Did Congress properly vote to authorize HHS to order me to clean retirement homes? Did it single me out or are other Americans assigned similar tasks? In other words, was there invidious discrimination?

My response to your first set of questions is, what does a vote have to do with the rightness or wrongness of the mandate? Would a majority vote determine the rightness or wrongness of rape, murder, theft, and slavery? To the second question, I would also ask, does the rightness or wrongness of an act depend on the number of people forcibly used to serve the purposes of another? Was slavery in our country okay because four million blacks were enslaved instead of just one? Does equality in servitude make servitude just?

One might rejoin by saying, "All those arguments are neither here nor there; the law is the law and people should obey." Balderdash! South Africa used to have apartheid laws that strictly controlled where blacks could live, work, and eat. Nazi Germany had anti-Semitic laws. In the United States there was the Fugitive Slave Act of 1850. Would you have obeyed those laws?

Would you have sought prosecution of white employers who hired black workers in contravention of job reservation laws that were a part of South Africa's Civilized Labour Policy? In Nazi Germany, would you have approved sanctions against Germans who were hiding Jews or assisting them to escape? In the United States, would you have turned in members of the underground railroad who assisted escaping slaves? These questions suggest that when deciding whether or not to obey a law, one always has to ask whether that law is moral and just. But that's not quite the end of it. One must also ask, if I decide to disobey immoral and unjust laws, whether I am willing to risk suffering at the hands of the state for disobedience.

Servitude Through Taxation

You say, "Okay, we've gone through your thought experiment; so what's the relevance?" Most people would agree that it would be wrong and immoral to force me to clean retirement homes. They might even say that it would be a form of constitutionally prohibited servitude. But would they go so far as to accept the generalization that it is immoral and unjust for one person to be forcibly used to serve the purpose of another? Saying so and giving just a bit of thought to such a generality would introduce significant difficulties in today's America. Why?

While most Americans would agree that I should not be forced to clean retirement homes, no similar consensus would be reached about whether it is right to take a portion of my earnings through taxes to hire someone to clean retirement homes. However, there is little conceptual difference between physically forcing me to clean retirement homes and physically forcing me to cough up some of my earnings to do the same. In the case of forcing me to spend four hours cleaning retirement homes, I must forgo money I could have earned and used were I not mopping and scrubbing. If I am taxed, I still must forgo enjoyment I could have received from four hours of earnings. Both measures forcibly use me to serve the purposes of another under pain of punishment. I'll be fined and imprisoned if I actively disagree with that use of my earnings. Moreover, if I am too resolute in my refusal I can suffer death at the hands of the state.

Morally there is only a trivial distinction between forcing me to perform cleaning services at senior citizen homes and accomplishing the same through taxation. The taxation form of servitude is less visible and hence more palatable to the ordinary citizen, and as such it makes servitude politically more feasible. Not many Americans, I would hope, would sanction enslavement of doctors to provide medical treatment to the medically indigent or enslavement of lawyers to provide legal services to the poor. In a moment of reasonableness, they might argue that if cleaning retirement homes, treatment of the medically indigent, and providing legal services to the poor is in the public inter-est, then the burden should be borne by all Americans instead of particular Americans. But distributing the burden through the tax code simply conceals the immorality of forcing one person to serve the purposes of another.

There is nothing in our Constitution that authorizes Congress to engage in "charitable" expenditures, and no clearer words were spoken about that than those of the U.S. Constitution's "father," James Madison. In 1792 Congress had appropriated $15,000 to assist some French refugees. Madison disapprovingly said, "I cannot undertake to lay my finger on that article of the Constitution which granted a right to Congress of expending, on objects of benevolence, the money of their constituents."

So what is to be done when our government makes immoral or unconstitutional decrees? Is one morally obligated to obey? I think not, but one has to decide whether one wants to risk fines, imprisonment, and death at the hands of the U.S. Congress.

Perspective ~ Prescription for Disaster

JANUARY 01, 2001 by Sheldon Richman

The level to which public-policy debate has sunk in America is nowhere as obvious as in the debate over prescription drug benefits.

Today hardly anyone believes he should have to pay for medical care. It's a right, to be paid for, somehow, by someone other than the patient. That's called "insurance." But it's an odd sort of insurance, because the premium, if any, must be purely nominal, bearing no relation to the propensity of an individual to consume medical services.

The idea that one has a right to what one needs fuels an easily exploited resentment against those who are able to satisfy that need. Thus the resentment directed at pharmaceutical companies. I imagine those companies price their products to maximize revenues. Who doesn't? But since these are life-saving products in many cases, normal economic activity is portrayed as monstrous. (If the government didn't hide the true expense of drugs through tax-preferred, employer-provided health insurance and didn't inflate the cost of developing drugs with regulatory demands, we'd most likely see lower prices.)

It is easily forgotten that those companies own the products. They had no obligation to risk the hundreds of millions of dollars it takes on average to bring an effective medicine to market. They did it to make money. It is also forgotten that without profits, there would be no more life-saving drugs.

No one complains about the price of drugs not yet developed. Before the development of the drugs for which the companies charge their "unconscionable prices," people had to undergo much more costly surgery, or they suffered or died because nothing could be done for them. The drug companies have made our lives incomparably better than they used to be—which is precisely why they are treated as oppressors.

There cannot be a right to medical care because it has to be provided by someone and slavery is immoral, not to mention illegal and unconstitutional. Any attempt to legislate a right to medical care only serves to expand the coercive power of government. This is particularly scary with medical care. We ignore the Medicare precedent at our peril. Who wants the government deciding who gets what drug? Who wants the government doing triage?

* * *

Can money buy happiness? Perhaps not, but people in freer economies are happier than people in controlled economies. Daniel Oliver looked it up.

Government not only jeopardizes the future; it also jeopardizes the past. By the same token, capitalism not only protects the future, it also protects the past. J. Bishop Grewell and Matthew Brown have a report from the world of paleontology.

If the government's allocation of credit to failing farmers is any indication of how it manages financial matters, we shouldn't be surprised by anything else we've witnessed. James Bovard explains.

The political slogans of the last few months would have us believe that "working families" have low-to-middle incomes. As it turns out, the richer a family, the more it works. Wilson Mixon and E. Frank Stephenson have the details.

A hot new book being celebrated in the media maintains that the early Americans had little interest in guns, rarely owned them, and left the hunting to professionals. Clayton Cramer says the author must be talking about another America.

Ancient Athens was the most advanced society of its day. The government had nothing to do with education there. Coincidence? Kathleen Melonakos thinks not.

The world has changed, but advice to college graduates has not. Gerald Gunderson does his part to keep this year's graduating class from going astray.

The Securities and Exchange Commission now requires that if a company gives any information to anybody, it must give it to everybody. Is this fairness or egalitarianism run amok? Christopher Mayer hunts for unintended consequences.

Bill Brosnan was a railroad man who modernized his industry and saved it from the government's maw. Charles Morgret contributes a profile of this inspirational figure.

The virulent form of statism known as apartheid is gone from South Africa. Several years of rule by African National Congress, however, demonstrate that prosperity and freedom require more than the mere absence of overt racial laws. Jim Peron has an up-close look.

Here's what our columnists have come up with: Donald Boudreaux sees government as a con artist. Lawrence Reed suggests alternatives to the usual political labels. Doug Bandow contemplates the U.S. relationship with China and Taiwan. Thomas Szasz wonders why government schools are pushing caffeine on our kids. Dwight Lee winds up his discussion of marginalism. Mark Skousen celebrates economics' imperialism. Walter Williams ponders state servitude. And Thomas DiLorenzo, reading the latest apology for the antitrust laws, remonstrates, "It Just Ain't So!"

The books that come under review this month deal with communism's crimes, Social Security, patent laws, the way we treat boys, suicide, and government's shortcomings.

Antitrust Benefits Consumers? It Just Aint So!

JANUARY 01, 2001 by Thomas J. DiLorenzo

Robert Litan, vice president and director of economic studies at the Brookings Institution and a former adviser to Janet Reno on the Microsoft antitrust case, recently authored the stereotypical *Washington Post* economic policy op-ed: virtually void of elementary economic analysis while uncritically promoting more and more government intervention ("Fair Use of Antitrust," September 13, 2000).

Mr. Litan claims that the antitrust laws allow companies to "gain dominant positions in their markets" only "if they do so fairly." But the word "fairness" appears nowhere in the antitrust laws; this is a recent invention of socialist-minded policy wonks like Mr. Litan. Moreover, it is extraordinarily naïve of anyone calling himself an economist to believe that such a charge would even be a desirable part of the antitrust laws: Competitors will always whine and cry about how the price-cutting, product-improving, and customer-satisfying practices of their more successful rivals are "unfair." This in fact is the modus operandi of antitrust: The antitrust laws provide a means by which sour-grapes competitors can achieve through politics what they fail to achieve in the marketplace.

Mr. Litan commits what Hayek called the "fatal conceit" of believing that government bureaucrats, rather than entrepreneurs and consumers, are in the best position to decide what constitutes a "legitimate business purpose." Microsoft got into trouble, he argues, because it "ran afoul of this simple maxim." The maxim is indeed simple, but it is unequivocally false. Neither economists nor politicians nor policy wonks are capable of deciding the most "efficient" size or configuration of any business enterprise. As Ludwig von Mises once explained, "The question to be decided is: Who should determine the size of the enterprises, the consumers by their striving to buy what suits them best or the politicians who know only how to tax away and to spend?"*

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* Ludwig von Mises, “Small and Big Business,” Economic Freedom and Interventionism (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1990), p. 221.

By adhering to this false “maxim” antitrust regulators are attempting to supersede the informed judgment of millions of consumers with the opinions Janet Reno and her former antitrust sidekick Joel Klein. Just how damaging this has been to consumers is revealed by several plain facts. First, in a poll of adult computer users taken by *USA Today*, only 6 percent said that “reducing Microsoft’s influence” was a “major issue” to them. Most consumers love Microsoft’s products.

Second, as Stan Leibowitz and Steve Margolis have shown in their book, *Winners, Losers and Microsoft*, in virtually any market that Microsoft has entered (financial software, spreadsheets, etc.), the effect has been a dramatic *reduction* in prices and an expansion of output and innovation. Software products that do not compete with Microsoft’s products fell in price by 12 percent from 1988 to 1995, but by 60 percent where there was competition from Microsoft.

Third, the government is clearly unconcerned about consumer welfare in its prosecution of Microsoft: In Judge Thomas Penfield Jackson’s November 1999 “Statement of Fact” he devoted a mere five out of 412 paragraphs to the issue of consumer welfare.

Mr. Litan, like his former employer Janet Reno, simply ignores that Microsoft has provided incredible benefits to consumers. He rests his case on the lame notion that, in his opinion, the company’s management had “anticompetitive motives.” Economic analysis may not be Mr. Litan’s strong point, but mind-reading apparently is. He claims that such a malevolent “intent” has harmed Microsoft’s competitor Netscape by keeping it from competing in the Web browser market. In fact, Netscape has distributed more than 150 million copies of its browser since 1995.

It is typical of government, and its intellectual apologists like Mr. Litan, to assume that business practices they are incapable of understanding—such as exclusive-dealing contracts—should be outlawed in the name of “fairness” or because of presumed bad motives.

Intel Doing Well?

As alleged “proof” that antitrust regulation is not harmful, Mr. Litan notes that Intel, which recently settled an antitrust complaint, seems to be doing well. This kind of statement ignores the important but unseen effects of such regulation. What is the opportunity cost of having to spend millions of dollars in legal fees and diverting management talent away from striving to produce better and cheaper products to deal with the blizzard of paperwork typically imposed on a company that is the victim of an antitrust “complaint”? Mr. Litan ignores such important questions even though it is well known to antitrust scholars that one effect of antitrust is to induce companies to be less successful than they could be out of fear of attracting the attention of antitrust regulators. It was the official policy of General Motors for many years to never let its market share top 45 percent for this very reason.

It has been standard knowledge in the field of industrial organization for at least 35 years (more than 100 years to Austrian economists) that the mere number of firms in an industry does not necessarily have anything to do with how competitive that industry is. Industrial concentration is usually caused by the fact that one or a few firms in an industry are simply more efficient and/or have a superior product than their rivals do—at least temporarily. Mr. Litan ignores this mainstream thinking by issuing a 1950s-era call for splitting Microsoft into three companies. The free market, guided by the preferences of consumers, has given us the current configuration of the computer industry; Mr. Litan’s proposed tinkering can only be destructive to consumer welfare and an affront to the principle of private property.

He also ignores decades of research by Chicago school scholars such as the late Yale Brozen and Harold Demsetz, and Austrian school scholars such as Dominick Armentano, who have compiled thousands of pages of published, documented evidence of how antitrust regulation has been harmful to consumers and has impaired economic efficiency and reduced productivity. “Our economy has profited greatly from sound antitrust enforcement,” Litan declares, without offering a shred of evidence.

Perhaps the biggest absurdity of all is Mr. Litan’s dire warning that “If you have monopoly power in our economy, don’t abuse it.” I’ll take him seriously on this point whenever he starts criticizing the government’s own monopoly power, such as the government school monopoly, the old-age insurance monopoly, the occupational licensure monopoly, the postal express statutes, cable television franchising, and myriad other monopolistic enterprises operated by federal, state, and local governments.

—Thomas J. DiLorenzo
Loyola College in Maryland

Capital Letters

AUGUST 29, 2012

To the Editor:

I very much enjoyed reading David Henderson's article, "Tear Down These Walls," in the June 2012 issue of *The Freeman*. However, I think he misses the point. It is not that borders separate individuals, but that they separate systems. When you have borders between North and South Korea, East and West Germany, or Mexico and the United States, there are stark differences on one side or the other. The border between the United States and Canada has lesser differences. Rather than have everyone come to our system that we have fought for and developed, I think it would make more sense to have others improve their systems. Just about everyone in the world would like to come to America; however, we must have some systematic way of allowing immigration or we will face consequences we can't even begin to imagine. Those countries that have been adjacent to countries with famine or civil war can attest to that. I do believe we need a well-thought-out plan for immigration, or a way to change the systems in other countries.

—Henry Woodruff
Golden, CO

David Henderson replies:

I'm glad you enjoyed my article. Borders separate individuals *and* economic systems. Like you, I would like governments in various countries to improve their systems. But unlike you, I'm not at ease with the idea of making hundreds of millions of people wait until their governments do improve. They may well wait forever. Your two examples of North and South Korea and East and West Germany are telling. If I were in South Korea today, I would welcome those who escape from that North Korean hellhole. If I had been in West Germany before 1989, I would have welcomed East Germans who escaped from their totalitarian masters. But it appears that you would have had them arrested and sent back. Or are you saying that you would welcome them too? If so, what are we disagreeing about? Or look back at an earlier time in history. Most American readers of this publication probably descend from people who came to the United States in the nineteenth century or later. Many of them immigrated to escape bad governments elsewhere. I would have welcomed them. What would you have done?

Book Review ~ The Black Book of Communism: Crimes, Terror, Repression by Stphane Courtois et al.; translation by Jonathan Murphy and Mark Kramer

JANUARY 01, 2001 by Theodore Balaker

Harvard University Press • 1999 • 858 pages • $37.50

My junior high-school English teacher once presented me with a small gift, a button bearing the likeness of Mao Zedong. In a PBS travel video, Monty Python alum Michael Palin gushes about sleeping in Mao's bed. He nods off reading *The Little Red Book*. During a CNN profile of Progressive Auto Insurance CEO Peter Lewis, the camera pans through Lewis's office to reveal a large lithograph of Mao.

Had those cases featured Nazi iconography, there would have been outrage. What if Lewis had displayed a lithograph of Hitler, if Palin had curled up lovingly with *Mein Kampf*, if a teacher had given a student a Hitler button? It simply would never happen. But somehow Mao is inoffensive, even though he is responsible for as many as 65 million deaths. We are justifiably outraged by Nazism; why are we so ambivalent about communism?

Black Book offers some thoughtful explanations why many Americans have never taken communism seriously. "Uncle" Joe Stalin was our World War II ally. There was no Nuremberg for communist crimes. (Soviet jurists were actually among the prosecutors at the Nazi trial.)

Public perception was important to communism's expansion. For this reason we are left with few visuals of communist crimes. Many Americans have associated anti-communism with paranoia. Many Western intellectuals celebrated the rise of regimes that murdered Eastern intellectuals. We were told to overlook communist missteps and remember the promise of utopia.

For many, Nazism's blatant racism justifies special contempt. *Black Book*, written by six former proponents of communism or fellow travelers, properly notes that both Nazism and communism murdered people not for what they did, but for who they were. Both totalitarian incarnations decreed that certain segments of society were too loathsome to exist. Lenin regarded his enemies as "bloodsuckers" and "noxious insects." Such language eerily anticipates Hitler.

Black Book underscores the enormity of communism's impact. Communism once stood on four continents, ruling one-third of humanity, always poised to expand. There was a clear line of inheritance from regime to regime. Each received material aid and ideological inspiration from its predecessor. Most important, individuals were as expendable as grains of sand. According to the authors, the communist death toll approaches 100 million people.

The authors' research offers a rough exposition of the crimes of communism: USSR, 20 million deaths; China, 65 million deaths; Vietnam, 1 million deaths; North Korea, 2 million deaths; Cambodia, 2 million deaths; Eastern Europe, 1 million deaths; Latin America, 150,000 deaths; Africa, 1.7 million deaths; Afghanistan, 1.5 million deaths; the international communist movement and communist parties not in power, about 10,000 deaths.

Communism compiled a lengthy enemies list, which included political parties, clergy, intellectuals, shopkeepers, many ethnic groups, and other "socially dangerous elements." Enemies were starved and worked to death; executed with bullets, shovels, and hammers; devoured by dogs; lit on fire; and made to kill one another for their capturers' amusement.

More than bodies endured torture. Language was tortured: concentration camps became "re-education" camps. Minds were tortured: executions often followed "confessions" of guilt. The list of crimes punishable by death or imprisonment included criticizing the regime, owning a gun or radio transmitter, stealing a few ears of corn from the collective, and "taking part in commerce."

Black Book puts to rest the odious fiction that has softened communism's image for so long: that communism was the salvation of the downtrodden. Mao's "Great Leap Forward" needed only two years to destroy tens of millions of peasants. Peasants often resisted communism more fervently than any group. In 1930 alone, nearly 2.5 million took part in approximately 14,000 revolts against the Soviet regime. Brandishing axes and pitchforks, peasants defended themselves against the Soviet wave. Sometimes they reclaimed their villages for a few days and quickly worked to reopen churches and markets, break up the collectives, and return stolen goods.

By meticulously compiling old and newly available information, *Black Book* offers an account of communism so damning that readers will add the likes of Mao, Stalin, Lenin, Kim Il Sung, and Pol Pot to their list of history's most wicked villains. *Black Book* should be read by every college student wooed by Che Guevara, every intellectual who equates anti-communism with kookery, and every victim of communist terror. Never has communism's black heart been more exposed.

Communism promised paradise for the masses of people who were controlled and murdered to fulfill someone else's grand plan. We ought to absorb the ghastly numbers of communism's death toll, but occasionally *Black Book*'s seemingly endless accounts of large-scale atrocities risk obscuring personal suffering. Perhaps we should focus first on communism's archenemy, the individual. As with the intimacy of *The Diary of Anne Frank*, *Black Book* is most meaningful when it is most particular. Consider just one victim of communism—a man whose file was marked "ordinary." Vasily Klementovich Sidorov, a peasant who lived near Moscow, stood accused of "spreading counterrevolutionary ideas." At the time of his arrest he had a wife and daughter. He owned one wooden house, one cow, four sheep, and two pigs. On August 3, 1938, he was shot and his property confiscated. Just an ordinary case.

Theodore Balaker works in network news. He is also currently writing a book on intellectual history with Professor Daniel Klein.

Book Review ~ Social Security: The Phony Crisis by Dean Baker and Mark Weisbrot

JANUARY 01, 2001 by Andrew Biggs

University of Chicago Press • 1999 • 152 pages • $22.00

Supporters of the current pay-as-you-go Social Security system have long been on the defensive. Social Security will begin running a payroll tax deficit within 15 years. Shortfalls over the years will cut benefits by 30 percent, pushing millions of low-income retirees into poverty. Americans from all political, ethnic, and gender groups favor reform that lets workers invest their payroll taxes in personal accounts holding stocks and corporate bonds.

But to a few old-guard supporters of big government, private investment is heresy. Yet the only alternatives to personal accounts—payroll-tax hikes, benefit cuts, and increasing the retirement age—are flatly rejected by the public. The solution? Simply deny the problem exists at all. Hence, *Social Security: The Phony Crisis*, by Dean Baker and Mark Weisbrot.

Baker and Weisbrot, co-directors of the Center on Economic and Policy Research, concoct a veritable smoke screen of arguments, all promoting the idea that Social Security is doing just fine. First, they say, there's no hurry for reform. Without changing a thing, Social Security can pay full benefits until 2037 by drawing on its trust fund. Sadly, not true. As President Clinton's own budget acknowledges, the Treasury bonds in the trust fund "do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that . . . will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures." Where is that money—an average of $120 billion annually between 2015 and 2037—going to come from? On this, Baker and Weisbrot are silent.

Second, the authors claim that projections of Social Security's insolvency made by its board of trustees are overly pessimistic. If the economy grows faster, as Baker and Weisbrot believe it surely will, wages will increase, payroll tax revenues will rise, and the system will be saved. "Using any remotely realistic projection for the growth of wages and the economy," Baker and Weisbrot assert, "the Social Security system will be solvent into the stratosphere of America's science-fiction future." What Baker and Weisbrot don't mention is that many analysts, including a government-appointed panel of economists, actuaries, and demographers, conclude the trustees' projections are actually optimistic. Under more reasonable assumptions, where life expectancies increase and the retiree population grows, Social Security's long-term deficit of over $20 trillion would increase by almost one-quarter.

Moreover, for Social Security to remain technically solvent over the next 75 years, wages must grow 2.9 percent annually, 41 percent faster than during the 1960s. Even then, in 2076, when today's children are still alive and well, Social Security would fall off a financial cliff, with an eighth of the federal budget required just to cover the program's deficit. To keep Social Security solvent in perpetuity—that is, into the "science-fiction future"—requires permanent real wage growth of approximately 6 percent annually. And that assumes the trust fund is a real economic asset, which clearly is not the case. These sorts of numbers are implausible by almost anyone's standards.

Finally, Baker and Weisbrot argue that even if the Social Security crisis develops, market investment of payroll taxes is no solution. For if economic growth slows, then stock market returns must fall as well. Specifically, Baker and Weisbrot contend that stock returns above 3.5 percent are inconsistent with the trustees' projections for economic growth. But even if they are correct, a 3.5 percent annual return would dwarf the 1.4 percent projected return from Social Security over the next 75 years. Moreover, equity returns have been correlated not with economic growth per se, but with economic growth per capita. Since the trustees' projections of slower economic growth are founded almost entirely on slower growth of the labor force, per capita economic growth is unlikely to suffer.

In the end, even without a "crisis," Social Security is still a lousy deal. The bipartisan 1994-1996 Advisory Council on Social Security estimated that even if Social Security could pay full promised benefits forever without raising taxes by a penny, a typical single worker born in 1973 would receive an annual return of just 1.7 percent. Personal accounts holding only ultra-safe inflation-adjusted Treasury bonds, currently paying 3.9 percent annually, would more than double workers' retirement incomes.

But the real issue is not about solvency or even rates of return. It is about people's freedom to control their own savings and plan their own retirements, to have legal right to their own assets and to pass them on to their heirs. Even if there were no Social Security crisis, a system of personal retirement accounts would confer these important benefits.

Before the Berlin Wall fell in 1989, the communists insisted that life on their side of the divide was swell. This led to the obvious question: if everything was so great, what did they need the wall for? The same holds for Social Security. If Social Security is as healthy as Baker and Weisbrot claim, they shouldn't be afraid to give workers the freedom to choose where to invest their retirement savings.

Andrew Biggs is Social Security analyst at the Cato Institute, Washington, D.C.

Book Review ~ Owning the Future by Seth Shulman

JANUARY 01, 2001 by Joseph S. Fulda

Houghton Mifflin Company • 1999 • 240 pages • $25.00

A book about high technology and the patent system might not engender expectations of captivating reading, but *this* book commands all the reader's attention from start to finish. It is a masterpiece, elegantly written, well researched, and brought to life with the many vivid case studies that form the bulk of the book.

Based on Shulman's amazing breadth of knowledge and on a wide variety of both journalistic and scholarly sources, interviews, press releases, and materials available on the Internet, this book is also remarkable for its range: It covers medical and surgical procedures (including gene therapies), pharmaceuticals, plant and animal varieties, agricultural genetic engineering, computer software, and computer databases—all in depth and in a mere 191 pages (plus bibliographic notes and an index).

What concerns Shulman in each of these domains are, to quote computer specialist Richard Stallman, first, invalid patents, and second, valid patents. The Patent and Trademark Office (PTO) has moved away from the venerable dictum that an idea cannot be patented, a move presaged by the 1870 abolition of the requirement that physical models be built and submitted with each application, to granting patents freely to ideas with mere hints of utility in the future. Notorious among these are patents for algorithms—laws of nature that are not patentable subject matter—cleverly disguised as implementations, while the rights that are *actually* awarded extend to *all* applications, present and future, of the algorithm.

The PTO has also long been issuing extremely overbroad patents in other knowledge-based areas—most of which would not stand up if challenged in a process that costs millions of dollars and that many small companies find unaffordable. Finally, patents are issued in all those fields where there is substantial “prior art” that has somehow escaped publication or the notice of the examiners: Many of these, too, would not withstand judicial scrutiny. But whether valid or invalid, patent holders build large portfolios of patented ideas (IBM holds thousands upon thousands!) and then extort royalties from companies seeking to use well-known ideas whose utility was only hinted at in the original patent application or which were not a part of the original conception. Shulman’s well-justified fear is the shrinking of the public domain, as the use of ideas must increasingly be licensed from patent holders.

Most large biotechnology and computer companies have large patent portfolios—and never mind that many of the patents are worthless—which are used not only to extract royalties but also *defensively* against other holders of vital patents who would otherwise demand royalties and now settle for cross-licensing arrangements, and *preventatively* so that other similarly situated companies are prevented from acquiring ownership of this intellectual capital. Thus most knowledge-based companies are in the position of spending a large chunk of their funds applying for and defending patents, fighting off patent-infringement claims by others, and simply paying royalties or reaching cross-licensing agreements when that is cheapest.

All this is imaginatively and thoroughly documented by Shulman in case after case and leads to the inevitable conclusion that, as inventive as our high-tech economy is, we are stifling innovation and wasting resources under a system originally intended to *foster* innovation. One wonders how much further along technologically we would be without all this rent-seeking activity.

The book’s rich historical and philosophical context is most welcome, but I find the book’s conceptual framework flawed, although the presentation has enough depth to enable the reader to reach his own conclusions.

Thus Shulman attributes all the problems mentioned above to a free market, because information must be shared to gain value while real and personal property lose value as they are shared, and information is not depleted by use, unlike tangible properties. But while this is all true, what he has so ably described is definitely *not* a free market, but a system of government-sponsored monopolies. Whatever one thinks of the framers’ utilitarian basis for intellectual property rights—well-founded or not well-founded—*this* system bears little resemblance to theirs. “Functional ideas” or “actionable knowledge” has replaced actual invention as the watchword: that is, it is *discoveries* and not inventions at all that are being patented. The government is just about handing out monopolies on the future applications of thoughts!

Nowhere is the difference in systems more evident than in the inventions of Thomas Edison, the record patent-holder with 1,093 patents, as compared to the discoveries of the “thinker, not tinkerer” record patent-holder of late, Jerome Lemelson (over 500 patents, second only to Edison). This is a story of contrasts too good to be retold here; it and others like it are alone worth the modest price of this book.

Owning the Future is a truly important book that deserves a wide reading.

Contributing editor Joseph Fulda is the author of Eight Steps towards Libertarianism *(Free Enterprise Press).*

Book Review ~ The War Against Boys: How Misguided Feminism Is Harming Our Young Men by Christina Hoff Sommers

JANUARY 01, 2001 by George C. Leef

Simon & Schuster • 2000 • 251 pages • $25.00

Just when you think you've heard every last crackpot idea from the meddlers who say they could vastly improve the world if only we'd allow them to put their theories into practice (at gunpoint), along comes a new one. In *The War Against Boys*, philosophy professor and American Enterprise Institute scholar Christina Hoff Sommers identifies the new kid on the interventionist block. Make that *kids*, as she is writing about two demented siblings. One is the notion that American society "shortchanges" and "represses" girls. The other is the notion that we must radically change the way we raise boys. Those beliefs, emanating from the usual ivory tower sources, have seeped into the educational system, and that is cause for alarm.

Sommers first takes up the girls-as-victims line. Ground zero for this piece of crisis-mongering is Professor Carol Gilligan of the Harvard School of Education. In a 1990 book she proclaimed that girls were "in danger of drowning or disappearing" into that all-purpose villain "Western culture." The media immediately and uncritically picked up the story. Within a short time, Sommers writes, "the allegedly fragile and demoralized state of American adolescent girls achieved the status of national emergency."

Gilligan's "research" is about as trashy as junk science gets. She won't release her data ("too sensitive," she says) and refuses to play by the accepted rules of scholarship, decrying them as just another aspect of our "male dominated culture." She brushes aside criticism with the serene aplomb of all zealots.

Isolated cranks can't do much harm by themselves, though. They need help, and Gilligan gets it from the media, feminist groups, and politicians drooling for a new issue to exploit. That transmission chain resulted in the 1994 Gender Equity in Education Act, declaring that girls are an "under-served population" and therefore entitled to all sorts of special treatment. The U.S. Department of Education has awarded millions in grants for studies on the imagined plight of girls and has promulgated regulations to root out "sexual harassment" in schools.

But far scarier than the girls-as-victims crusade is the one aiming to change the way we raise boys. Our horribly patriarchal, capitalist, competitive (add as many adjectives of opprobrium as you wish) society raises boys in bad ways. For one thing, it promotes violence, and second, it makes boys unhappy and maladjusted. On the one hand, we get murderous lunatics like the killers at Littleton High School; on the other, we get brooding, morose boys who grow up to be brooding, morose men. Sommers again shows how ridiculously feeble the support for all that is, but still the idea has gained wide acceptance.

Gilligan and allies have a solution to their contrived problems. As feminist avatar Gloria Steinem says, "We must raise boys the way we raise girls." To do so, the meddlers have programs to change boys' "gender schemas" by early on substituting activities and influences that feminists see as "healthy." Make them play with dolls. Stay away from competitive activities. Reward boys for being (or at least acting) more "sensitive" and talking about their feelings.

Thanks to our public education system, this part of the feminist agenda is making headway. Some schools, for example, have stopped traditional recess and have substituted a "structured recess" where adults make sure that the vital work of changing gender schemas is not undone by the outbreak of anything competitive or militaristic.

Sommers saves her counterattack for last, strongly arguing that the problem is not patriarchy, capitalism, or anything other than the fact that our educational system has for the most part stopped giving boys what they need: discipline, order, and challenges. In the schools where those things are present, boys improve both academically and behaviorally. On the other hand, schools where the emphasis is on self-esteem have produced those feral children who kill and terrorize others without compunction. The meddling educational "progressives" have much to answer for, and Sommers asks why on earth we should entrust to them even more power to shape our children.

What is really hurting boys—and girls—is the fact that American education has fallen under the sway of starry-eyed reformers. They have driven out as "old-fashioned" our former emphasis on knowledge and moral education, replacing it with the mush of "values clarification" and "affective learning." *The War Against Boys* brilliantly argues for jettisoning past educational fads and steering away from the new "gender equity" being promoted by Carol Gilligan and her ilk.

I regard the book as utterly imperative reading.

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

Book Review ~ Fatal Freedom: The Ethics and Politics of Suicide by Thomas Szasz

JANUARY 01, 2001 by Ross Levatter

Praeger • 1999 • 177 pages • $25.95

Thomas Szasz and his work need no introduction to a libertarian audience. A physician and psychiatrist, his love of liberty has always outweighed his love of medicine, and he has become one of the great opponents of the medicalized loss of liberty known as the Therapeutic State.

Szasz's 24th book attacks yet another sacred cow of the modern worldview that crushes personal autonomy under the guise of expert therapeutic intervention and mandated "helpfulness."

Some background: Szasz takes liberty, responsibility, and autonomy seriously. If mental illness is, as other psychiatrists tell us, "a disease like any other," Szasz asks why imprison schizophrenics against their will when we don't imprison diabetics against their will? Szasz argues vociferously for the liberty of those labeled mentally ill. If, as Thomas Jefferson argued, men have as much right to ingest what they wish as they have to think and believe what they wish, why, asks Szasz, do we fight an unwinnable war against drugs? He has long been an advocate of the right to ingest or inject whatever one chooses (insisting also that those who do so take the responsibility of any consequences that follow). He has, however, not been an advocate of medicalizing the war on drugs, seeing this as just another effort to aggrandize physicians while infantilizing the masses.

In his latest book, Szasz advances his defense of autonomy and liberty by speaking out for the right to suicide.

Our final freedom is the fatal freedom, the ability to control our deaths, just as we attempt to control (and are typically granted the right to control) our lives. Szasz explores the history of suicide, from a sinful act to a symptom of mental illness to an alleged "right" under the control and auspices of medical experts.

In past centuries, the successful act of suicide allowed religious authorities to prohibit religious burial and political authorities to confiscate the suicide's property. More recently, failed suicide justified involuntary confinement in a mental hospital. Now the desire for suicide is alternatively seen as evidence of disease if acted on by an individual but as a sacred right if handled through the intermediary of a physician.

Szasz will have none of this.

Death control, like birth control, requires medical knowledge but is not a medical matter. It is a moral matter, and should in a secular society be under the control of the individual. In the twentieth century, birth control was initially illegal, then for a time available only by physician prescription. Now it is seen as a right, to be handled autonomously, not via physician-assisted birth control. Analogously (and for those who have not yet had the pleasure, be aware that Szasz is the master of analogy), if adults are to be free and autonomous, they need to obtain control of their deaths, not be placed in the position of medical mendicants, trying to please the authorities with the right combination of signs and symptoms, complaints and conditions that "justify" physician assistance in ending their lives.

More darkly, Szasz warns, the "right" to suicide, if viewed as a medical intervention, can lead—especially in a society where the access to health care is controlled by the state—to unintended consequences. Like the person held in a mental hospital who wants nothing more than to leave but is told instead that he has a "right" to treatment that will be given to him like it or not, the elderly and sick in socialist countries risk being told they have a "right" to suicide, like it or not. Hard to believe? Read chapter six, "Perverting Suicide: Killing as Treatment."

Though a medical practitioner, Szasz is not in the habit of prescribing for others. A right to suicide is not an expectation that, as everyone grows old, each is expected to "take care of matters" before they become a nuisance. It is instead a matter of options and the consequences for society of not having options. As Szasz writes,

> Therein lies the most insidious danger of relying on external prohibitions to regulate behaviors that can, in the final analysis, be effectively regulated only by internal controls. If young people believe that they cannot, need not, or must not control how they procreate—because assuming such control is wrong (sinful) and/or because others will assume responsibility for the consequences of their nonaction—then they are likely to create new life irresponsibly. Similarly, if old people believe that they cannot, need not, or must not control how they die—because assuming such control is wrong (a mental illness) and/or

> because others will assume responsibility for the consequences of their nonaction—then they are likely to die irresponsibly.

Legally protecting suicide is not synonymous with advocating suicide, any more than desiring legal protection for birth control implies advocating that people use birth control. Further, legally protecting the right to suicide no more mandates physician involvement in and control over suicide than birth control today, rigidly controlled by physicians in the early part of the twentieth century, requires continued physician involvement in prescribing it and counseling on its use. Physicians have no monopoly on wisdom into the human condition, and creating medical mandarins does not make them wiser. As with most monopolies, more likely the opposite.

Tom Szasz has written many provocative and courageous books. He has done so again.

Ross Levatter is a radiologist in private practice in Green Bay, Wisconsin.

Book Review ~ Governments End: Why Washington Stopped Working by Jonathan Rauch

JANUARY 01, 2001 by Philip Murray

Public Affairs • 1999 • 295 pages • $12.00

Jonathan Rauch is among the keenest observers of government in the United States. By "government's end" he means that "government has become what it is and will remain: a large, incoherent, often incomprehensible mass that is solicitous of its clients but impervious to any broad, coherent program of reform." To put it bluntly, big government is here to stay with all its taxes, bloated budgets, and intrusive regulations.

There is much evidence of this. Consider what Rauch calls "poor followership." We citizens demand more benefits from the government without showing any sign of moderation. We fail to understand Frederic Bastiat's characterization of government as "that great fictitious entity by which everyone seeks to live at the expense of everyone else." Our penchant for government benefits is also rational. Even though we'd all be better off giving up our favorite programs, why should you give up yours without knowing whether I'll give up mine and vice versa?

The bad news is that there is no cure. The good news is that we'll live anyway. Rauch manages to say that "the end of government will not, I think, be a sad time." The impetus of this book follows from the late Mancur Olson's idea that special-interest groups and transfer activity will stifle economic progress and government. Rauch's contribution is to thoroughly investigate the latter possibility. He states: "This book is about the side effects of the postwar style of politics, a style that emphasizes interest-group activism and redistributive programs." These side effects relate to the transfer economy and "demosclerosis."

An individual can get rich through either productive activity or transfer activity. What do we give up to the extent that many of us legally steal from one another? We give up dollars to pay lobbyists, lawyers, and politicians—

the agents of the transfer economy, if you will. We pay for defense lawyers and insurance policies that protect us from legal theft. And we go without the goods that would have been produced in the absence of subsidies. For instance, the government can only encourage a favored industry like sugar with subsidies by taxing some other activity like communications. We get more sugar but fewer communication services.

Economists figure that these three types of costs amount to 5-12 percent of the nation's output. Transfer-seeking, in Rauch's view, poses a greater threat to government than the economy. He states: "'Demosclerosis'—government's progressive loss of the ability to adapt—is a gradual but continuing process." Among the implications are that existing government programs are difficult to modify, let alone terminate, and that trial and error in public policymaking becomes impossible.

Actually, Rauch identified demosclerosis earlier and made it the title of a 1994 book. "In this revised version," he explains, "I've taken the opportunity to think about the lessons of the failed reforms, about the possible routes to better success, and about ways in which the country can develop a more productive and less pathological relationship with its government."

The author is pessimistic about "fixing the process" by restricting lobbying, imposing term limits, or reforming campaign finance. He sees more promise in decentralizing and terminating government programs, deregulating the economy, and further opening the U.S. economy to international trade. At this point the reader will notice a paradox. "Just how are we supposed to use competition to weaken lobbies," Rauch admits, "when the whole problem is that lobbies are blocking competition?"

The answer is that each of us as individuals must recognize his own complicity in the transfer economy and demosclerosis. Rauch frames the question this way: "Who finances and sustains the parasite economy?" His answer is: "Look in the mirror." *Government's End* is indeed an excellent lesson in public-choice economics, history, and civics.

Philip Murray is a professor of economics at Webber College in Babson Park, Florida.

The Non-Existent Frontier Bank Robbery

JANUARY 01, 2001 by Larry Schweikart

Larry Schweikart teaches history at the University of Dayton.

One of the enduring images of movies and television about the frontier west in America is the bank robbery. In a typical Hollywood scene, several riders, clad (in recent movies) in long coats—despite summertime frontier temperatures of up to 125 degrees!—slowly enter town, conspicuously scanning the cityscape for lawmen. The riders tie up their horses and enter the bank in broad daylight. Then they move with lightning speed to draw their guns, force the cashier or president to open the safe, throw the money in saddlebags, and hightail it for their horses outside. In a cloud of dust, they scramble out of town, with an occasional gunshot from one of the befuddled sheriffs trailing behind. The townspeople may mount a posse, but this belated action proves ineffective, as the crooks gleefully reach their hideout, the next town, or Mexico, whichever comes first.

There is one thing wrong with this scenario: it almost never happened. In 1991, Lynne Doti and I published *Banking in the American West from the Gold Rush to Deregulation*, in which we surveyed primary and secondary sources from all the states of the "frontier west."[1] This included every state west of the Missouri/Minnesota/Texas line, specifically, Arizona, California, Colorado, the Dakotas, Kansas, Idaho, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Utah, Washington, and Wyoming.[2] The time frame was 1859-1900, or what most historians would include in the "frontier period." Based on some previous research I did on Arizona and Doti did on California, we expected that we would not find a great number of bank robberies, but when we looked at the total picture for the West, the data surprised us.

Put generally, we found the western bank-robbery scene to be a myth. Yes, a handful of robberies occurred. In the roughly 40 years, spread across these 15 states, we identified three or four definite ones; and in subsequent correspondence with academics anxious to help us “clarify the record,” perhaps two or three others were pointed out. We missed two “biggies,” both by Butch Cassidy and the Sundance Kid (including the famous Telluride robbery in the late 1890s). Still, the record is shockingly clear: there are more bank robberies in modern-day Dayton, Ohio, in a year than there were in the entire Old West in a decade, perhaps in the entire frontier period!

What is more relevant to those interested in liberty and free markets is *why* there were so few robberies. Certainly people in the Wild West were no less greedy than later generations of criminals. In the 1920s, for example, a spate of western bank robberies plagued the Great Plains states: rewards soared, bank insurance was offered for the first time, and western bankers discussed bank robberies with increasing frequency at their meetings. Career criminals such as Bonnie and Clyde became infamous for their ability to strike quickly and escape. So if the crooks didn’t change, what did?

Equally interesting is the simultaneous rise of government regulation aimed at bank failures—but not robberies. After the 1890s almost every western state began to regulate other types of bank behavior to “protect” the consumer. Why were there so few bank robberies before the government got involved? Do technological factors explain the dramatic change?

In our study of how banks started in the early West, Doti and I were struck by the fact that virtually all bankers began as “something else.” Few bankers from the east moved past the Mississippi to establish a bank, at least, not before laying the groundwork in other businesses first.

Several prominent bankers had ties to eastern financial firms, such as the Koutze brothers of Nebraska and the Speigelbergs of New Mexico. Yet the first thing these men (there were no female western bank founders before 1900) did when they settled in a frontier town was to open a mercantile establishment—a “general store.” Was there no demand for banks when they arrived? Of course. That wasn’t the point: the future bankers knew that banking in the 1850s, 1860s, and 1870s demanded trust and public confidence, which had to be earned. Only by setting up a business that townspeople could rely on could the entrepreneurs later open a bank.

Creating a record of good business sense and reliability in another area of enterprise constituted only one of several requirements for a frontier banker. Another involved personal appearance. Many, if not most, western bankers looked the part. Their dress—and even their girth—was viewed by locals as testimony to their personal prosperity. Bankers had to demonstrate that they, personally, had the wherewithal to support a bank in times of trouble. Expensive dress played as critical a part in the life of a western banker, as do the feather boas on a showgirl, the gold chains on a rapper, or the Armani suits on a Wall Street broker.

Symbolic Building

Besides demonstrating an affinity for business and personal wealth, the banker had to show the community that he meant business by constructing a building that would symbolically reflect stability, permanence, and safety. The bank buildings were designed by some of the leading architects in the country (although many of the great names in American architecture constructed bank buildings only after 1900).

The buildings were in the dead center of town, with other stores on each side. This left only two walls "open" to blasting without disturbing residents, who tended to sleep above their establishments. The bank front faced into the town, and smashing through it would be obvious. That left the rear wall the most vulnerable. Even then, however, blasting through a wall was no easy (or quiet) chore. Bankers double-reinforced rear walls, and should the robbers get inside, they still had to deal with an iron safe. Safe storage of money was a key to successful banking: one Oklahoma banker kept his cash in a small grated box with rattlesnakes inside; an Arizona banker had a safe, but put his money in a wastebasket covered by a cloth, hoping thieves would take the safe and ignore the rest. Still others slept, literally, with the bank's assets under their bed.

Eventually, though, early iron safes appeared. Constructed in the "ball-on-a-box" design, they featured a large metal box on legs that held important documents. Actual gold and silver, plus paper money, was stored on top of the box in a large "ball safe," which proved daunting to separate from the bottom, or, more important, to haul off. Dynamite could break it off from its base, but what does one do with a huge round iron ball? The absence of plastic explosives made surgical entrance difficult, though certainly not impossible. These safes were later abandoned in favor of more conventional Diebold safes, named after the Cincinnati company that supplied many of them. The rectangular safes sported metal doors several inches thick. Again, one could penetrate them given enough time, but that was a luxury most thieves lacked. In short, penetrating a vault or safe constituted a major, difficult undertaking that most robbers avoided. But for our purposes here, the key is that the vault and safe, along with the building itself, made up the "symbols of safety" that reassured depositors their money was safe.

Indeed, many western banks commonly left the vault open during the day to allow customers a full view of the safe. Customers also saw fine wooden counters, excellent brass finishings (sometimes gold), and in banks in larger cities, beautiful chandeliers and marble floors. Ornate and ostentatious materials and furnishings contributed to the overall message of the owner's wealth, the bank's permanence, and the institution's stability and safety. Once regarded as irrelevant or odd, it turns out that the fine interiors had a definite purpose in maintaining the solvency of frontier banks.

Direct Approach

Given the difficulty of liberating cash from such buildings, it is not surprising that robbers usually chose the more direct approach. Several gunslingers marching headlong into a bank may have seemed like a good idea to some, and certainly Butch Cassidy's gang pulled off the successful Telluride robbery in such a mode. His gang had the advantage of Cassidy's brilliant planning: a shrewd evaluator of horse flesh, Cassidy had stationed (Pony Express-style) horses at exactly the points where he knew his own horses would be wearing out, ensuring that his gang had fresh mounts all the way to their hideout. Even so, one has to search extensively to find bank robberies of even this type. There was one in Nogales, one in California, and perhaps a couple in other locations. But like the rear-wall blasting, the front-door robbery is notoriously absent in western records.

So where did the myth of the western bank robbery arise? Some of it can be traced to Missouri, where the James and Quantrill gangs plundered at will during the Civil War era. Their expeditions ranged as far north as Northfield, Minnesota. But Hollywood is certainly guilty of misrepresentation.

The fact is, under the best circumstances, few gangs could ride into a town where almost every adult male was armed, walk inconspicuously to the building in the middle of town, and escape with everyone shooting at them. Moreover, railroads and stagecoaches made easier targets. Stagecoaches only had a driver and an armed guard, but train schedules were easier to predict. Even then, after a few trains were hit—especially by the Butch Cassidy gang—the railroads hired the Pinkerton detectives to put together a special operations force of crack shots and expert riders who rode in separate cars with their horses, or even separate trains that trailed behind the "target." The Pinkertons could react rapidly to a robbery, ultimately making it too difficult to consistently hit trains.

Interestingly, at the same time that banks were relatively free from robberies, they became gradually more vulnerable to instability of other types. Following the demise of the Second Bank of United States in 1836, the nation's banking system was comprised of a network of privately owned banks chartered by the state governments. (A few states themselves created their own monopoly banks, but those collapsed in the Panic of 1837.[3]) All the state-chartered banks could print their own notes, which circulated as money. Beginning in the late 1830s, several states also passed "general incorporation laws," which, when applied to banks, were known as "free banking laws." While these had weaknesses, especially in the volatile bonds that some states allowed to be deposited as collateral with the state treasurer, overall the combination of state charters and free banks led to one of the most stable and prosperous periods known in American financial history. During the Panic of 1857, for example, the South—which had branch banking, as opposed to the single-unit banks in the North—had virtually no failures or suspensions.[4] Meanwhile, surprisingly to advocates of government monopoly control of money, competitive bank notes proved remarkably easy to assess: *Dillistin's Bank Note Reporter* and other reporters gave fairly current values of notes. Contrary to the predictions of some, when money was taken out of the hands of the government and subjected to a private market, it produced a stable free-market money supply.

The Civil War changed the structure of banking laws, mainly to ensure bond sales to support the war effort. In the National Bank and Currency Acts of 1863-64, the government created a system of federal charters (that were more restrictive than the state charters), and allowed the national banks to issue money. Quickly realizing that privately issued notes would outperform government money, Congress passed a 10 percent tax on all private notes. Without actually banning private money, the government had eliminated all competition in cash.

At the same time, a national financial market gradually took shape, in which local banks, through "correspondent accounts," deposited some of their money in larger urban institutions that could pay interest. A bank in Colorado suddenly could be affected not only by a local robbery but also by a downturn in the railroad bond market in Chicago. Suddenly, to many people the stability and solvency of the individual local banker no longer provided the reassurance it once had. Bankers themselves were the first to notice that robberies posed less of a threat than a panic or than an unscrupulous banker. Within 20 years most western states, with bankers in the lead, passed new banking laws focused on revealing to the public a bank's position.

Sunshine Laws

Known as "sunshine laws," these state regulations required an annual examination of every chartered state and federal bank and the posting of the condition of the bank (as the examiners found it) in the local papers. Despite this regulatory creep, the system still relied on individual consumers to a large extent. The assumption was that if informed, the people could decide on their own if banks were safe. Bank examiners admitted they could do little more than a cursory investigation, and then only (usually) once a year. But the significant facts were that the industry itself took the lead and that the government's role was restricted to publishing information. Of course, the caveat remains that since banks first were formed in America, going back to the Bank of North America in 1781, state legislatures had regulatory power over them.

Still, even in the age of national banks, banks emphasized physical material symbols of safety as a means to reassure depositors. Ads run in local papers in the late 1800s constantly reaffirmed the soundness of banks, especially their capital. The ads almost universally carried a mention of the size and strength of the bank vault and the ornate beauty of the bank building. Again, these references told depositors that their money was really guaranteed, not by the bank examiner who validated the numbers, but by the actual cash that the bank protected in its vault. And even in the age of national banks, bank robberies remained few and far between.

Ultimately, technological change and regulatory fervor changed banking forever. With the introduction of the automobile, and a network of passable roads, all robbers could gain the edge once enjoyed only by insightful planners such as Butch Cassidy, namely the ability to outrun their pursuers on a regular basis. In Oklahoma it was called "running the cat roads." One could rob a bank near a state border, then escape by car to a neighboring state, safe from the lawmen who would have had a personal stake in their capture. States could not generically recognize sheriffs from neighboring states without opening up law-enforcement issues across the board.

By the mid-1920s, there was a rash of robberies in Iowa, Oklahoma, the Dakotas, and other parts of the West unheard of in the glory days of Butch Cassidy or the Daltons. Banks turned to insurance companies to post large rewards and instituted new bank security measures, some of which proved humorous. In Arizona, for example, one bank installed teller-controlled tear-gas guns over the teller cages, but removed them after a nervous employee gassed hapless customers. George Wingfield, who owned a large chain of Nevada banks, purchased a shotgun and shells for every cashier in the chain, personally handing out the firearms.[5] But for many banks in the open spaces, the mobility brought by the automobile—before the widespread use of police radios and the federalization of some robberies when a state line was crossed—gave the crooks decided advantages.

While bankers expressed some anxiety about robberies, clearly their main concern remained large-scale financial instability brought about by the interconnected national markets. In the late 1800s several state bankers conventions proposed reform measures directed at ending the instability through the introduction of a "lender of last resort." Again, it is worth noting that regulatory reform came from the industry concerned about its own health and was not pushed on it by disgruntled consumers. The new reforms coincided with the rise of the Progressive movement and involved abandoning the old sunshine laws in favor of more state-directed regulation. After all, some reasoned, panics had occurred in 1873, 1893, and 1907 despite the sunshine laws. The final nail in the coffin of self-policing by the banks probably occurred when, after the Panic of 1907, America's premier banker, J. P. Morgan, who had almost single-handedly bailed the government out of two financial disasters, announced that the nation's financial system had grown beyond the ability of any individual, or even any syndicate, to support.

Not long thereafter, Congress passed a variant of the reform plans submitted by the state bankers associations, which comprised the bulk of the Federal Reserve System.[6]

The largest number of bank robberies ever seen in the West did not occur until after the Federal Reserve System was in place, by which time a more subtle change had taken place. Once the state and federal governments started to assume responsibility for the banking system—in the eyes of the public—the individual bank owner, the bank building, and the physical manifestations of safety became less important. Instead, customers gradually came to rely on the word of the government, through the official sanctions of the examinations, that a bank was solvent. Worse, at the national level, the entire structure supposedly was under the supervision of a benign Federal Reserve Board of Governors. Both assumptions proved illusory in the 1920s, when a steady rockslide of bank closures struck the nation, turning into an avalanche after 1930. We shall leave for a later debate the role played by the creation of federal deposit insurance in "stabilizing" the system, but it is significant that in both the matter of robberies *and* financial instability, banks became less solid in the 50 years after regulations were introduced.[7]

The simultaneous demise of competitive note issue and the physical "symbols of safety" made banks more vulnerable than at any time in the "Wild West."

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Notes

1. 1. Norman, Okla.: University of Oklahoma Press, 1991.
2. > 2. Some may quibble with our omission of Texas as "frontier west," but this was based both on the early Texas constitution that forbade banking and on the fact that a lively discussion still rages over whether Texas is "south" or "west."
3. > 3. For a detailed look at the antebellum history of banking, particularly in the south, see Larry Schweikart, *Banking in the*

American South, from the Age of Jackson to Reconstruction (Baton Rouge: Louisiana State University Press, 1987); Schweikart, *The Entrepreneurial Adventure: A History of Business in the United States* (Fort Worth: Harcourt, 2000). A survey of the literature is found in Larry Schweikart, “American Commercial Banking: A Bibliographic Survey,” *Business History Review*, Fall 1992, pp. 606-61.

4. > 4. Charles Calomiris and Larry Schweikart, “The Panic of 1857: Causes, Transmission, Containment,” *Journal of Economic History*, December 1990, pp. 807-34.
5. > 5. Larry Schweikart, “A New Perspective on George Wingfield and Nevada Banking, 1920-1933,” *Nevada Historical Quarterly*, Winter 1992, 162-76.
6. > 6. The best survey of these developments remains Eugene N. White, *The Regulation and Reform of the American Banking System, 1900-1929* (Princeton, N.J.: Princeton University Press, 1983).
7. > 7. As a teaser, on deposit insurance, see Charles Calomiris, “Deposit Insurance: Lessons from the Record,” *Economic Perspectives*, May/June 1989, pp. 10-30, and his “Is Deposit Insurance Necessary? A Historical Perspective,” *Journal of Economic History*, June 1990, pp. 283-95.

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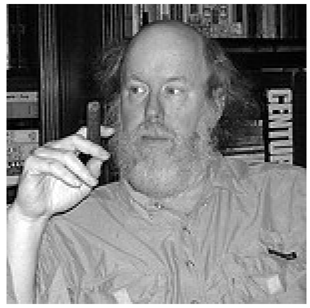

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A champion for liberty, Reed has authored over 1,000 newspaper columns and articles and dozens of articles in magazines and journals in the United States and abroad. His writings have appeared in *The Wall Street Journal, Christian Science Monitor, 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.

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