THE FREEMAN

IDEAS ON LIBERTY

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The Moral Consequences of Paternalism

King Charles' Ax

MAY 1994

March 1994

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Atlanta, GA 30309

Produced by
MiceEatCheese.co

Published by
Benjamin Tucker Institute, z.s.

Foundation for Economic Education

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A Lesson From the Past

Remember the Maine?

MARCH 01, 1994 by William J. Ellenberger

Admiral H. G. Rickover was eccentric, an iconoclast, often at odds with his peers and superiors in the Navy. But his perfectionism gave us our nuclear propulsion Navy. Our first nuclear submarine, *U.S.S. Nautilus,* went into service in January 1955. The Polaris fleet followed in 1960. Rickover named them for patriots beginning with George Washington and including Daniel Boone, Will Rogers, George Washington Carver, and others. Why this disregard for Navy tradition of naming submarines for marine life? Despite the demands of his profession Rickover had two avocations: history and the education of American youth. By naming the Polaris fleet for patriots he sought to keep their names and deeds before the public, especially young Americans. He wrote a book, *Eminent Americans: Namesakes of the Polaris Submarine Fleet,* in which his wife assisted in the biographical research.

His interest in American history was renewed in 1974 by a newspaper article recalling the destruction of the battleship *Maine.* The journalist questioned again whether the sinking was due to an external or an internal explosion and quoted the Chief of the Navy's Bureau of Steam Engineering as saying that the explosion was in one of the ship's ammunition magazines. The admiral decided to review the findings of the Board of Inquiry and other relevant information, and to apply modern technological analysis to determine the probable cause of the explosion. Navy technical laboratories performed tests and experiments for him. After relating the tests to the written record, he concluded that there was insufficient evidence to support the Board of Inquiry's conclusion that the *Maine* was destroyed by an external mine. Moreover, there was now significant evidence of the likelihood of an internal explosion. Two related factors supported this: the bituminous coal used by the Navy often caught fire in the coal bunkers due to spontaneous combustion, and only a thin steel wall separated some of the bunkers from the ship's ammunition storage.

Had modern technological analysis been available and applied in 1898 the meaning of "Remember the *Maine"* could have been significantly different. Admiral Rickover stated the lesson as follows: ". . . we can no longer approach technical problems with the casualness and confidence held by Americans in 1898. The *Maine* should impress us that technical problems must be examined by competent and qualified people; and that the result of their investigation must be fully and fairly presented to their fellow citizens." Now, almost two decades later, his further warning bears repetition and emphasis: "With the vastness of our government and the difficulty of controlling it, we must make sure that those in 'high places' do not, without most careful consideration of the consequences, exert our prestige and might. Such uses of our power may result in serious international actions at great cost in lives and money—injurious to the interests and standing of the United States."

The admiral was thinking of military consequences, but his words are applicable in a broader spectrum, namely science and technology in government. Had his methodology been applied by government agencies concerned with our ecology and environment we would not have had the unscientific, unwise decisions regarding alar, asbestos, PCB, dioxin, and "acid rain," to name but a few, that have been so detrimental to our national economy.

—William J. Ellenberger
Escondido, California

To the Editor:

In "Sexual Harassment: What Is It?"-*The Freeman,* June 1993, Wendy McElroy says that "Racism is difficult to define, yet few people would deny its existence." She is too kind. For it is easy to define "racism" in such a way that it becomes a word for a kind of obviously unacceptable behavior. "Racism" is thus to be defined as advantaging or disadvantaging people for no other and better reason than that those people happen to be members of one particular racial set.

Difficulties and confusion arise because so many people want both to commend positive discrimination and quotas as anti-racist, notwithstanding that these are in the sense defined paradigmatically racist; and to denounce various individuals and institutions as racist notwithstanding that these individuals and institutions have not been guilty of that obviously obnoxious form of behavior.

Yours faithfully,

Antony Flew

The Rule of Law

The internal effects of a mutable policy are still more calamitous. It poisons the blessings of liberty itself. It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood; if they be repealed or revised before they are promulgated, or undergo such incessant changes that no man, who knows what the law is today, can guess what it will be tomorrow. Law is defined to be a rule of action; but how can that be a rule which is little known, and less fixed?

—The Federalist

A New *Freeman* Feature: Mark Skousen's "Correction, Please!"

Mark Skousen's monthly *Freeman* column, "Correction, Please!" makes its debut on page 145, settling into a regular spot preceding the book review section. Read him each issue for a lively rebuttal of popular myths and fallacies in today's media.

The Economic Way of Thinking, Part 6

All of Our Choices Have Opportunity Costs

MARCH 01, 1994 by Ronald Nash

Dr. Nash is Professor of Philosophy and Theology at Reformed Theological Seminary in Orlando, Florida. He is the author or editor of 25 books including Poverty and Wealth, Great Divides, *and* Social Justice and the Christian Church.

Last month, I pointed out the value of approaching economics as a way of thinking, not as a set of doctrines and theories. I also explained how there is nothing terribly complicated about the economic way of thinking, once certain fundamental principles are understood. While much of this material turns out to be a matter of common sense, people who are unaware of these principles will have trouble understanding why some things in life are true.

In Part Five, I dealt with the first of these principles of the economic way of thinking: *Incentives matter!* When you give people incentives to do A rather than B, the number of people who choose A rather than B will increase, all other things being equal.

Every Choice Involves Some Cost

This essay will deal with the obvious fact that every choice carries a cost. Because human beings live in a world marked by scarcity, nothing is free. Every economic good has a price in the sense that before anyone can obtain it, he must sacrifice something else. It is impossible to get A (some economic good) without giving up B (some other economic good).

The economic principle in view here is often expressed in such old sayings as: “You can’t have your cake and eat it too” and “There is no such thing as a free lunch.” The unavoidable fact of scarcity forces us to make choices in which we sacrifice some things in order to obtain others.

Ranking Our Options

Economics studies the ways in which people attempt to satisfy their wants with the resources at their disposal. It is concerned with how people choose to bridge the gap between what they have and what they want. Because our resources are never sufficient to satisfy all of our wants, we have to make choices about how to use our resources so as to supply the wants that we judge to be most important.

As human beings seek ways to get the most out of their limited resources, they are forced to rank their available alternatives. This ranking will reflect the individual's own personal order of values. Everyone has a scale of values by which his needs, wants, and goals are ranked in order of the importance and urgency he attaches to them. Even though we may be unconscious of the process, we all engage in a constant ranking of the relative value to us of things we want but do not possess and of things we possess but might be willing to trade for something else.

Several things follow from the fact that people place different values on things. For one thing, if person A values x (some economic good) more highly than person B does, A will be willing to sacrifice more in order to secure an additional unit of x. Moreover, since person B values x less than A does, B may be willing to trade some quantity of x to A in exchange for something else that B desires more. It would be difficult for market exchanges to occur in a community where everyone placed precisely the same value on everything.

Not only do value scales differ from person to person, the value scales of individual persons are constantly changing. As people's interests, wants, and information change, their preferences change. The things that a person puts forth the greatest effort to secure at any given moment are those that rank highest on his personal scale of preferences at that moment and in those circumstances.

Obviously, then, economic value is subjective. The reason people choose one economic good over another is not grounded on any objective value inherent in the good itself. Their choices reflect the value they impute to the good at the moment they make the choices.

Cost Versus Money Cost

Economic choices are geared towards maximizing benefits and minimizing costs. It should be clear that the word *cost* has more in view than the mere outlay of money. The more someone believes he is likely to benefit from an action, the more likely he is to act in that way. Greater benefits make a choice more attractive; higher costs make it less attractive and make it less likely that someone will select the most costly option.

This analysis of economic choice entails neither materialism nor selfishness. It does not assume that human beings seek only money or material goods or their own welfare. There are times when the welfare of others ranks higher in our scale of values than our own well-being. There are occasions when we willingly incur significant money costs because the possibility of giving up something other than the money in question is viewed as too high a cost.

Some people want certain goods for the express purpose of being able to use them for the well- being of others. Some regard many things as more important than paper and metal money. Some people give a higher priority to serving others than to serving themselves. Their economic choices will reflect these priorities.

Opportunity Cost

In every economic choice, something is gained; but something else must be sacrificed. What economists call *opportunity cost* is the subjective value of the highest ranked option or opportunity that someone forgoes in order to obtain some good. Most people think of the cost of some good solely in terms of the money they must surrender in order to acquire it. Such thinking confuses money price with cost.

If I had not used scarce resources to acquire A, I could have used them in other ways. Suppose, in this case, that of all the available options, one alternative (call it B) is my first preference to A. But when I decide to acquire A, I forgo the opportunity to acquire B. My sacrifice of B then is the opportunity cost of my buying A. Since people's value scales differ, it follows that different people who acquire A will have varying opportunity costs. For one person, the opportunity cost of buying a large screen television set might be a vacation in Monument Valley, Utah. For another person, it might be a large donation to starving children in Somalia. It is important therefore to recognize that the cost of anything involves more than money cost; it is actually the cost of forgone opportunities.

An Example

Several months ago, I accepted an invitation to speak to a civic organization in a large city. I agreed to speak because the affair was an opportunity to introduce a number of influential people to a subject I care about, family choice in education. On the day I accepted the invitation, there was nothing else on my schedule, so my opportunity cost amounted to several hours of lost time, time that I probably would have spent completing my new book.

But a few days before my date with the civic organization, a friend called to invite me to play golf at a well-known country club. Unfortunately, the golf date conflicted with my scheduled meeting with the Kiwanians. I was faced with an either/or situation: either play golf at a very special course or speak to the Orlando Kiwanis Club. At the risk of offending some Kiwanians, I have to admit that I really did prefer the golf match. Nonetheless, I told my golfing friend that I had another commitment.

Some might think the example conflicts with my earlier observations about how we always choose the highest ranked alternative in our scale of values. It seems clear that I ranked that round of golf higher than speaking to the Kiwanis Club. Does my decision not show that the option I selected was not the thing I valued most at the time? The reason it does not rests on the fact that there was something else that ranked higher in my scale of values that day than either the Kiwanis meeting or the golf match, namely the importance of keeping a promise *and* the opportunity to represent the cause of school choice before an important audience.

What did it cost me to speak at that Kiwanis meeting? Originally, I thought my opportunity cost would only be a few lost hours that I could have spent working on a book. That was no big deal. But now, it was the loss of a coveted round of golf. This cost was serious enough to elicit an "Ouch"! But obviously I also thought that the opportunity cost of breaking a promise and abandoning an opportunity to representan important cause would be even more severe.

There is nothing unusual about my decision. Every reader of this essay has done similar things many times in his or her life. In my case, my understanding of the notion of opportunity cost aided my understanding of myself and the reasons for my final decision. It is easy to see, however, how someone not familiar with the principle of opportunity cost—the part of the economic way of thinking that is the topic of this article—might have difficulty sorting things out.

Introducing Children to the Notion of Cost

Children and, for that matter, many teenagers can be helped through an understanding of the concept of opportunity cost. Some parents mistakenly give in to every request or demand of their children. When parents do this, they incur opportunity costs for themselves; they make sacrifices. Why shouldn't children learn that choices always involve costs? I recognize that this can be overdone with small children. But as children mature, understanding how scarcity requires choices and how choices involve costs may help them mature more quickly and become more responsible.

Many people in their teens and twenties demonstrate a total lack of acquaintance with this subject. It is natural to wonder how many of the foolish and immature things young people do result from their inability to recognize the true costs of their actions. It also seems highly likely that one reason many adults behave in equally foolish ways is that they also have not learned to recognize the true costs of their decisions.

Even though I spent close to thirty years teaching in a large state university, I am now a professor in one of the ten largest theological seminaries in the world. I introduce the students in my ethics classes to the principles of the economic way of thinking. To the future ministers in my classes, I strongly suggest that they can find some valuable preaching material in the notion of opportunity cost. Jesus once told about a wealthy farmer who cared only for the accumulation of more wealth and who failed to realize that the opportunity cost for his pattern of living was the loss of his soul. It would be an interesting experiment for some to go through the Bible and identify the serious consequences that befell certain well-known individuals in Scripture who failed to recognize the true costs of their bad decisions.

But this essay is not a sermon. It is simply an introduction to an extremely important principle of the economic way of thinking. Realizing that all our choices entail costs that often go unrecognized might prove to be one of the important lessons we learn in life. []

A Lesson in Liberty

Just a few years ago our family read the *Little House on the Prairie* series by Laura Ingalls Wilder. Though living outside of town on a claim, Laura and her family were wakened one Fourth of July in the pre-dawn darkness by gunpowder exploding under the town blacksmith's anvil. Ma wasn't interested in the main attraction of the day–horse races–and baby Grace was too young, so Pa, Laura, and Carrie made the trip to town for the simple celebration. After a quick and light lunch the festivities began with a speech recalling the struggle to obtain their liberty and a public reading of the Declaration of Independence. (Laura and Carrie knew it by heart–quite a commentary on old and new educational systems.) But after the reading an eerie silence fell over the crowd, almost a holy hush, which was broken courageously and spontaneously by Pa's singing "My country, 'tis of thee, sweet land of liberty . . . ." Everyone joined in, recognizing the appropriateness of the song for the occasion. As the song ended the crowd scattered away, but the last lines of the song, combined with the prior reading of the Declaration, gave Laura a life-changing lesson in what it means to be free: "Long may our land be bright, with freedom's holy light, protect us by Thy might, Great God, our King."

Laura realized God was America's king and that Americans don't obey an earthly king, but are free. But since no king controlled her father, he had to control himself. She realized as she grew older her parents wouldn't be controlling her any longer either, and that she would have to live a moral life on her own. She had to be self-governed, and keep God's law, the only thing that she felt gave her the right to be free.

—Marty Mattocks

To Repair The Culture, Free the Market

Economic Interventionism Destroys the Culture

MARCH 01, 1994 by Llewellyn H. Rockwell Jr

Mr. Rockwell is president of the Ludwig von Mises Institute in Auburn, Alabama. A much longer version of this article will appear in The Intercollegiate Review.

Traditionalists and economic libertarians have more in common in the culture war than they might think, for capitalism helps create and sustain a conservative culture. The enemy, for all of the genuine Right, is government intervention.

Today, our economy is a mixture of state planning and impaired markets that no nineteenth-century observer would have recognized as free. Barely half of all new wealth survives the tax police. No part of the economy, from a grocery store in rural New Hampshire to a car dealership in urban California, is exempt from the toils of a hundred agencies. For all business, our planning apparatus is distinguished from the Soviets' only in degree.

Our labor markets are crippled by anti-discrimination laws, which punish old standards of merit and reward political power. And the welfare state grows no matter which party is in power, further subsidizing the slothful and inept at the expense of the dwindling band of the productive and energetic.

"Of the many species of liberty which compose the freedom we enjoy," Michael Oakeshott wrote in *The Political Economy of Freedom,*"we have long recognized the importance of two: the freedom of association, and the freedom enjoyed in the right to own private property." It is these two areas where we have lost the most, with a heavy cultural as well as economic cost.

The Welfare State

Under the welfare state, the beneficiaries need not work. In fact, they cannot work if they want to keep getting the checks. Thus the condition that welfare is supposed to alleviate—poverty, illegitimacy, etc.—is also the condition required for a continued flow of benefits. The welfare state subsidizes, and thus increases, the very problems it is supposed to solve.

What's more, welfare takes from earners and gives to non-earners. Thus it not only encourages a something-for-nothing attitude, it also legitimatizes the idea that it is moral to take other people's property without their consent–a lesson the government should not be teaching.

The rigorous rules of the market—roughly akin to the New Testament admonition that he who doesn't work shouldn't eat—are circumvented in the welfare state. Add to this an effort to erase the just stigma of welfare, and the work ethic is overthrown.

In the market economy, there is a hierarchy of success. But welfare increases the income and the status of the failures in society. It thus devalues the older signs of achievement and reduces the market class structure—especially at the lower end—to a jumble.

Older forms of welfare were provided privately, usually through religious institutions that were well aware of its potentially corrupting effects. Work was required from those who could do it, and the "undeserving poor" were treated appropriately. Most important, the rules of social advancement were the same for all.

Of course, the old order's free market was not footloose and fancy-free. It produced not what today's libertarians call "freedom," but a rigid environment of work and saving, and of punishments for those who failed to do both, as witness the discipline of the company towns of the laissez-faire era.

Capitalism is as conspicuous for what it requires as for what it allows. As F. A. Hayek argued in *The Constitution of Liberty,* "liberty not only means that the individual has both the opportunity and the burden of choice; it also means that he must bear the consequences of his actions and will receive praise or blame for them. Liberty and responsibility are inseparable."

Group Privilege

The welfare state "produces the habit of complaining," said Ludwig von Mises, and in response, it long ago moved beyond redistribution of property. If certain groups have failed to get what they think of as their due, they are able to get themselves designated official victims. This is a culturally corrupting effect in itself, as if failure is always someone else's fault. The welfare state then forces society to treat these groups as if they had earned what they demanded, especially through anti-discrimination law.

As Oakeshott said, "the freedom which separates a man from slavery is nothing but a freedom to choose and to move among autonomous, independent organizations, firms, purchasers of labor, and this implies private property in resources other than personal capacity."

Yet today, from business to housing to schools to clubs, the free association that Oakeshott regarded as the difference between slavery and liberty is all but gone.

The Family and the Free Market

Not everyone can make his own way in society. Children, of course, require the help of parents, and the elderly require the help of the young. These, and many other needs, are met in the family. But the mixed economy has displaced private provision with welfare, dramatically weakening the family. For example, Social Security and Medicare have relieved children of the obligation to care for their elderly parents, as Allan Carlson has shown.

In the present system, the elderly feel betrayed and ignored by everyone but the government, while grown children can disregard their obligations with little earthly penalty. There is less respect for old people, which—combined with a culture that glorifies immaturity—disrupts the natural hierarchy of age. Largely because of state intervention, each generation has become more isolated, self-indulgent, and irresponsible. One only has to contemplate the "baby boomers."

In a free market, on the other hand, the family thrives. As G. K. Chesterton noted, the family "is at once necessary and voluntary," and thus needs nothing from government other than the rule of law.

As Mises wrote in *Socialism,* however, leftist proposals "to transform the relations between the sexes have long gone hand in hand with plans for the socialization of the means of production." To Mises, traditional marriage was reinforced by the institutions of capitalism, especially free contract, and because of the contractual nature of marriage, he thought that divorce should be allowed in only the most narrow circumstances.

It is interventionist government, said Mises, that undermines "age-old moral precepts," and the battle for those precepts is the "great fight" of our age.

The greatest shock in recent decades to the traditional family has been the move of married women into the workforce. This puts a heavy strain on marriage (divorce rates have climbed) and especially on children, for day care workers can have nothing like a mother's love or interest in the child.

Why did married women enter the workforce? For the vast majority, it was to maintain a decent standard of living amidst inflation, which, by dramatically lowering real incomes, destroyed the one-salary family. And such inflation is no natural phenomenon, but the result of central banking.

Time and the Market

The most important cultural effect of the mixed economy has been to change the way we think of time. We all want to have our desires met sooner rather than later, but gaining wealth takes time, and successful people are able to put off immediate gratification for future reward.

As might be expected, nineteenth-century America was a disciplined society of people who knew how to wait and save. As T. Alexander Smith notes in *Time and Public Policy,* "the culture which the older bourgeoisie dominated and the values it forged within the social order were particularly favorable to lengthy time horizons." Moreover, "this culture was family centered." As Joseph Schumpeter noted, the "capitalist order entrusts the long-run interests of society to the upper strata of the bourgeoisie."

But interventionism has shortened societal time horizons, and inflation and easy credit are the villains. As Smith says, "credit-created inflation, if it persists for a sufficient period, shortens time horizons, as customs, values, and opinions begin to catch up with the growth of the money supply."

In the nineteenth century, personal and installment loans were extremely rare. Debt of this sort was considered a sign of vice. Credit based on the real savings of the American people went to the entrepreneurs who built the country. But a central bank that pushes down interest rates produces easy credit. It also creates the illusion of low time preference without the reality (a large pool of savings), encouraging business borrowing that cannot be sustained through time, and even bringing about the business cycle.

Other aspects of the mixed economy shorten the social rate of time preference as well. Welfare subsidizes immediate satisfaction and discourages saving. Unemployment insurance discourages saving for possible job loss, lessens the fear of unemployment and therefore the incentive to work hard, and underwrites indolence for longer and longer periods, thereby raising the unemployment rate.

Social Security discourages people from saving for their retirement. The inheritance tax discourages saving for future generations. Income and property taxes penalize the accumulation of wealth. Taxes on businesses reduce their capital and thus their ability to sustain long-term projects.

As interventionism has rewarded short-term thinking, the behavior and values of high time preference have become the cultural norm. The sexual mores, manners, clothes, and music of the underclass, once seen as the evidence of immorality and failure, now attract the favorable attention of middle-class youth. Instead of the bourgeoisie fulfilling their natural leadership role, the lower classes have begun to set the tone.

Edward C. Banfield, in *The Unheavenly City,* persuasively analyzes classes almost solely in terms of time preference. The upper-class person "looks forward to the future of his children, grandchildren, great-grandchildren (the family 'line'), and is concerned also for the future of such abstract entities" as the community or nation. He is able and willing to sacrifice "present satisfaction" so that he, his children, his community, etc., can "enjoy greater satisfactions at some future time."

Middle- and working-class people are progressively less future oriented, while the lower-class person "lives from moment to moment." Governed by impulse, he is "radically improvident: whatever he cannot consume immediately he considers valueless. His bodily needs (especially for sex) and his taste for 'action' take precedence over everything else" especially the "routine of work."

And it is the welfare state that skews the time horizons of the upper, middle, and working classes toward the lower class's, a societally disastrous effect.

Materialism and Greed

Sometimes the word *materialist* is used as a synonym for *capitalist.* Yet capitalism, as a system of organizing resources, tends to encourage not a materialist ethic, but the prudence, thrift, and hard work that Wilhelm Roepke identified (see below). The less free the economy, however, the more materialistic everyone must be. Under Communism, women had to stand in line all day to feed their families and be constantly on the lookout for the most basic items. The demand for material possessions tended to displace other values.

The welfare state also directs man's interest to the least important material activities. Unlike the free market, as Alexander Shand notes in *Free Market Morality,* the welfare state "removes from the individual much of the responsibility for matters that would be a great concern to him—his family's health care, old age, and education—and leaves him with responsibility for choice only in comparative trivialities or luxuries."

As for greed, capitalism can reward it. So can socialism, and so can the mixed economy. The temptation is unrelated to the degree of material opportunity. Whether one is striving for a grass hut in a primitive village or a vacation penthouse in Florida, it is corrupting if done at the expense of family and other deeper responsibilities.

Dynamism and Technology

It has often been objected that capitalism's dynamic nature, its tendency to produce technological advances, undermines what T. S. Eliot called the permanent things. Yet this concern is misplaced.

Old values do not require old technology. The permanent things do not refer to particular kinds of consumer goods or modes of production. The complex of moral standards and priorities that make up the good culture cannot be reduced to technical categories. Societal virtue has nothing to do with whether goods are delivered in trucks or horse-drawn carts. It is the social commitment to traditional social institutions and patterns of living that matter.

In previous eras, liberty and democracy were not thought to be synonymous or even necessarily related. The confusion that they are has led to a subtle assault on property and its resultant social hierarchy.

It is thus unfortunate that the phrase *democratic capitalism* has achieved such status. Capitalism means an economy based on private property; modern democracy means the violation and redistribution of private property through political means.

The term *democratic capitalism* is therefore confused, unless it is meant to describe the kind of mixed economy that passes for a free market in the U.S., and is therefore deliberately misleading. In fact, the reestablishment of the market economy will require a curtailing of democracy as presently understood.

A Theory of Intervention

Mises argues that any intervention in the economy must lead to others. Interference in the market, which substitutes political power for the price system, causes more problems. The state then uses these problems as an excuse for further interventions, which in turn lead to other interventions.

The same is true of the cultural consequences of the mixed economy. For example, the government will point to the failing family as justification for more government control, even though the failure is a result of previous interventions. Or the government will announce that because everyone is engaging in short-term thinking, it must direct investment toward what it claims is the long term. The state, in other words, uses and thrives off the short-term thinking it itself creates.

The Culture War

Anyone who prefers a society of families instead of easy divorce, of children instead of depopulation, of prudence instead of waste, of high culture instead of underclass values, of independence instead of group privilege, of saving instead of immediate gratification, of self-discipline instead of decadence—must favor the free market over the mixed economy.

Why, then, haven’t capitalism and cultural conservatism been happily linked? Unfortunately, the defense of capitalism sometimes has been associated with egalitarianism, anti-clericalism, and general cultural Leftism.

Although they reject government power, market liberals reject the authority of family, church, and community, and thus advocate cultural values not only wrong in themselves, but antithetical to those encouraged by the free market.

If we are to return to the values of the old republic, cultural traditionalists must lead the capitalist fight. Because economic interventionism destroys the culture, that is exactly where traditionalists belong. []

Roepke on Capitalism and Culture

Wilhelm Roepke gave us the definitive litany of capitalist institutions in *A Humane Economy*: "Individual effort and responsibility, absolute norms and values, independence based on ownership, prudence and daring, calculating and saving, responsiblity for planning one's own life, proper coherence with the community, family feeling, a sense of tradition and the succession of generations combined with an open-minded view of the present and the future, proper tension between the individual and community, firm moral discipline, respect for the value of money, the courage to grapple on one's own with life and its uncertainties, a sense of the natural order of things, and a firm scale of values.

Our Own Mad Clockwork

Why Did Slavery Flourish in Seventeenth Century Virginia?

MARCH 01, 1994 by Robert Zimmerman

Mr. Zimmerman, who was a film producer in New York when he wrote this article, is now a writer and historian, specializing in science and the history of space exploration. No further reproduction of this article is allowed without written permission of the author.

Multiculturalist educator Leonard Jeffries has charged that Jews were instrumental in the establishment of black slavery in America. Is this true? How *did* slavery establish itself in America?

This question is not easily answered. Most history books on slavery deal with later periods, such as the American Revolution, the Civil War, or the Civil Rights movement. If the question is ever asked, the answer is usually summarized as "economic forces made people buy slaves," a Marxist formula I find wholly unsatisfactory. As John Adams himself said,

> *I have, through my whole life, held the practice of slavery in such abhorrence, that I have never owned a Negro or any other slave, though I have lived for many years in times when the practice was not disgraceful . . . and when it has cost me thousands of dollars for the labor and subsistence of free men, which I might have saved by the purchase of Negroes at times when they were very cheap.*

Economic forces alone do not explain the birth of slavery in America.

My research not only helps to answer this question for myself, but also raises some terrifyingly profound questions about where America is going today. And since this question is about the germination and birth of an evil upon the world, its answer might help us spot the feeble beginnings of a parallel evil in our own time.

From Villainage to Slavery in Virginia

Serfdom, or villainage as it was called in England, had been abandoned for almost two centuries before the colonization of Virginia in 1607. And British law was very specific in protecting the rights of each individual, regardless of social status or economic class. Only bonded servitude remained as a form of coercive labor still practiced at the beginning of the seventeenth century. However, an individual who agreed contractually to work several years as a bonded servant almost always did so in exchange for room, board, and a very specific form of apprenticeship (that is, the learning of a trade). In addition, the law placed severe limits on the power a master held over his indentured servants.

Virginia began the long road to slavery when, less than twelve years after the establishment of the colony, those in charge changed the nature and meaning of bonded servitude as it had been practiced in England. Even though each new colonist was given fifty acres of land for immigrating into Virginia, the cost of transportation was too much for most citizens. In 1619 Sir Edwin Sandys, empowered to run the Virginia Company, instituted a program of paying each person's transportation to the colony in exchange for four or seven years of indentured servitude in any labor the company chose (which was usually hard labor in the tobacco fields), with no requirement to provide any training. This idea was so appealing to many wealthy businessmen, in England as well as Virginia, that they began to use the method themselves to gain new workers. Not only did they get the years of servitude, they also negotiated the right to claim the fifty acres due every colonist.

In other words, a bonded servant in Virginia obtained nothing but relocation. For the period of his servitude he had no rights and no freedom and could be made to do whatever labor the master thought necessary. And because the social order of the colony was so new and unsettled, there were few controls on how a master could treat his servants. Very quickly, buying and selling human beings became a major form of trade in Virginia. As Thomas Best wrote from Virginia in 1623, "My master Atkins hath sold me for 150 pounds sterling like a damned slave."

None of this prevented immigration, since the possibilities for wealth in Virginia were so enticing. If anything it encouraged it, because every English citizen dreamed of becoming a landed lord with his own servants. Virginia epitomized that dream.

Because of this policy, however, the majority of Virginia's population for its first thirty years was young, white, and in cruel bondage. Everywhere you looked labor was forced and cost nothing. The social order taught its citizens that it was acceptable to buy and sell human beings for profit, and that if you needed something done, you could order someone to do it, he had to do it, and you didn't have to pay him anything.

Blacks and Whites in Early Virginia

Despite this, the citizens of Virginia in these early years did not start buying black slaves in large numbers. Neither did they treat the blacks they did buy as slaves. British law stated that all Christians were equal citizens before the law. Black men and women, if Christian and baptized, could therefore not remain slaves. They would instead become indentured servants, and like any other British citizen, be able to earn their freedom after several years of service.

Research by numerous historians clearly indicates that a large percentage of the blacks brought to the Virginia colony in the years between 1619 and 1634 were treated as bonded servants, not as slaves, and eventually earned their freedom. Of the three hundred-plus blacks estimated to live in Virginia in 1650, more than fifty were free, with many owning land the same as any other white settler. Many of these free blacks had been imported into the colony in the 1620s and 1630s, had served their time as bonded servants, and had become free.

One family especially stands out: Anthony and Mary Johnson were Africans originally from Angola. Enslaved by rival tribes, sold to the Spanish, they came to Virginia in the 1620s. Because it appears that they had both converted to Christianity, they were made indentured servants by their owner and eventually earned their freedom. Anthony Johnson became the patriarch of a free black family that, for almost forty years, prospered on the Eastern Shore of Virginia—buying land, winning court cases, and even owning black slaves.

The Johnson family's very well documented case illustrates remarkably how the early Virginian colonists were still willing to consider blacks no different from whites, and that slavery was not a *fait accompli* in Virginia. When the Johnson home burned down in 1653, the Northampton County court ordered that Anthony and Mary Johnson should be freed from the payment of taxes, recognizing that they" . . . have lived Inhabitants in Virginia [above thirty years], consideration being taken of their hard labor and known service performed."

In addition, Johnson and his family had no problem becoming successful landowners. In 1651 he patented 250 acres on the Eastern Shore. Later, two of his sons were able to patent an additional 650 adjoining acres for themselves.

There are numerous other documented examples of successful free blacks and their acceptance by early Virginian society. Benjamin Doyle was granted a patent of 300 acres in 1656. Francis Payne was a successful black landowner on the Eastern Shore of Virginia who was also married to a white woman, Aymey. When Francis died, Aymey had no difficulty marrying a white man, having earned no stigma from her interracial marriage. Anthony Longo not only owned property but felt comfortable enough with his freedom that in 1654 he refused to come to the county court to serve as a witness, and he and his wife actually beat up the sheriff who tried to summon him. This defiance earned Longo thirty lashes, but such a punishment was not very unusual for any small landowner who defied the governmental powers of the colony.

The Gradual Rise of Black Slavery

Since almost all slaves were African and unaware of the British laws that would protect them, the choice of whether to make them bonded servants or slaves was usually left to the master. Up until the mid-1630s, most Virginians felt compelled to follow British law and make African slaves bonded servants if they were or became Christians. The social order said one must treat all Christians as equals, as citizens with rights.

This social pressure was always present in Britain and New England, where everyone lived in small, tightly knit communities with strong spiritual and religious leadership. Virginia, however, had its settlers scattered widely throughout Chesapeake Bay, and though they all took their religion very seriously, there were not enough clergymen willing or able to work in such a situation. Those who did could wield little influence on such a scattered population. Each settler and his family were on their own.

Without some objective set of moral rules, the choice of how to treat the African slaves in their midst became one of individual moral taste. At first, most obeyed the law and treated blacks who converted as equals. Unquestionably, however, the vast cultural differences between the Africans and the English, extenuated by the differences in their physical features, made obeying the law difficult for some. By the 1640s and 1650s, more and more Virginians began making the bigoted choice, treating individual blacks as members of an inferior group and therefore fit for slavery. And because the society was so loosely formed with no strong moral leadership, there was little that could be done to prevent this.

Strangely enough, Anthony Johnson provides us an excellent example of this. In 1653, a black man by the name of John Casor claimed that he had been purchased as a bonded servant and that his seven years of servitude had been completed, and that his master—Johnson, of all people—would not grant him his freedom.

Even though two white landowners of some power sided with Casor, Johnson was able to bring the case before the local county court and win, claiming that Casor had not been purchased as a bonded servant, but as a slave. The irony of this, of course, is that by winning the case, Johnson himself helped make the slavery of blacks more acceptable.

Obviously, Johnson was not alone in this. Some of the most powerful landowners, such as Edmund Scarburgh and George Menefie, were much more important. In the 1630s and 1640s these wealthy and very successful Virginia colonists suddenly realized that they could claim the same head-right of fifty acres by importing a slave to the colony as they could by importing a bonded servant. And since you didn't have to coax slaves into immigrating, as you must free British citizens, obtaining their headrights was cheaper and more convenient. (As an example, Edwin Sandys had instituted an expensive and complicated public relations campaign, including lotteries and newspapers, in order to convince people to immigrate to Virginia.)

With the Spanish, Portuguese, and Dutch slave-traders working the waters all around Virginia, these great planters and community leaders of the Virginia colony found it easy to buy slaves in order to expand their land holdings. Furthermore, by taking advantage of the Africans' foreign background and ignorance of British law, it was easy for some colonists to keep them as slaves. And because of the physical difference between blacks and whites, this could be quickly rationalized into a belief in their inferiority as human beings. The rest of the citizenry, whites and free blacks both, did no more than look disapprovingly upon such bigoted actions, though it was still in their power to stop it. Good men did nothing.

So, in 1635, Charles Harmar claimed the headrights of eight black slaves. In 1637, Henry Browne brought in another eight. In 1638, George Menefie purchased 23, and in 1639, another 15. In 1649 Ralph Wormeley imported the majority of 17 black slaves. And in 1655 Edmund Scarburgh brought 55 slaves from New Amsterdam, using his own ship.

In all these cases, the Virginians importing the slaves claimed fifty-acre headrights on each slave, thereby significantly increasing their own landholdings and wealth.

Even these actions did not make slavery a fully accepted institution in Virginia. According to historian Wesley Frank Craven, in the twenty years from 1630 to 1649, we know of only 245 headrights claimed for black immigrants. During this same time, more than eleven thousand British immigrant headrights were claimed, a ratio of almost 45 to 1. In addition, population figures compiled by historian Edmund S. Morgan show a ratio of 46 to 1 between the white and black population in 1653. Both these ratios correspond closely with the population numbers in the northern colonies for most of their history.

It seems obvious that most of the immigrants coming to Virginia before 1653 were British settlers, and that black slavery had not yet taken hold as the dominate form of labor.

Slavery and Political Expedience

Furthermore, it appears that few if any Englishmen were slave traders at this time. Slavery existed in the Spanish and Portuguese colonies, and the slave traders from these countries would appear every so often in Virginia, providing a convenient source of slaves for those interested in buying them. Until Edmund Scarburgh used his own ship in 1655 to import 55 slaves, no British merchant was clearly involved with the slave trade.

From 1653 to 1674, however, the black part of the total population grew from 2 percent to approximately 6 percent, with almost all the blacks now enslaved. Though the white population doubled in that time, the black slave population grew tenfold. What had happened in those twenty years to make the importation of black slaves more acceptable?

The reasons were political. Many of the same men who wanted to buy black slaves to build their fortunes (such as Edmund Scarburgh and Ralph Wormeley) were also members of the General Assembly, Virginia's legislative body, and they used this position in government to shape the law to their advantage.

Until 1661, elections for the General Assembly were held somewhat regularly, and from 1649 to 1660, Cromwell and the Puritans in England strongly influenced how Virginia was ruled. After 1660, however, the King took power again in England, and from then until 1676 Governor William Berkeley called for no new elections. For sixteen years, Virginia was ruled by the same men, and the general population accepted this with nary a peep of protest.

In reviewing their legislative record, it becomes obvious that these unchallenged legislators clearly believed that they had the wisdom, knowledge, and ability to shape Virginian society as they saw fit. A small sampling of some of the laws passed by this Long Assembly, as it was called, is illuminating. They fixed the exact rates at which tavern owners could sell liquor; fined people for spreading false rumors; dictated the heights of fences around each planter's farm; prohibited planting tobacco after July 10; ordered every planter to plant Mulberry trees; required tanneries to be built in each county; and directed every taxable person to plant two acres of corn.

And in 1667 they passed a law declaring that the "conferring of baptism does not alter the condition of the person as to his bondage or freedom." In other words, no longer did a slave owner have to fear losing his slaves if they converted to Christianity. If you were born a slave, you would die a slave, and no longer could you do anything to change that. By importing a slave to the colony, a slave owner would not only earn a fifty-acre headright, but also a guaranteed servant for life.

Other laws passed by this Assembly made the children of slave women automatically slaves themselves; forbade free blacks from purchasing Christian white servants; made all non-Christian slaves brought into the colony slaves for life; and absolved slave owners from any guilt should they kill their own slaves.

The terrible result of these laws was twofold: first, they tried to establish for blacks a fundamentally inferior status, and second, they sanctioned the government's support of the idea that slavery should be encouraged and spread.

Hence, the importation of slaves increased significantly during this Assembly's sixteen-year rule. It was also during this time that Anthony Johnson and his family moved to Maryland in the hope of maintaining their freedom.

Was slavery now a given? Had its presence been permanently cemented into Virginia society and into the future of the American society to come? No, not even now was the course of history set and unchangeable. Black slaves still comprised a very small minority in the total population, and the majority of people did not want or own slaves.

Bacon's Rebellion

In 1676 the colonists of Virginia actually rose in revolt against the Long Assembly, in what is now called Bacon's Rebellion. The causes of this revolt were complicated and numerous. Ostensibly it began as a panicky desire by the colonists to protect themselves against the Indian massacres taking place on the outskirts of the colony. Because Governor Berkeley forbade the colonists to raise an army to attack the Indians, the colonists rebelled.

Equally important, however, was the small free landowners' resentment of the laws and taxes placed on them by the Long Assembly, and their desire to eliminate these laws and taxes. In addition, because slavery gave such a powerful advantage to the large and wealthy landowner over the small landholder who could not afford to buy slaves, a significant number of small land owners participated in the revolt in order to stop the spread of slavery.

The rebellion was also pressed by many black slaves who now realized that their chances for freedom were disappearing. Black slaves represented more than ten percent of the rebel militia, and of the last hundred rebels to surrender, approximately eighty were black.

Unfortunately, the failure of this rebellion led to the British royalty's taking a stronger voice in running the colony. Fearing further slave revolts, and with the King eager to make money trading slaves, the Royal Governor strengthened the laws enforcing and sanctioning slavery. This in turn encouraged the growth of large plantations with many slaves. In the thirty years from the end of Bacon's Rebellion to the recodification of Virginia's slave laws in 1705 (with its explicit outlining of laws establishing slavery as the specific status of blacks), slaves were imported into Virginia in ever-increasing numbers. In 1699 there were approximately ten thousand black slaves in the colony, now comprising about 16 percent of the total population. By the time the American Revolution took place seventy-five years later, almost half the population of Virginia would be black slaves.

As historian James Curtis Ballagh notes, by 1705 "it was far easier for a camel to pass through the eye of a needle than for a negro or mulatto servant thereafter imported into Virginia to escape being made a slave." And in 1706, the grandson of Anthony and Mary Johnson died without an heir. With his death, the Johnson family disappeared from history, and the family farm, appropriately named "Angola," reverted back to the state.

Unlike in Great Britain and the northern British colonies, only in Virginia in the seventeenth century did British colonists buy slaves in large numbers. Only in Virginia did slavery become the normal way of doing business. And though British and American individuals participated in the slave trade once it was established in later years, in neither New England nor Britain could they get anyone to buy slaves.

So what really allowed slavery to flourish in seventeenth-century Virginia? Fundamentally, slavery was caused by the unwillingness of too many Virginians to make the correct moral choice based on the truth. First they denied the truth that by enslaving blacks they were oppressing them. Then they rationalized this oppression with the lie that blacks were inferior to whites. Finally, they institutionalized this lie by passing laws to enforce it.

If any principle of Western civilization made it possible for our ancestors to create a healthy, prosperous society, it was the desire the passionate need—to discover the truth and from this to make the correct moral decision. From Plato to Shakespeare to Francis Bacon to Gallileo to Thomas Jefferson to Abraham Lincoln, this concept resonates throughout our history. Even the commissioners sent by King Charles II to find out why the Virginian colonists rebelled in 1676 felt obliged to learn the truth, though that truth destroyed Governor Berkeley, an ally and friend. Such unwavering devotion to the truth makes possible the building of an honest, just society.

Three hundred years ago Virginians decided the truth didn't matter. Sadly, it seems that in America today too many people have decided the same thing. Despite this and other clearly proven examples of how he has distorted historical facts to advocate his ideology, Jeffries remains head of the Black Studies department at City College in New York. And despite the reality that our federal government is badly managed and that its social programs have failed to achieve their goals, our elected officials today still believe that more government programs and spending will solve this country's problems. And like Governor Berkeley and the Long Assembly, they're going to force more government and spending on us all regardless of the facts or the consequences.

Worst of all is our present government's desire, just like Berkeley and the Long Assembly, to rank and reward people not by their individual achievements but by their racial, sexual, and ethnic background, and to enforce these rankings by law. Haven't we already trod this terrible path once too often?

I believe we can avoid repeating the mistakes of the past, but I also believe that to do so, we must always honor the truth above our ideology, even if the truth proves us wrong. Otherwise, we are no different from the lowest form of life, bound by instinct and doomed never to make ourselves better than we are condemned to the "mad clockwork" described by Walter Miller in his novel *A Canticle for Liebowitz:*

> *Listen, are we helpless? Are we doomed to do it again and again and again? Have we no choice but to play the Phoenix in an unending sequence of rise and fall? Assyria, Babylon, Egypt, Greece, Carthage, Rome, the Empires of Charlemagne and the Turk. Ground to dust and plowed to sand . . . burned into the oblivion of the centuries. And again and again and again.*
>
> *Are we doomed to it, Lord, chained to the pendulum of our own mad clockwork, helpless to halt its swing?*

Inside the Federal Hurting Machine

What Is the True Burden of the U.S. Federal Tax System?

MARCH 01, 1994 by James L. Payne

If politicians give someone $1,000, press reports emphasize the wonder of the gift and explain how it has eased suffering and restored hope. But when politicians take away $1,000 in taxes—even from the same person!—it is a non-event. The prevailing assumption is that when government is handing out money, its subsidies and payments are desperately needed, and serve a vital national purpose. When government is taking in money, even from the same people it has just subsidized, the cash being collected is seen as limp and lifeless, a surplus wealth of taxpayers who have no good use for it.

The underlying cause of this remarkable lapse in reasoning is the popular urge for wishful thinking. With the exception of a few crusty reactionaries, people want to believe in government. They want to see it as a source of hope and help, an agency that can give them college educations, art museums, pensions, and free medical care more or less out of thin air. To remind them that they will be forced to pay every single penny these things cost, and much, much more, is a cruel party pooper. So when it comes time to examine the injuries of taxation, people stick cotton in their ears and turn the TV to full volume.

But no government spending program can be justified unless its benefits exceed the costs of taxing people to pay for it. Policy makers who approve spending programs without knowing about the costs of taxation behave irrationally. They may well be doing enormous harm to the country.

The Cost of Compliance

To begin our exploration, we need to distinguish between two types of costs: the cost of taxes, and the cost of the tax system. The taxes are the monies taken from the public, to be spent by government. While politicians make great efforts to hide, distort, or forget about this figure, at least it is known and documented. Anyone can look it up in a standard reference book. For this reason, we shall not dwell upon it here.

The burdens of the tax system, on the other hand, are almost entirely unnoticed and unreported. These are the direct and indirect costs of operating the system that forces people to pay taxes. After all, the money that government collects and spends does not fly into the Treasury on wings of its own. Citizens have to be prodded, and all this prodding, and dealing with the prodding, costs the American people more dearly than anyone has realized.

One of the main burdens of the tax system is the compliance cost: the time and energy people spend keeping records, studying tax instructions, making calculations, and filling out forms and schedules. The most complete study we have of this burden was carried out by the Arthur D. Little Company at the behest of the IRS itself (which had been forced to commission the study by the 1980 Paperwork Reduction Act). The Little study found that, in 1985, businesses and individuals were spending 5.4 billion hours on federal tax compliance activities. This corresponds to 2,900,000 people—the entire work force of the state of Indiana—working all year long on federal tax compliance activities. The cost of this work amounts to 24 percent of all federal taxes collected.

This carefully documented figure (which is supported by several other academic studies) has been ignored in Washington. Instead of working to reduce the paperwork burden, tax administrators and Congressmen keep adding to it with a steady flow of laws and regulations. Economist Joel Slemrod found that in the 1980s, especially as a result of the 1986 tax act, tax compliance burdens for individuals increased 26 percent; the increase for businesses was undoubtedly even greater.

A number of scholars have tried to tell congressional tax managers they are sowing disaster. Economist Richard Vedder put it this way, to a Congressional committee in 1984: “If an enemy power bent on destroying our nation were somehow given the opportunity to devise our tax code with a goal of sapping the nation of its economic vitality . . . it could do little better than adopt our current Internal Revenue Code.” Law professor Richard Doernberg flatly declares, “The United States now has the most complex tax laws in the history of civilization.”

The Cost of Forgone Production

The cost of compliance, high as it is, is not the greatest burden of the tax system. An even larger drain is the economic disincentive cost. Ever since Adam Smith, scholars have known that taxation hurts the economy. It denies workers, entrepreneurs, and investors some of the fruits of their creative activity and therefore discourages their contributions. Recently, economists have begun making calculations about the size of the economic loss caused by the tax system. One estimate for the entire tax system, by Charles L. Ballard of Michigan State and his colleagues, published in the *American Economic Review* in 1985, put the disincentive effect at 33.2 percent. That is, to raise an additional $100 in taxes to pay for additional spending causes a loss of $33.20 in lost production on top of the $100 in taxes paid. Another study, reported in 1990 by Harvard economists Dale W. Jorgenson and Kun-Young Yun, put the disincentive cost for the tax system even higher, at 38.3 percent of tax revenues raised.

The country saw a small illustration of how the disincentive effect operates when Congress put a tax on pleasure boats in 1990: A strong export industry was almost destroyed and thousands of workers lost their jobs. In 1993, Congress recognized its error and repealed the tax. Unfortunately, Congress hasn't gone further and recognized that all its taxes go on destroying jobs day after day. They add to the cost of doing business and therefore cause scores of thousands of businesses to fail—and discourage scores of thousands of other possible businesses from ever being started.

The Cost of Noncompliance

Another burden of the tax system is enforcement—the cost of dealing with those who don't comply with the tax code. Taxation, we need to remind ourselves, is based on force and the threat of force. At first glance, this makes it seem an efficient way of raising money. Generations of eager spenders have embraced it with just this hope in mind: the threat of force should make the money flow in automatically.

What they overlook is that human beings resent being forced to do things against their will. This contrary streak leads them to resist tax collectors. The result is that instead of a smooth hum of money pouring effortlessly into the Treasury, taxation turns into a costly, and often tragic, guerrilla war. To compel the population to conform to its demands, the government has to operate a burdensome enforcement program.

The reader might find it instructive to try to guess how many levies the IRS issues each year. A levy is an order directed to entities like banks and employers forcing them to send the taxpayer's money to the government–a routine IRS seizure of property without due process of law. For the individuals involved, a levy is a personal catastrophe. Funds have been seized, credit destroyed, financial plans and dreams wrecked, and businesses shuttered. How many of these devastating enforcement episodes are necessary to make the tax system work?

Raised in a culture of spending that fosters the illusion of government as a beneficent cornucopia, Americans suppose this number is trivially small. In fact, it is a national scandal. For 1992, the IRS reports issuing 3,253,000 levies. Because of double-counting and IRS clerical errors, this figure overstates the number of human beings affected; a correction for these distortions reduces this figure by half, to about 1,600,000 people affected. This is still a sizeable chunk of humanity, more than the entire population of Nebraska.

This avalanche of levies constitutes only a small fraction of all enforcement actions. To keep the money flowing into the Treasury, the IRS also issues liens, which freeze taxpayer assets (1.5 million); sends out underreporter notices, which allege taxpayer underpayment of taxes (3.8 million), and non-filing notices, which allege a taxpayer failure to file a tax return (1.5 million); conducts personal audits of taxpayers (1.0 million), and mail audits and service center corrections (0.5 million); and imposes some nine million filing and payment penalties. In addition, it pursues about 6,000 criminal prosecutions, trying to jail people for failing to adhere to the tax code.

Naturally, the human beings caught in these snares struggle, expending enormous time and energy trying to keep their funds and prove the IRS wrong. In the under-reporter program, for example (where over half of the IRS accusations turn out to be wrong), I have estimated that Americans spend 30 million hours yearly reacting to the worrisome brown envelopes: studying the notices, examining tax law, reviewing tax data, discussing their cases with friends and advisors, and composing letters of protest. The level of tax litigation—the audit appeals, court cases, and tax rulings—is running at 195,000 cases a year.

According to my calculations, the monetary cost to the American public of dealing with IRS enforcement actions in 1985 was over $13 billion, a figure three times the entire budgetary cost of the IRS.

This financial cost doesn't begin to measure the moral and emotional burdens of a system based on putting a gun to everyone's head. The anxiety, stress, and frustration generated by IRS tax enforcement represent a social blight as serious as the danger of cancer or the tragedy of divorce. That the money is being raised in a good cause does not lessen the human pain. Consider the 1988 suicide of Alex Council. The victim of an erroneous IRS lien that ruined him financially, he shot himself and left a suicide note instructing his wife to use his insurance money to pursue the legal case against the IRS—which she eventually won.

The Cost of Tax Avoidance and Evasion

To function efficiently, a tax system needs citizen cooperation. Unfortunately, by relying on force, the tax system undermines its claim to taxpayer goodwill. Instead of happily cooperating with tax collectors, citizens scheme to confound them.

In the United States, high tax rates and the impossibly complex tax code have made tax evasion and avoidance a major industry. Unfortunately, it is a completely unproductive industry, feeding no one and housing no one. It is merely the wasteful struggling of human beings trying to avoid the exactions of government.

Some citizens avoid taxes by taking their economic activity underground. By my estimate, there are at least 2 million people with significant potential tax liabilities who are driven underground by the tax system (another 2 million have gone underground as a result of immigration and drug laws). In attempting to avoid taxation, they have reduced their own productivity and therefore that of the entire economy. Having to stay out of sight severely curtails their ability to use the banking system, to advertise, and to hire more workers.

Other tax avoiders turn to legal, or questionably legal, investment tax shelters. Again, a social waste is incurred as they tie their resources up in unproductive investments and pay shelter promoters for setting up and servicing the tax avoidance device. To avoid estate taxes, millions of people hire lawyers to devise and administer estate tax shelters. Highly skilled legal professionals work week in and week out drawing up grantor retained income trusts, generation-skipping trusts, and so on. Another class of skilled professionals is busy exploiting the tax avoidance potential of foreign tax havens, while yet another group manages the massive paperwork that makes possible retirement tax shelters. All told, by my estimate, the nation wasted some $19 billion in tax avoidance and evasion activities in 1985—a figure that has probably about doubled since then.

What Does a $1 Billion Federal Program Cost?

The budgeted price tag:	$1,000,000,000.00
Plus, additional tax system burdens:	
Compliance costs (24.43%)	244,300,000.00
The cost of forgone production (35.04%)	350,400,000.00
Enforcement costs (1.97%)	19,700,000.00
The cost of avoidance and evasion (2.96%)	29,600,000.00
The budgetary cost of the IRS (0.61%)	6,100,000.00
True Total Cost:	**$1,650,100,000.00**

Source: adapted from James L. Payne, *Costly Returns; The Burdens of the U.S. Tax System* (ICS Press, 1993), p. 150.

Adding Up the Costs

When all the burdens are added together, what is the monetary cost of the U.S. federal tax system? According to my calculations, the answer is that, in 1985, the burden was $363 billion. In dynamic terms, the burden is 65 percent of the taxes collected.

This figure represents the only attempt anyone has made to estimate the cost of the tax system. Studies have been made of some of the sub-costs, but no one else has been prompted to add the numbers together to calculate a total cost.

The absence of other estimates is remarkable because, as we noted at the beginning, it is impossible to make rational decisions about government spending programs unless the costs of raising the money are factored in. Economists should have noticed, for example, that their theories about the social benefit of government subsidies are meaningless unless tax system costs are known. It's like trying to calculate whether a plane can fly without knowing its weight.

One excuse that policy makers might give for not considering the costs of taxation is the assumption that these costs are fixed. In order to raise the first dollar of taxes, this argument would go, the entire $363 billion burden noted above is incurred. Therefore additional tax dollars raised for additional spending programs entail no further costs.

The costs in the tax system don't work this way, however. The majority of the costs not only increase with the tax rate, but they do so exponentially. The disincentive cost, as it is calculated by economists, is tied to the square of the tax rate: double the money you try to raise and you quadruple the cost in lost production, people thrown out of work, and so on. Most of the costs associated with enforcement, evasion, and avoidance also go up exponentially with the tax rate. As more money is at stake, it pays taxpayers to work harder to keep tax collectors from getting it. Even compliance costs are variable. When taxes are raised to pay for more spending programs, tax avoidance goes up, which in turn prompts the tax authority to issue more regulations to prevent it. The result is a more complex tax system and higher compliance costs.

The overall picture, then, is that tax system costs increase along with the level of taxes. The 65-percent figure noted above is a marginal cost figure: if taxes are raised another $100 million to pay for another spending program, an additional $65 million cost will be imposed on the economy.

We return to our point: why have policy makers ignored these costs? The answer appears to be the powerful social convention against weighing the costs of taxation. Legislators and their publics want to believe in government as a helping machine, and it spoils the illusion to be told that it is, at the same time, a hurting machine.

Consider how programs to create jobs are discussed in Washington. Common sense tells us that any government spending program designed to create jobs must also cause unemployment. After all, the taxes imposed to pay for it drain money away from investors who would have opened new businesses, and from consumers who would have employed workers through their purchases. When we add to this common sense analysis our knowledge of the costs of the tax system, it becomes clear that a jobs-creation program could well destroy more jobs than it creates. Therefore, anyone proposing a jobs-creation program ought to give Congress two figures: the number of jobs the program hopes to create, and the number of jobs the taxation to pay for the program is expected to destroy.

This, of course, is never done, because telling the whole truth would make the project look foolish. Journalists would question the sanity of a president who proposed to create jobs by destroying them.

Affordable Health Care?

Take another issue: government provision of medical care. The responsible policy maker would have to point out that government is not a something-for-nothing machine. It cannot pay for health care unless it first takes money away from the citizens it wants to help. Furthermore, it can never return to them the full value of their contributions. The administrative overhead—the bureaucracy, the paperwork, the overcharging, the fraud, the disputes over benefits–are bound to consume a large fraction of resources devoted to the spending program, probably around half of the funds. In addition to this waste, there is the 65 percent cost of raising the money through the tax system.

Hence, the overall arithmetic for a government health care system would look something like this: To raise $100 in taxes to fund the system costs an additional $65, and then of that $100, government administration and waste consume about half, or $50. So for an initial $165 total burden, the citizen will get $50 worth of medical care out of the system. This is the bedrock statistic that Washington's health care analysts should be telling the American people: A government health care system is going to cost the average person three times as much as paying medical bills out of his own pocket.

Alas, no one mentions any such figure. Legislators, eager to appear well-intentioned, ignore the down side of their proposals. That makes as much sense as counting benefits but never costs. Less excuse can be found for the silence of the technical specialists, the thousands of experts working for Washington's alphabet soup of research agencies, the OMB, the GAO, the CBO, and so on. These professionals are paid huge sums of taxpayer money to find out about policies and inform the country about their true costs. Yet no one in any of these agencies has compiled *any* estimate of the overhead cost of tax-and-spend programs.

Ignoring the costs of taxation has gone on long enough. It’s time to put aside our childish faith in government and take a frank, careful look at the human costs of its optimistic endeavors.

Government Redistribution Impoverishes the Poor

MARCH 01, 1994 by Dwight R. Lee

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Only the most ideologically blinded continue to argue that socialism can outperform capitalism in the production of wealth. Yet the assertion that government programs are required to reduce the income inequality generated by capitalism is widely accepted as revealed truth. Market competition motivates productive activity by threatening with poverty those who use resources unwisely, and carrying out this threat without mercy. So, it is argued, in the absence of compassionate government transfer programs, a large percentage of the population would be left behind, impoverished, without hope, and made all the more miserable by the audacious wealth of their more successful neighbors.

The Benefits of Failure

There is just enough truth in this view to obscure the fact that it grossly distorts reality. Market competition can be harsh. But the particular failures dispensed by market competition provide the information and motivation that are indispensable to the general economic success of any economy. When failures in the marketplace are viewed in isolation from the success they make possible, they are commonly depicted as unfair. In fact, in the marketplace failure and fairness go hand in hand. When people suffer failure in the marketplace they are making a necessary contribution to the general productivity of the economy- -a contribution that enhances the opportunities of all to produce wealth, in an economic system that distributes that wealth far more widely and equally than most people realize. Each person would, of course, prefer to be protected against failure while continuing to benefit from the contribution that the failures of others make to economic progress. The fundamental fairness of the market lies in the fact that it gives no one a free ride on the contribution of others. In the unfettered marketplace everyone has to contribute to the general prosperity by accepting the fail ures as well as the successes that come his way.

Yet, because the failures that result from market competition are commonly seen as unfair, arguments calling for government to help the poor find sympathetic ears. Government action to help the poor is seen as the only way to overcome the perceived unfairness of the marketplace. Invariably what people have in mind when considering government help for the poor are government programs that supposedly transfer income from the rich to the poor. Seldom do those who favor such transfer programs question whether they actually reduce income inequality.

While most people recognize realistically that income is distributed in the marketplace in response to competition between people interested primarily in private advantage, they somehow believe that income is distributed in the political process in response to broad social goals such as reducing income inequality. The unstated assumption is that when people shift from market activity to political activity they experience a moral metamorphosis, overcoming considerations of private interest in order to advance the public interest. Yet, there is no convincing evidence that people in their roles as politicians, bureaucrats, members of special interests, and voters are any less driven by self-interest than they are as investors, workers, and consumers in the private sector.

A Major Unsupported Assumption

Once the importance of political competition is recognized, an important, but seldom considered, question presents itself: Why should we expect the income distribution resulting from political competition to be any more equal than the income distribution resulting from market competition? Unless one is prepared to argue that (1) the skills necessary for successful political competition are different from those necessary for successful market competition and (2) the poor possess relatively more of the politically relevant skills than the nonpoor, then there is no reason to believe that government transfer programs will help the poor.

The evidence fails to support the hope that the poor can compete successfully against the nonpoor for political largess. Little of the income distributed by government is from the rich to the poor. Studies of the distribution of after-tax/after-transfer income over the last several decades find little, if any, change in the equality of that distribution. Based on these studies, economist Robert Haveman of the Institute for Research on Poverty of the University of Wisconsin has concluded, “In spite of massive increases in federal government taxes and spending, we were about as unequal in 1988 as we were in 1950.”

There are government programs, of course, that transfer income to the poor. But programs that transfer income to the poor receive political support through a process of legislative logrolling that disproportionately favors programs that transfer income to the nonpoor. The poor end up receiving no greater share of existing wealth transferred by political competition than they do of new wealth created by market competition.

There is no debate over the fact that transfer programs reduce economic growth by discouraging productivity and encouraging dependency. By reducing the overall size of the pie without increasing the share of that pie going to the poor, government transfer programs have reduced the absolute income of the poor. The inescapable conclusion is that government transfer programs have made the poor worse off.

Free market capitalism excels at producing wealth and at distributing it widely. Even those left behind by market competition benefit from the productivity of the marketplace. It is far better to be poor in California than in Calcutta. There are those, however, who disparage the market economy on the grounds that market competition unfairly distributes income. This view has been used effectively to justify transferring more of the nation’s income through governmental pro grams. The result has been unfortunate for the poor. Substituting negative-sum political competition for positive-sum market competition reduces the size of the economic pie without increasing the share of that pie going to the poor.

How Much Money?

Free Markets Can Cope with Rising Demands for Money

MARCH 01, 1994 by Bettina Bien Greaves

Do we need more money as the population increases? Do we need more money as production expands? That would seem logical. But is it?

What individuals really want is not more money, but more purchasing power. Money itself isn't wealth. Look at Germany in 1923. The Germans had plenty of paper money then–billions and billions of Marks. But with all that money, they had little or no purchasing power. A housewife considered herself lucky if she could find a baker willing to take a wheelbarrow full of paper money for one loaf of bread. It is the purchasing power of money, not the money itself, that counts.

Money Has Two Basic Functions

(1) as purchasing power. A money whose purchasing power can be relied on is the most efficient means for individuals to obtain the many varied goods and services they want. Each of us always wants to hold a certain amount of money for future purchases.

(2) as a means for comparing the market values of various goods and services. Because billions of German Marks were being printed in 1923, the purchasing power of a single Mark dropped practically to zero. Germans no longer wanted to hold Marks. Rather, they used every ruse they could devise to exchange their useless Marks promptly for something tangible. Also, as the Mark declined in value, comparisons with various goods and services became increasingly unreliable. By the end of 1923, German Marks were completely useless for either of money's two basic functions.

Money is the medium of exchange people offer in the expectation of obtaining various goods, services, and leisure time. All very well and good.

But when there are more people and when more goods and services are being produced, won't more dollars be needed if the extra people are to buy the additional goods and services? Won't more dollars have to be created to cover all this additional spending and keep people producing and prosperous?

No! The answer, as the German case shows, isn't more dollars. The answer is more purchasing power. And here the market provides the answer. Suppose the population has increased but the quantity of money or credit has not been artificially expanded. Then more would-be buyers will be competing to buy the goods and services available. The same amount of money will have to stretch farther. Would-be producer/sellers will have to sell at what would-be buyers can afford to pay–or else forgo sales. If would-be producer/sellers do not anticipate artificially induced increases in the quantity of money, they will not keep asking higher and higher prices, as sellers often do nowadays; they will be willing to drop their asking prices, especially if they feel confident that the cost of replenishing their stocks too will not go up, and may even go down. The tendency, therefore, will be for dollar prices to go down and the purchasing power of the dollar, and hence the purchasing power of individuals, to rise.

Suppose production has been expanded, but the quantity of money or credit has not been artificially increased. As would-be sellers will be offering more goods and services than before, but there is no more money, the same amount of money will have to stretch farther. Would-be producer/sellers will have to sell at what would-be buyers can afford to pay–or else forgo sales. If would-be producer/sellers do not anticipate artificially induced increases in the quantity of money, they will not keep asking higher and higher prices, as producer/sellers often do nowadays. They will then be willing to drop their asking prices, especially if they feel confident that they can reproduce their stocks at, or below, their previous costs. The tendency, therefore, will be for dollar prices to go down and the purchasing power of the dollar, and hence the purchasing power of individuals, to rise. Because their dollars will buy more, both consumers and producer/sellers will tend to be better off.

If the quantity of money is not artificially increased, every would-be buyer will take care to spend his or her hard-earned money only on what is most important. Of course, people will disagree as to what is "most important"–but that is another matter. And every would-be seller will take care to sell only when he expects the sale to prove worthwhile, under the circumstances. Goods, services, and money will then gravitate, as the market directs, toward those persons whose demands are the strongest and most intense. This will tend to produce the greatest possible satisfaction.

Government Interference with Money

Not only can the market cope with the demands of an increased population and the appearance on the market of increased stocks of goods and services, but also government interference with this process is disruptive. In the first place, creating new money itself does not assure economic well being. In the second place, artificial monetary expansion can lead, as it has many times in the past, to economic disaster.

Governments have never been at a loss for excuses to inflate (increase the quantity of money) or to expand credit. They argue that more people need more money; more money must be created to buy the increased quantities of goods and services produced; many people need help because they can't afford adequate food, clothing, shelter, and medical care; quarterly or year-end debt settlements create extraordinary demands for cash; exporters need to be subsidized to encourage exports and improve the balance of trade; businessmen need more money to finance transactions or to expand, and interest rates are higher than they are willing to pay; the government must counteract bank credit contraction to forestall a recession or depression, so the quantity of money to lend must be increased. And so on. However, government doesn't like to tax to pay for these programs; it much prefers to create new money and credit. And that paves the way to disaster.

Some of the effects of monetary expansion are seen. But many are unseen. Monetary expansion helps some people, the first beneficiaries of the new money; these people are "seen." The monetary expansion hurts others, those who receive none of the new money, and those who receive it only later after they have been penalized by having to pay inflated prices for things they purchased; these people are "unseen." Monetary expansion also misdirects production. It subsidizes some producers who are "seen," while discouraging others, those who must pay for the subsidies or are hurt by the competition of subsidized competitors; these producers are "unseen." Moreover, production encouraged by artificial monetary increases is determined by politicians, and thus the wants of consumers are neglected. Artificial monetary expansion leads also to international complications and the disruption of the international market, international prices, and the balance of trade.

How the Market Copes

Over the centuries, both the population and production have multiplied many times over. The market has become worldwide. Individuals, operating in and through the market, have generally coped with these changes without direct government intervention. As the demand for money increased, prices were pushed down by competition, and the purchasing power of gold rose. When gold increased in value, opportunities for profit in gold mining appeared and adventurers all over the world searched for gold. The Spaniards stole gold from the Incas of Peru. Prospectors discovered rich gold fields in Australia, South Africa, and Alaska. And substantial gold fields were found in Russia also. The exploitation of these gold discoveries expanded the quantity of monetary gold without artificial government intervention.

The market also found other ways to cope with the rising demand for money due to population and production increases. Prices fluctuated. When more people were asking for more goods and services, with essentially the same number of dollars to spend, each dollar became more valuable; as a result people had more purchasing power if not more dollars. A single dollar bought more than before; living costs went down, and living standards went up. People were better off even if they didn't have more dollars. If governments had not inflated in recent decades, price adjustments would undoubtedly have been made by using fractions of the monetary unit. After all, the dollar is infinitely divisible. For instance, if our government had not promoted inflation and credit expansion, we might be buying a daily paper with a 1/4 cent token (instead of 25 cents or 50 cents), a loaf of bread for pennies (instead of $1.00 or more), or an automobile for $500-$1,000 (instead of $10,000 or $20,000).

In addition to allowing prices to fluctuate, the market coped with the rising demand of trade for money in other ways. Traders economized the use of the precious metals. They developed banking and started using various paper documents in transactions — gold and silver certificates (receipts representing warehoused gold or silver), bonds, bills of lading, checks, checking accounts, and various forms of securities. These new techniques enabled businessmen to pay for purchases without actually shipping gold or silver. Bank clearing houses made inter-bank transfers of funds cheaper and faster. Electronic bank deposits and transfers, and credit cards, continue this economizing trend. And no one can foresee what new market economies will be forthcoming.

Fiat money (printing press money) and fractional reserve banking are not listed here because both owe their continued use to government protection of some kind. If government had not entered the field of money and banking, private banks would have had to fulfill their obligations as do all other private businesses. Without government protection, a bank that issued more promises to pay than it could fulfill would be forced to mend its ways or go into bankruptcy. A bank that issues more banknotes (promises to pay upon demand) than it can redeem is courting disaster. And no bank whose assets and reserves constitute only a fraction of its obligations can expect to survive for any extended period of time without some form of government protection.

If government had not intervened, the market would have been able to cope with population and production increases through the pricing structure and various other techniques traders would have devised.

The pressure of new buyers appearing on the market and the pressure of producers offering more goods and services, without any artificial increase in the number of dollars, would have enhanced the purchasing power of every dollar. Prices would have tended to go down and living standards would have risen, even though monetary incomes stayed essentially the same. Instead of expecting continual inflation and rising prices, people would have looked at their economic situation from a different perspective. They would have compared their present and past living standards and considered how much better off they were than in the past because their living costs had declined. It didn't cost as much to feed the family as it used to. A new automobile this year cost less than it did ten years ago. And so on.

If prices are free to fluctuate, and if traders on the market are not prevented from economizing when it seems advisable, any amount of money will be sufficient to fulfill money's two basic functions–as purchasing power and as a means for comparing relative market values. As a matter of fact, when monetary inflation is resorted to in the attempt to compensate for changes, the monetary unit loses both its purchasing power and its use as a standard for comparing values. The consequences of a government-induced inflation–in the attempt to keep pace with changes in population and production–will always be much more disastrous than any short-run benefits it brings to its relatively few early beneficiaries.

Capitalism: an Alternative For Inner-city Gangs

A Focus on Business Forces One to Look for Opportunity

MARCH 01, 1994 by Ralph R. Reiland

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The much-publicized gang peace summit in Kansas City last summer produced some good ideas. The Crips and the Bloods are right that voting is better than drive-bys, but that's nothing that the rest of us didn't know all along. While there's little debate about police brutality being wrong, what happened to Rodney King is chump change compared to what the Los Angeles gangs dish out to African-Americans every night. In Los Angeles County, shootings occur every hour, with gang murders now running at 850 a year, primarily black-on-black. Nationally, the top cause of death for young African-American males is homicide; more young blacks are murdered every year than were killed in a decade in Vietnam.

A young African-American male in Harlem is less likely to reach the age of forty than a boy in Bangladesh. Yet Ice-T is cashing in with his new weapons-theme clothing line: AK-47 pants, assault jackets, and M-16 jeans—back-to-school outfits for the pathological war zones.

Still, some of the deadliest racist violence in Los Angeles isn't against African-Americans. In South Central, it's Korean storekeepers who run a 1-in-250 chance of being killed each year, about the same fatality rate our troops faced in Vietnam. But they're not victims of police brutality, so we won't see their victimization, on videotape, ten thousand times on television. And none of us will notice the length of the jail sentences any of their killers receive. Instead, a nihilistic mob jumps to the music as Ice Cube pockets big bucks rapping about the slaughter in his song *Black*

Korea: "So don't follow me up and down your market, or your little chop suey ass will be a target."

The recommendation at the gang summit that African-American parents develop their own separate school system has merit. Catholic schools regularly outperform the public schools, comparing equivalent entering students, at less than half the cost—and the female graduates of women's colleges regularly outperform their coed counterparts. The present administration, however, isn't likely to give back to African-American parents any of their tax money to fund their own schools as long as it continues to value the bloc vote of teacher unionists over upward mobility in the inner city.

The idea at the summit of improved treatment of women by gang members is significant too. In an environment in which gang members respected their girlfriends, wouldn't more guys marry their girls and forget about the Crips?

What was best at the summit was the focus on economics. Instead of the old pleas for more government handouts, the vision was one of creating more small businesses. The talk was of management programs instead of Aid to Families with Dependent Children, and jobs and economic development instead of busing and victimhood.

The key to wealth in America—for Koreans, Cubans, Poles, Chinese, Jews, or Black West Indian immigrants—has always been small business. Today, over three-quarters of the over- $200,000 family incomes in the United States are earned by small business owners. Too often, however, well-intentioned church leaders and politicians have warned African-Americans to avoid the evils of the private sector. Jesse Jackson's only mention of business at the Democratic Convention was his story about how a North Carolina chicken plant chained in its workers and burned them to death. A life on the dole watching television soaps or selling dope sounds better than that racist, unfair, greedy, unequal, and deadly capitalism.

That picture of capitalism is just as much a lie, however, as picturing all African-Americans as Willie Hortons. Too frequently, the loud speakers on the Left paint a false picture of capitalist evil and socialist salvation. They don't ask why Germans weren't shot trying to escape from the capitalist West to the socialist East—the wall climbing was in the other direction—or why the thousands of Cubans paddling on inner tubes through sharkinfested waters from Havana to Key West don't pass anyone escaping in the opposite direction.

John Shipley Butler, black professor of management and sociology at the University of Texas at Austin, states: "Going back to the 1950s and the beginning of the civil rights movement, we began moving away from business to politics. The result is we have become too focused on fairness—what somebody is doing to us and not doing for us—and almost contemptuous of business, especially small business . . . a focus on rights practically forces you to think in terms of victimization. A focus on business forces you to look for opportunity. That's the main difference between us and, say, Vietnamese Americans."

It's time for another summit, this time to lay the plans to unleash African-American entrepreneurship. It's time for African-American professionals, church people, gang members, and small business operators to open stores all across this country and watch the profits and role models trickle down and create more stores, more jobs, more hope, and more pride. It's time for capitalism.

Freedom Versus Fear

Indulgence of Fear Inflicts Serious Economic Penalties

MARCH 01, 1994 by John Attarian

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Friends of freedom tightly see government control as a threat. From this many have passed on to condemn government and to call for anarchy, a minimal state, and so on. But while this line of thought has been fruitful of much insight, it risks engrossment in technical arcana of libertarian theory anarchy, public finance via lotteries, and so on and quite forgetting that freedom's real enemy is not government itself but the frailties of human nature that result in its illegitimate use. Some of these weaknesses have received careful study. Envy, for example, is the subject of a brilliant treatise by Helmut Schoeck.[1] But one of freedom's worst foes is, quite simply, fear.

Fear of what, specifically? Fear of failure, fear of responsibility, and above all fear of uncertainty, insecurity, and financial loss and suffering brought on by competition, technological change, and the inescapable fact that "time and chance happeneth to them all" (Ecclesiastes 9:11). Fear, in short, of life and its mishaps.

These fears lead to demands for government to protect the fearful from what they fear. Indeed, much of today's colossal government intervention into the free market can be traced, ultimately, in whole or in part, to fear on the part of some group, or to politicians' appeal to that fear: antitrust laws, to fear of larger or more efficient firms; regulation of railroad freight rates, to large railroads' fear of being underbid by their competition; agricultural subsidies, acreage restrictions, and price controls, to fear of commodity price fluctuations; protectionism, to fear of foreign competition; Social Security, to fear of destitution in old age; Medicare, to the elderly's fear of unaffordable health care; unemployment compensation, to fear of hardship occasioned by job loss; minimum wages, to fear of being paid a lower wage (and, *sotto voce,* labor unions' fear of competition from cheaper labor); graduated income taxes and inheritance taxes, to fear of large incomes and concentrations of wealth; deposit insurance, to fear of losing savings in a bank crash; and so on almost *ad infinitum.*

The High Cost of Fear

All this indulgence of fear has not only severely crimped our liberty but also inflicted serious economic penalties. Thomas Hopkins, of the Rochester Institute of Technology, has estimated the 1992 cost of regulations at $564 billion, counting such things as protectionist trade barriers (e.g., sugar quotas) and paperwork requirements.[2] The huge borrowings needed to finance the federal government gobbled up 62.8 percent of funds raised in our credit markets in 1991 and 51.8 percent in 1992.[3] One would think that, confronted with such huge costs of fear and its indulgence, most of us would find the case for stoicism and freedom self-evident and overwhelming. Unfortunately, thanks to certain hard facts of life, it is not so simple as that.

Freedom is not a free gift. There is no such thing as something for nothing. Like everything else in life, freedom has a price: responsibility, insecurity, and the possibility of failure, of unforeseen calamity, of suffering, of paying for the mistakes liberty leaves one free to make.

To most people these burdens are insupportable, or at least onerous. We are physical beings vulnerable to suffering and aware of our mortality, and therefore all of us are, or have been, or will be, afraid for our prospects in the material world. Hence human beings are inherently vulnerable to the temptation to indulge fear rather than be ashamed of it and strive to override it. And hence we will always face a powerful temptation to enlist government to interfere in the workings of a free economy to protect ourselves or others from suffering and to regard such interference as humane and necessary.

Enthusiasm for liberty tends to vary with the position of the economy in the business cycle. During a boom, with broadening opportunity and rising incomes and living standards, paeans to freedom and free enterprise abound—witness the business advocates of the nineteenth century, the twenties, and the eighties. When prosperity withers, so does allegiance to the free market; every economic downturn brings not only vulnerability to setbacks and actual suffering but also demands that the government "do something": "stimulate" the economy, pass a jobs bill, drive down interest rates, protect industries from foreign competition, forbid plant closings, provide unemployment compensation, furnish national health care, and on and on.

The Challenge of Freedom

All this raises a hard question: does freedom demand too much of us? Is it unfeasible for fearful, mortal beings? Fyodor Dostoevsky feared so. In the famous "Grand Inquisitor" chapter of Dostoevsky's *The Brothers Karamazov,* the Grand Inquisitor grimly predicted that Christ's gift of freedom would be spurned by a humanity fearful for its material well-being, and that humanity would trade freedom for guaranteed sustenance:

> Judge Thyself who was right—Thou or he [Satan] who questioned Thee then? Remember the first question. Its meaning was this: ". . . nothing has ever been more insupportable for a man and a human society than freedom. But seest Thou these stones . . . ? Turn them into bread, and mankind will run after Thee like a flock of sheep, grateful and obedient, though forever trembling, lest Thou withdraw Thy hand and deny them Thy bread." But Thou wouldst not deprive man of freedom . . . . Thou didst reply that man lives not by bread alone. But dost Thou know that for the sake of that earthly bread the spirit of the earth will rise up against Thee and will strive with Thee and overcome Thee? . . . In the end they will lay their freedom at our feet, and say to us: "Make us your slaves, but feed us." They will understand at last, that freedom and bread enough for all are inconceivable together.[4]

The economic collapse of the Soviet empire and the privations of the Communist bloc's people have demonstrated that on the economics, at least, the Grand Inquisitor was wrong: bread for all is inconceivable *without* freedom. And during the eighteenth and nineteenth centuries, Americans and Britons, contrary to the Grand Inquisitor's assertions, were perfectly willing to risk bread in exchange for freedom and a chance of perhaps more bread in the future, and so were the immigrants who came here. That is, they had sufficiently strong characters to accept the chances of life, and to function, and function well, in a climate of considerable uncertainty offering no guaranteed economic payoff for their actions.

It emerges that freedom is perfectly feasible but only given a certain sturdiness of character. The burdens of physical and financial insecurity and personal responsibility being higher in a free economy than in a mixed or socialist one, it stands to reason that the psychological demands of freedom are in many ways far heavier than those of servitude. One need not be sturdy or brave to collect entitlements and be shepherded by regulators and social workers through a life made artificially tidy by miles of red tape. But one does have to be brave to take one's chances in a free labor market, assume responsibility for one's own well-being, make one's own provision for old age and ill-health. And one has to be something of a hero to venture out into the unknown as an entrepreneur, staking one's all on an idea. A sturdy character is required to make freedom work—and to keep people loyal to freedom in the face of risk and adversity, and brave enough to face them without appealing to the state for succor.

It follows as well that if and when widespread sturdiness of character ever gives way to widespread fearfulness, freedom will be in trouble, and the Grand Inquisitor will have the grim last laugh. Indeed, amid the current demand for universal health care, one may almost hear the Grand Inquisitor whispering to today's "democratic despots" on the Potomac: "In the end they will lay their freedom at our feet, and say to us: 'Make us your slaves, but protect us.' They will understand at last that freedom and health care for all are inconceivable together."

Growth of government since the onset of the Great Depression in 1929 may be taken as an indicator of an alarming decline of courage in our national life, a decreasing willingness on Americans' part to take their chances in a free market and to allow market forces free play.

In the same period, as many observers have noted, American life became increasingly secularized. This does not mean that most Americans became atheists or agnostics. Rather, religion's grip on many people simply weakened; attaining earthly happiness and prosperity became a higher priority than leading a life pleasing to God. God was not so much deliberately dismissed as forgotten in the rush to attain an abundant and pleasant lifestyle. In intellectual circles, which unfortunately are also the opinion leaders of American life, atheism and agnosticism did become not only respectable but widespread—not only on the socialist, secular humanist Left but also on the libertarian Right, with the rise to fame of the atheist-egoist Ayn Rand.

These are not merely parallel and unrelated developments. As Aldous Huxley observed, a teleological chain runs from metaphysics all the way to economics and politics: "It is in the light of our beliefs about the ultimate nature of reality that we formulate our conceptions of right and wrong; and it is in the light of our conceptions of right and wrong that we frame our conduct, not only in the relations of private life, but also in the sphere of politics and economics. So far from being irrelevant, our metaphysical beliefs are the finally determining factor in all our actions."[5]

Thus one set of metaphysical beliefs will yield one set of political and economic beliefs, behaviors, and institutions, and another metaphysic will generate a quite different politics and economics. The contrast between the limited government and free economy of early America under the Founding Fathers, most of whom were Christians or at least theists and who lived in a thoroughly Christian culture,[6] and the total state and rigidly planned economy of the atheist, materialist Soviet Union confirms Huxley's statement. A being dignified by possession of an immortal soul has an unalienable right to be free; a mere piece of matter conditioned and determined by forces and relations of production does not.

Metaphysics affects economics and politics through, among other channels, the prevailing attitude of the population. Faith is a powerful wellspring of courage. Faith in God leads to faith in existence and life themselves. If the world is the work of a benevolent personal God, and one is God's child, then it follows that existence is fundamentally good and that the world is one's home in which it is possible to live, prosper, and work out one's salvation. This bedrock metaphysical confidence enables one to function: to decide, choose, act—indeed, to run risks. To a person with such psychological underpinnings, the hazards and burdens of the free market are tolerable. With faith in the essential goodness of life and in the ultimate outcome, such setbacks as occur can be taken calmly.

Put another way, religion deflects fear upward, replacing fear of existence with fear of the Lord. In liberating people from fear of living, religion makes them fit for freedom.

Religious Decline Breeds Fear

The corollary is that a decline of religion, marked by a loss of faith, yields a decline of courage. Without God, the universe becomes inexplicable and alien, and therefore frightening—and one has no one to turn to for strength, succor, consolation. Nor does one have metaphysical grounds for seeing life as fundamentally good or for having faith in the future. One's fear of life rises. This in turn yields a weakening allegiance to the free market and a greater demand for state succor.

The consequences of religion's decline ramify harmfully in other directions as well. A declining attachment to God goes hand in hand with greater attachment to the things of this world, which produces, understandably enough, a greater fear of losing them. This too diminishes willingness to run the risks freedom entails, and more appeals to government for protection.

The rising fearfulness attendant on loss of religion results in more government intervention into a free economy indirectly as well as directly. The problems of sin and fear are intertwined. When people are afraid they are more likely to be ruthless in pursuit of their interests, partly, perhaps, to create a zone of security and power in an uncertain and frightening world; scruples become unaffordable luxuries, and without belief in a divine Judge, they become impotent to curb wrong behavior. Hence a frightened, secularized population is more likely to engage in fraud, breach of contract, rapacious looting of corporations (via exorbitant salaries, bonuses, and stock options), and so on. Observers will perceive this conduct as "greed," "selfish capitalism" and "market failure." Blind to the underlying cause, they will proclaim that the market is incapable of policing itself, and so they will demand more government control.

Friends of freedom have undoubtedly done well to master and disseminate economic arguments for free markets and limited government. In economics, liberty's advocates have done the most work, and the achievements of Ludwig von Mises, Friedrich Hayek, Milton Friedman, Henry Hazlitt, Israel Kirzner, and others have been enormous. Granted their premises, their arguments for the market are overwhelming.

But we delude ourselves if we think that, having demonstrated logically that the free market is the optimum economic system and that interference is dysfunctional, we have routed the enemy. One of the drawbacks of the assumption of human rationality popular among classical liberals and libertarians is that it ill equips its believers for coping with irrationality. It produces the dangerously optimistic corollary belief, as the British historian Correlli Barnett wrote, "that once something has been demonstrated to be absurd or self-destructive it is as good as written off. However, while you may rightly tell a drunkard that drink will kill him if he does not give it up, how do you stop him drinking?"[7]

Since the true and perennial enemy of freedom dwells in a part of human nature that is largely irrational, it is no more than superficially amenable to rational persuasion. Few people frightened of insecurity and hardship are really interested in, or moved by, economic arguments about how freedom and acceptance of risk produce widgets. They do not want abundant widgets, they want their fear to go away. In the eyes of the fearful person, the danger is real, and his fear is rational. After all, pain hurts. And anyone promising relief from pain or the threat of pain will receive his unwavering support—witness the incredible loyalty of the American electorate to Franklin Roosevelt, the enduring Democratic strength among poor and blue-collar voters, and Bill Clinton's support in the 1992 election from those worried about health care.

The Necessity of Soulcraft

Hence to secure the foundations of a free society we must cultivate the character of the people who live in it. Because fear of suffering and dread of insecurity are inherent in human nature, and because time and chance happen to us all, we are always vulnerable to the temptation to seek state succor, and the battle against fear and for freedom must be waged anew in every generation. There is no permanent victory. Economic arguments are not enough. Philosophical arguments are not enough. Proofs that yielding to envy, desire for unearned gain, and fear is economically counterproductive are not enough. The only effective antidotes to evil and irrationality are soulcraft and character formation.

And the greater the erosion of character, the more attention lovers of liberty must give to it. The first great economist of freedom, Adam Smith, consciously grounded his economic thought in moral character.[8] But many later economists of freedom—the thinkers of the Manchester School, Carl Menger, Eugen von Bohm-Bawerk, Ludwig von Mises coming to maturity and formulating their theories and their economic defenses of the free economy in societies and cultures grounded in Christianity, when the underpinnings of soulcraft were still in place and when civilized people with sturdy characters were so numerous as to invite being taken for granted, rarely concerned themselves with the interplay of character and economics. For the most part, they did not have to; it was not an issue. Today, with soaring crime and violence, endemic illegitimacy and divorce, and rampant pursuit of “victim” status, we can almost take fear of living for granted, and with it widespread repudiation of the free market and demands for government help. In a disintegrating post-Christian society friends of freedom can no longer count on family, church, school, and society instilling the metaphysical and other core beliefs underlying a successful free economy.

Unfortunately, no one has ever explained how a free economy can work in the context of a decadent national character—if indeed it can. Economists, including free market economists, continue to spin theories and build models as if the problem did not exist.

A religious revival would aid the cause of freedom, but religion cannot be preached simply because it supports free societies and free markets. Such a pragmatic approach is too cynical to work and would be worse than no effort at all; atheists and statists would see through it immediately, and the resultant firestorm of disdain would set back the causes of both freedom and religion.

Nevertheless, if a return to religion is not feasible unless and until people are genuinely ready to hear it for the right reasons, friends of freedom should meanwhile grasp every opportunity to preach and reward the virtues that make for a sturdy character, and, better still, to provide that most powerful of teachers: a good example. In the end, a society, and an economy—is no better than the people in it. And in the end, if character formation and soulcraft are neglected, all the other work of freedom, however useful, will be in vain. []

1. Helmut Schoeck, *Envy: A Theory of Social Behaviour,* tr. Michael Glenny and Betty Ross (New York: Harcourt, Brace & World, Inc., 1969; Indianapolis, Liberty Fund, 1987).
2. “Cost of Regulation Isn’t Easy to Figure But Estimates Exist,” *Wall Street Journal,* September 23, 1992, p. A10.
3. *Federal Reserve Bulletin,* May 1993, p. A39, Table 1.57, Funds Raised in U.S. Credit Markets. Percentage calculations are mine.
4. Fyodor Dostoevsky, *The Brothers Karamazov,* tr. Constance Garnett, Book V, Ch. 5.

5. Aldous Huxley, *Ends and Means: An Inquiry into the Nature of Ideals and into the Methods Employed for Their Realization* (New York: Harper & Brothers Publishers, 1937), p. 11.
6. See M. E. Bradford, *A Worthy Company: Brief Lives of the Framers of the United States Constitution* (Marlborough, N.H.: Plymouth Rock Foundation, 1982), and John Eidsmoe, *Christianity and the Constitution: The Faith of Our Founding Fathers* (Grand Rapids, Mich.: Baker Book House/Mott Media, 1987).
7. Correlli Barnett, *The Collapse of British Power* (New York: William Morrow & Co., 1972), p. 48.
8. Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* was but an application, in both philosophical and empirical fashion, of his moral philosophy—set forth earlier in his *Theory of Moral Sentiments* and *Lectures on Jurisprudence—to* market relationships.

A Needful Blessing for the Tsar

We Would Do Well to Heed the Rabbi in *Fiddler on the Roof*

MARCH 01, 1994 by Phil Trieb

Mr. Trieb is a father, husband, newspaper columnist, and graphic artist in Gary, South Dakota.

In the opening scene of *Fiddler on the Roof,* the rabbi's son asks: "Is there a proper blessing for the tsar?" The rabbi responds: "A blessing for the tsar?" He ponders awhile, then pronounces: "Of course . . . May God bless and keep the tsar . . . far away from us!"

I may be partial to the line, because it belonged to me when I played the rabbi in a community presentation of that nearly thirty-year-old musical. In a production that still has much to say to America in the waning years of the twentieth century, that line may well be the most pertinent of the play, as regards our national crisis today.

Because for anything from hangnail to hurricane, the reaction of first resort, rather than the last, is to run to Uncle Sam, who, for the sweetness of his benefits, is known by many today as "Uncle Sugar."

To those less possessed of affection for beneficent tyranny, the vision of a huge "Uncle Sow," suckling legions of should-be-weaned pigs, is more appropriate.

To the villagers of Messrs. Stein, Bock, and Harnick's fictional Anatevka, the less contact with the agents of the tsar, the better. Or, as Jefferson stated: "That government is best which governs least."

In *Fiddler,* the Jewish villagers are forced to leave their "dear little village" under a pogrom, not initiated by the tsar, but nevertheless benignly endorsed, in that he does nothing to stop the racist deportations ordered by his underlings.

We have a parallel situation today in America. The president's administration may not initiate the privations experienced by those being ground up in the gears of the Internal Revenue Service, the Occupational Safety and Health Administration, the Environmental Protection Agency, or any of the scores of other federal agencies, but in that it does nothing in its ultimate political and administrative power to stop the excesses, the administration thereby endorses the economic and judicial deportations: of families forced from homes, farms, and businesses by government edict, rules and regs, bankruptcy borne of confiscatory taxation, or worse.

For all the talk of reinventing and streamlining government, there is in place an inexorable principle in the United States today: bureaucracies never die, they only grow. And to grow, these bureaucracies, which never produce any wealth of their own, must consume the productive wealth of others. Of course, taxation has been the traditional means, but increasingly, the con sumption occurs through regulation, or enforcement.

This can be rather benign, in the irritations of paperwork necessitated by niggling regulations. A small business owner decides not to invent this widget or improve that whatsit—neither of which is crucial to life, but both of which are conducive to its comforts, because the licenses, permits, paperwork, and bureaucratic scrutiny make the reward minuscule compared to the cost.

Of course, the niggling can add up. A current study estimates that Americans are expending $100 billion per year to cover the burdensome record-keeping requirements imposed by government on the health care system.

In the extreme, the bureaucracy can be deadly. Consider the growing numbers of innocent civilians terrorized, and even shot and killed by over-anxious anti-drug SWAT teams. (And of course, there is the annihilation of the Branch Davidian sect, of which the truth of the Federal Bureau of Investigation and Bureau of Alcohol, Tobacco, and Firearms' actions may never be known due to the hasty bulldozing of the site after the fatal conflagration.)

Remember that bureaucracies, though they are by nature inefficient, must produce some kind of activity, some kind of movement, however pointless, to justify their existence. Imagine Uncle Sow again, who in foraging about the barnyard crushes and consumes other creatures. And Uncle Sow is very discriminating in whom he destroys: often it is the most productive, the most creative, the most innovative.

But that is a necessary evil, if Uncle Sow is to do so much “good,” and provide for so many. But in a “less advanced” time in our history, there was a far different attitude toward government, and a vastly different hierarchy of help. When disease, death, or disaster had exhausted one’s personal resources, one turned first to friends and family, then to church and community. (In many cases the latter mirrored the former.) It was recognized that those who were presently experiencing God’s blessings would share with those who weren’t. As to providing for the populace, government, especially the national government, was not even considered.

Yet in a terrible twisting of Jesus’ command to “Love thy neighbor,” there are churches today that, rather than care for those in need, have agencies and seminars to train the needy to make the most of available government “entitlements.”

Elected officials, rather than help keep the “tsar” far away from us, help draw the government ever closer. Even U.S. Senators are no longer statesmen-guardians of our constitutional liberties, but professional beggars for subsidies to their states, and ombudsmen for constituents, often swamped by phone calls when Social Security or other government checks are merely a day late.

And unfortunately, God is left out of the discussion, at least in public discourse by politicians, journalists, think-tank intellectuals, unelected “policy makers,” and shockingly, growing numbers of church leaders.

God was once considered omniscient, omnipotent, and omnipresent, now the government is considered all-knowing, all-powerful, all-present. Though citizens have contact with flesh and blood bureaucrats, the concept of government itself is becoming increasingly abstract, and like some distant, unseen deity, bestoweth its blessings (subsidies and entitlements) on the worthy (those who fulfill arbitrary requirements) and punishes (taxes) the wicked (i.e., the “rich,” which is anyone making more than the one seeking benefits).

Yes, there were rich and poor in Anatevka. The beggar Nahum receives a kopek from Lazar Wolf, the rich butcher, and responds: “One kopek? Last week you gave me two kopeks.” Lazar replies: “I had a bad week.” Nahum retorts: “So if you had a bad week, why should I suffer?” In community-and church-based charity, generosity is based not only on the need of the recipient, but also on the ability of the benefactor to contribute. In government-based “entitlements,” neither need nor ability to contribute is considered. One only must fulfill the arbitrary "requirements" hence, shiny new pickups can be seen hauling away free U.S. Department of Agriculture commodities, and women in furs can plunk down food stamps to buy hamburger for pet dogs. And whatever the condition of the taxpayers funding the largesse, the benefits grow and grow and grow.

What the government subsidizes—illegitimacy, sloth, inefficiency, dishonesty, waste, inertia—we get more of. And what the government taxes—intact families, productivity, efficiency, honesty, frugality, innovation—we get less of.

Under the philosophy of providential government, most people, even elected state officials, regard federal government money as "free," as if it grows on some distant money tree in a neo- Garden of Eden on the Potomac. The trouble is, that tree has its roots in the pockets of every productive American. And with the specter of universal, federally subsidized health care on the near horizon, the mythical money tree is ready for an unprecedented explosion of new growth. (Yet we are expected to believe that the federal government will suddenly reverse 50 years of tradition, and run this program as a model of efficiency!)

These attitudes would have been anathema to most of our grandparents, many of whom fled the tyrannies of encroaching European socialism. They would also be anathema to the villagers of "Tumbledown, workaday" Anatevka. Their reliance was on God and each other, and though its people also called their village "underfed, overworked," they knew that the closer the tsar drew to them, the more imperilled their lives would be.

We would do well to heed the rabbi in *Fiddler on the Roof,* and again inculcate the attitude in our children and our communities: May God bless and keep the government . . . far away from us!

Strikers and Scabs

Workers Have a Fundamental Right to Accept Any Employment Terms They Wish

MARCH 01, 1994 by Charles W. Baird

On June 15, 1993, the U.S. House of Representatives voted 239-190 to amend the National Labor Relations Act (NLRA) to prohibit employers from hiring permanent replacement workers in economic strikes. President Clinton promised to sign such legislation.

Republican senators have promised a filibuster, so the Senate leadership has postponed voting on the issue. When and if they round up the necessary sixty votes they will schedule the vote. A filibuster stopped identical legislation in the 102nd Congress, and there is a fair chance that it can do so again.

The proposed legislation applies only to economic strikes, which are union-initiated work stoppages over terms and conditions of employment. It is already illegal for employers to hire permanent replacement workers in unfair labor practice strikes, which are union-initiated work stoppages over illegal actions by employers such as firing a worker for advocating unionism.

The Nature of the Right to Strike

Unionists portray this issue as one of simple justice. They claim that the right to strike, which is guaranteed in the NLRA, is nullified by the ability of employers to hire permanent replacement workers. But what is the right to strike?

Let's get back to basics. The employment relationship is one of contract between employees and employers. Contracts are formed by parties each of whom perceives that he will thereby gain. They are based on mutual consent. The typical employment contract is an agreement that the employee will perform specified labor services for the employer in exchange for a specified compensation package. Unless a contract specifies the contrary, employees do not have property rights to their jobs.

Since each worker owns his own labor services, he clearly has a fundamental (i.e., independent of government) right to withhold those services if he doesn't like the compensation package offered by an employer. It follows that like-minded employees have a fundamental right to withhold their labor services together, at the same time. However, there is no fundamental right for any worker, or group of workers, to prevent other workers from accepting the terms that they have refused to accept. To argue the contrary is to assert that strikers own the jobs that they refuse to do. Congress may legislate such a privilege, but that is different from a fundamental right. In the realm of rights rather than privilege, workers don't own jobs. They own their labor services.

All workers, even nonunion workers, own their labor services. As owners they have a fundamental right to accept any terms of employment they wish, even if some other workers have rejected those terms.

Unionists use the epithet "scab" to refer to workers who are willing to accept terms that union workers have rejected. A scab, unionists thereby suggest, is less than human and therefore has no rights that anyone need worry about. However, calling a replacement worker a scab is not a logical argument. To make their case, those who support the proposed striker replacement legislation have to come up with some justification for subordinating the rights of union-free workers to the interests of union workers.

Moreover, existing law is well balanced between unions and management. The terms and conditions of employment that a striking union seeks have long-run cost implications for its target employer. If employers were prohibited from hiring permanent replacement workers, they could not impose any long-run costs on striking unions. As the U.S. Supreme Court has acknowledged, existing law allows each side to threaten to impose long-run costs. The hiring of permanent replacement workers, according to the Court, is one of the employers' "economic weapons in reserve" that they may legitimately employ in the collective bargaining process.

Finally, the ability of employers to hire permanent replacement workers provides a market-reality check to both sides in a labor dispute. If an employer is able easily to hire replacements at terms that a union has rejected (current law forbids employers to offer better terms), the union knows its terms are unrealistic. But if the employer cannot do so, it knows that the union's terms are not unrealistic. If employers were permitted to hire only temporary replacement workers, as the proposed legislation specifies, this market-reality check would vanish. Workers are often reluctant to accept temporary job offers even at high pay.

Although only 11.5 percent of private sector workers are unionized, the proposed legislation creates privileges for union workers at the expense of rights of union-free workers. Is that consistent with the American principle that all people have equal rights and are entitled to equal protection of the laws?

Paul Samuelson Finally Gets It Right—Almost

The World's Leaders Learned Neoclassical Economics All Too Well

MARCH 01, 1994 by Mark Skousen

This is the first of Mark Skousen's monthly "Correction, Please!" columns for The Freeman.

"When he talks, Mr. Samuelson sometimes seems disappointed that the world's leaders did not learn enough from his textbook."

—*The New York Times,* October 31, 1993

Mainstream economists deny that they can be held responsible for today's economic problems because, they say, political leaders are ignoring their sound advice. If only they had taken Econ 101 from me, proclaims Paul Samuelson.

Au contraire! The world's leaders have learned economics all too well from Paul Samuelson and the "neo-classical" establishment. His textbook, *Economics,* now in its 14th edition, has sold over four million copies and been translated into thirty languages. It has been the most influential textbook on economic theory and policy for the past fifty years. I and countless others (including today's political leaders) used it as undergraduates. And even though it no longer dominates the textbook field, today's leading college textbook by McConnell and Brue is considered a Samuelson clone.

What has the world been taught by the MIT professor and Nobel Prize-winning economist? In writing my book, *Economics on Trial* (Irwin Professional Publishing, 1993), I painstakingly reviewed the top-ten textbooks used in colleges today, including Samuelson's, and made an amazing discovery. Many of the problems we face today, including high deficits, inflation, excessive tax rates, low savings and capital growth, high consumer debt, the welfare state, and a boom-bust business cycle can be traced back directly to fundamental errors taught by Samuelson and other mainstream economists over the past fifty years. Governments around the world have been especially enamored with Samuelson's version of Keynesian economics, which gives theoretical support for inflation, progressive taxation, deficit financing, and the welfare state.

Bad Economics Taught in the Classroom

Remember, it was Samuelson's textbook which popularized the "paradox of thrift," the perverse idea that excessive saving could cause a recession or worse. Tell that to today's Chinese, who are enjoying the fastest economic growth rate in decades, or to the Japanese and Germans during most of the post-war period, where high savings and high economic growth went hand in hand.

It was Samuelson who convinced the world that big government was a "built-in stabilizer" in the economy. Never mind that it also means built-in bureaucratic waste and inefficiency.

It was Samuelson who introduced the "balanced budget multiplier," the strange notion that starting a new government program stimulates economic growth more than a cut in taxes. Since when is it more productive to transfer wealth from the private sector to the public sector? Needless to say, no one learns about the excited new trend toward privatization and supply-side economics from Samuelson's textbook.

It was Samuelson who theorized that high progressive taxation would have little or no effect on business people, entrepreneurs, or high-paying executives. "[They] will work as hard for $150,000 as for $200,000," he asserted. The Nobel Prize-winning professor ignores all the evidence supporting the "supply-side" case that lower tax rates have significantly boosted economic activity in dozens of nations.

Finally, it was Samuelson who naively claimed as late as 1989, right before the Berlin Wall was torn down and Soviet Communism collapsed, "The Soviet economy is proof that, contrary to what many skeptics had earlier believed, a socialist command economy can function and even thrive." (Samuelson, 13th ed., p. 837)

You won't find these embarrassing mistakes in *The New York Times* hagiographic review of Samuelson's career.

Samuelson's Remarkable About-Face

But the *Times* also missed out on one of the most important paradigm shifts in Samuelson's thinking. The leading Keynesian spokesman has had a dramatic change of heart in his latest (14th) edition of his famous textbook. He makes the following significant changes:

First, for the first time in over forty years of publishing, he eliminates his infamous anti-saving doctrine, "the paradox of thrift." (In chapter 5 *of Economics on Trial*, I focused on this bizarre concept as the central flaw of Keynesian economics.) Shockingly, Samuelson replaces the "paradox of thrift" with a whole new section on the benefits of saving and investing, and why the saving rate in the United States is too low, a complete reversal of his long-standing belief. Sounding more like Mises or Hayek, Samuelson's prescription for easing America's economic ills is simple: Save and invest more! Rejecting his theme of the past, he comments, "Our society has been on a consumption binge."

Second, Samuelson finally admits that the national debt can be a serious drain on the economy. In the new edition, the leading apologist for deficit spending confesses that "a large public debt can be detrimental to long-run economic growth." He asserts that "wild" government spending and mountains of debt are eating away at the nation. The huge deficit means overconsumption and underinvestment and hence less growth. The deficit has caused the crowding out of private capital, causing our "living standards [to] decline."

Third, the 78-year-old professor begrudgingly acknowledges that Soviet-style socialism has failed miserably. In his latest edition, Samuelson places question marks after Soviet "growth" data. The goods that were made under Soviet central command, he now says, were produced at "great human sacrifice, loss of life and political repression."

"Almost Thou Persuadeth Me . . ."

Paul Samuelson a free-market convert? The next thing you know he'll be writing articles for *The Freeman!* It all sounds too good to be true. But, alas, to paraphrase King Agrippa, he is more likely to respond, "Almost thou persuadeth me to be a free marketeer!"

"Almost" is the key word, for Samuelson is still not baptized and cleansed in the pure waters of liberty. While he favors a capital gains tax cut, he recommends still higher progressive income taxes to reduce the federal deficit. "America is not remotely near the limits of taxation, and one more pfennig is not going to break the camel's back." The fallacy of progressive taxation will have to wait for another column.

Recapturing the Spirit of Enterprise and *Wealth and Poverty*

A Definitive Case for Supply-Side Economics

MARCH 01, 1994 by Raymond J. Keating

By publishing anew George Gilder's now-classic volumes *Recapturing the Spirit of Enterprise* (formerly *The Spirit of Enterprise)* and *Wealth and Poverty,* ICS Press has performed an invaluable service to anyone concerned about economic growth, opportunity, and freedom. The updating and republication of these Gilder tomes takes on even greater importance in light of recent movements in Washington, D.C., not only to wipe out positive economic policy achievements of the 1980s such as lowering marginal income tax rates but also to foster once again the mistaken notion of a leviathan state as the guiding force for economic growth.

In both books, Gilder amazingly manages to lift economics from the deadening morass into which much of it had sunk for at least a half century. He understands and communicates perhaps better than any other contemporary economist that economics is not largely an endeavor of statistics and econometrics, since such disciplines do not possess the tools to analyze the dynamic, entrepreneurial change that lies at the very core of capitalism. Through his comprehensive view of economics, Gilder himself provides an example of an economist unwilling to accept irrelevancy by limiting the scope of his examination to a purely econometric analysis. In fact, Gilder justifiably supplants many of the detached, mechanistic assumptions about economic reality, to which a considerable portion of the economics profession subscribes, in favor of a more realistic analysis of how the economy functions, focusing on human creativity, entrepreneurship, and a wide variety of individual incentives.

Gilder elevates supply-side economics—with its emphasis on providing the means and incentives for individuals to work, create, innovate, invest, save, and take risks—to its proper pre-eminence over bankrupt demand-side economic management and wealth redistribution. Gilder correctly de-emphasizes the static, input-output style of economics so relied upon, for example, by former Soviet planners, authors of U.S. economics textbooks, and New York City government officials, while instead focusing on the creative, entrepreneurial aspects of capitalism that, while difficult to quantify, are essential to understanding and ensuring economic growth and opportunity.

After more than a decade of misrepresentations in the media and by a wide range of economists, revisiting George Gilder's classics reinvigorates too-often dormant supply-side economic senses. Gilder vividly portrays the importance of, as he puts it, "the entrepreneurial dimension of the economy."

Recapturing the Spirit of Enterprise remains one of the finest analyses of the entrepreneur's role in the economy. Gilder understands the bankrupt status of current economic analysis where the primary role of the entrepreneur has been subsumed by an emphasis on governmental management of aggregate figures:

> Economic recovery depends on the resurrection of entrepreneurs. This resurrection cannot fully and durably occur until the ultimate arbiters of economic policy—the economists—resurrect entrepreneurship in their own influential theories. The contrary vision of capitalism without capitalists springs in part from a fundamental error of economic thought, drastically overrating the importance of physical capital formation and other quantitative measures of economic activity and drastically underestimating the decisive and controlling importance of entrepreneurial creativity.

Gilder conveys this critical nature of entrepreneurship not just with sound economic arguments, but with a wide range of real-life examples, including Florida's Cuban immigrants who prospered "not chiefly by a trickle-down of grants from the government, but by the upsurge of their own productive efforts;" Henry Ford's illustration "that high profits come from giving, through low prices and high wages, rather than from gouging for what the traffic will bear;" and Honda's plunge into designing a motorcycle for which no demand yet existed. Gilder quotes Soichiro Honda, "We do not make something because the demand, the market is there. With our technology we can create demand, we can create the market," thus reaffirming the supply-side tenet that "supply creates its own demand," or Say's Law, named for the nineteenth-century economist Jean-Baptiste Say.

Notably, four new chapters were added to *Recapturing the Spirit of Enterprise.* In one such chapter, Gilder once again exposes the weakness of today's economists: "The reason that most economists cannot comprehend the 1980s is that it was a period of entrepreneurial acceleration. While economists measured the deficit and the trade gap, entrepreneurs were multiplying value at an unprecedented pace and disguising it with plummeting prices."

One of the best ways for any student of economics, whether in pursuit of a bachelor's degree or already in possession of a doctorate, to gain a better understanding of the economy would be to read *Wealth and Poverty.* It remains quite difficult for me to think of a more important book written about economics over the past two decades. Gilder gracefully weaves together devastating attacks on both aggregate demand management and the notion of perfect competition, while even occasionally enlisting demand-side demigod John Maynard Keynes in support of a definitive case *for* supply-side economics.

Invoking the fundamental economic principle of division of labor, Gilder also illustrates that supply-side economic theory does not rest solely on incentives: "Capitalism is the most effective way of expanding wealth not chiefly because it offers the most powerful incentives, the most tantalizing arrangement of carrots and sticks, but because it links knowledge with power. It gives control over resources and over the future flow of investment not to political bureaucracies of certified experts or to the most avidly self-loving pursuers of leisure and luxury, but to the particular businessmen who manage successful experiments of enterprise . . . . Under capitalism, economic power flows not to the intellectual, who manipulates ideas and basks in their light, but to the man who gives himself to his ideas and tests them with his own wealth and work." Gilder correctly points out that "entrepreneurs must be allowed to retain wealth for the practical reason that only they, collectively, can possibly know where it should go, to whom it should be given." This fundamental aspect of capitalism is currently being washed over by a wave of class warfare rhetoric in much of our public debate, which recently manifested itself in higher income tax rates that will divert energies from productive investment and entrepreneurial ventures to tax-sheltering endeavors fostering economic stagnation.

In this light, the new preface to this edition of *Wealth and Poverty* provides an important review of the supply-side successes of the 1980s and some sound advice for the 1990s: “This recovery [of liberalism] is likely to be short-lived. Although the left may never believe it, demand-side economics is dead. In an increasingly competitive global economy, a government can no more raise its revenues simply by raising its taxes than a company can raise its income simply by raising its prices. Like a company, a government must constantly lower its prices and improve its services to expand its markets (its tax base). In the 1990s, the United States needs further rounds of tax rate reductions and simplifications in order to lower its deficit.”

Again refusing to pigeonhole economists, Gilder also provides a profound observation: “By a supply-side standard, immorality diverts, demoralizes, obsesses, and depraves the men and women who must forgo immediate returns, sacrifice immediate pleasures, master difficult disciplines, and respond to the needs and desires of others if they are to create successful businesses. Capitalism has been incomparably the most productive economic system in the history of the world because it best evokes the effort and creativity—the moral quality and productive energy of workers and entrepreneurs who put the interest of others before their own gratifications.” Gilder justifiably deserves to be referred to not only as a great supply-side apologist but also a great apologist for capitalism in general.

The following two paragraphs from *Wealth and Poverty* express the essence of the supply-side economics revolution—a revolution still being fought, with the commensurate setbacks one inevitably finds in any battle, but nonetheless moving relentlessly toward victory:

> Say’s Law in all its variations is the essential enactment of supply-side theory. But its value does not reside in its mathematical workings. In economics, mathematical models, however elegant, must always defer to the behavior and psychology of persons with free will, who often act, and interact, in unexpected ways. The importance of Say’s Law is its focus on supply, on the catalytic gifts or investments of capital. It leads economists to concern themselves first with the motives and incentives of individual producers, to return from a preoccupation with distribution and demand and concentrate again on the means of production.

> The return is crucial to understanding the current predicament of capitalism. But it will be difficult for economists. Reversion to the supply side means leaving the comfort of rigorous models and computations and again entering the fray of history and psychology, business and technology. Economists should once again focus on the multifarious mysteries of human social behavior and creativity which Adam Smith luminously addressed in *The Wealth of Nations,* which Marx stuffed into the maw of his theory, which Keynes treated in most of his writings, and which even John Kenneth Galbraith, in his often perverse way, delights in describing.

With *Wealth and Poverty* and *Recapturing the Spirit of Enterprise,* not to mention other books such as *Microcosm, Men and Marriage,* and *Life After Television,* George Glider—the economist has entered the fray not only of history, psychology, business, and technology, but of faith and the human spirit as well, to the benefit of both his readers and the economics discipline. []

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Kindly Inquisitors: The New Attacks on Free Thought

Liberal Science Allows for the Peaceful Exchange of Hostile Ideas

MARCH 01, 1994 by Jonathan H. Adler, Jonathan Rauch

Freedom of speech lies at the heart of classical liberal thought. Without it, classical liberals have always understood, most other freedoms are nearly unprotectable and scarcely meaningful. Yet today, in America as in many ostensibly liberal nations, the freedom to speak one's mind is under assault. Buttressing the intellectual defenses of freedom of speech against such attacks is the purpose of Jonathan Rauch's *Kindly Inquisitors: The New Attacks on Free Thought.* Rauch's achievement is no small accomplishment.

Eschewing, for the most part, traditional defenses of free thought, Rauch takes a broader view, drawing on the works of Thomas Kuhn, Karl Popper, and David Hume. To the well-understood liberal systems of politics and economics—representative government and free market economies—Rauch wishes to add the recognition of a liberal intellectual system, what he calls "liberal science." On this system rests the very possibility of scientific knowledge, broadly understood. "Liberalism holds that knowledge comes only from a public process of critical exchange, in which wise and unwise alike participate."

In the system of liberal science, it is through the exchange of ideas—and the resulting conflict between contrary viewpoints—that beliefs and observations are transformed into knowledge. As a result, the realm of knowledge is inherently restrictive; some things are true, others not. The only way to make that determination is by setting forth propositions and subjecting them to challenges. Reasonable hypotheses are entertained until they can be disproved. This removes from liberal science an element of certainty—all hypotheses are subject to challenge and revision but it is this process upon which the whole of knowledge depends. Without freedom of speech, thought, and inquiry (freedoms not wholly separable) liberal science cannot exist; without liberal science, truth cannot be separated from fiction.

Liberal science, by its very nature, has little tolerance for fundamentalism; conversely fundamentalism is a threat to liberal science. Fundamentalism, defined by Rauch as the "search for certainty rather than for errors," is the antithesis of scientific inquiry. Fundamentalism seeks a monopoly on knowledge from which it can deny the beliefs put forth by all others. Rauch even notes that there are fundamentalist free-marketeers—those who refuse to accept the possibility that cherished economic axioms may be flawed, or at least in need of revision—and he challenges them to enhance their intellectual rigor. If classical liberals are willing to accept the self-correcting actions of the marketplace to properly allocate valued resources, they should also allow the self-correcting mechanisms of liberal science to separate knowledge from supposition.

Due to its nature as a decentralized system, liberal science frees knowledge from authoritarian control by self-appointed commissars of truth. "In an imperfect world, the best insurance we have against truth's being politicized is to put no one in particular in charge of it," notes Rauch. Liberal science achieves this end. It avoids despotism in the intellectual realm as it does in those of politics and economics.

Just as capitalism makes some rich and others poor, liberal science accepts the beliefs of some as knowledge, while rejecting those of others; the game of liberal science creates winners and losers. This, without fail, generates opposition. And so one sees the erection of rules against certain forms of expression. These rules bar "hate speech" in Canada, "historical revisionism" in France, and "insults" directed at minorities in Great Britain.

This siege of liberal science has even reached American shores. "In America," notes Rauch, "the movement against hurtful speech has been primarily moral rather than legal, and nongovernmental institutions, especially colleges and universities have taken the lead." The threat is not that private institutions establish rules to enforce civility within their own confines but the principle on which such rules are being established. Rauch warns, "A very dangerous principle is now being established as a social right: Thou shalt not hurt others with words." This principle threatens the whole of liberal science.

The search for truth entails the examination of all ideas. This makes it inevitable that some will be hurt. In the process of identifying mistaken beliefs, liberal science necessarily wounds those who hold them. "Liberal science does not restrict belief," argues Rauch, *"but it does restrict knowledge"* [emphasis in original]. It allows each individual to think for himself, but it requires that beliefs be tested and challenged before they can be accepted as true. Thus, to limit criticism in the name of protecting individuals, ethnicities, or creeds from harm is to limit the ability of liberal science to search for truth by ferreting out falsehoods. Rauch notes that "A no-offense society is a no-knowledge society," and a "no-knowledge" society is good for no one.

The determination of knowledge through liberal science works well in the realm of fact and fiction. But by Rauch's own admission it is more limited in its ability to discern good from evil; "It is true that the science rules cannot resolve moral questions in the way they can often lead to quick resolutions of questions of fact. You can't perform a study or run an experiment to determine whether abortion is murder or capital punishment is cruel. However, let it be said in favor of the science rules that they can help bring order and peacefulness to moral debate." By establishing criteria for the examination of ideas, liberal science allows for the peaceful exchange of hostile ideas. Thus "liberal science can help people organize the search for decent moral principles" even though "it is incomplete as to providing them."

Kindly Inquisitors is a slim volume that deserves to be well read and widely discussed. Over time, one can hope that Rauch's beliefs will be accepted, scientifically, as knowledge. []

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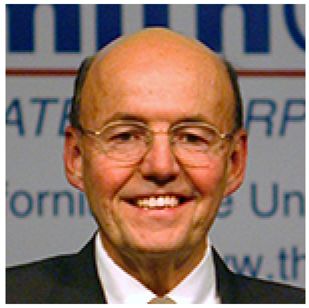

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