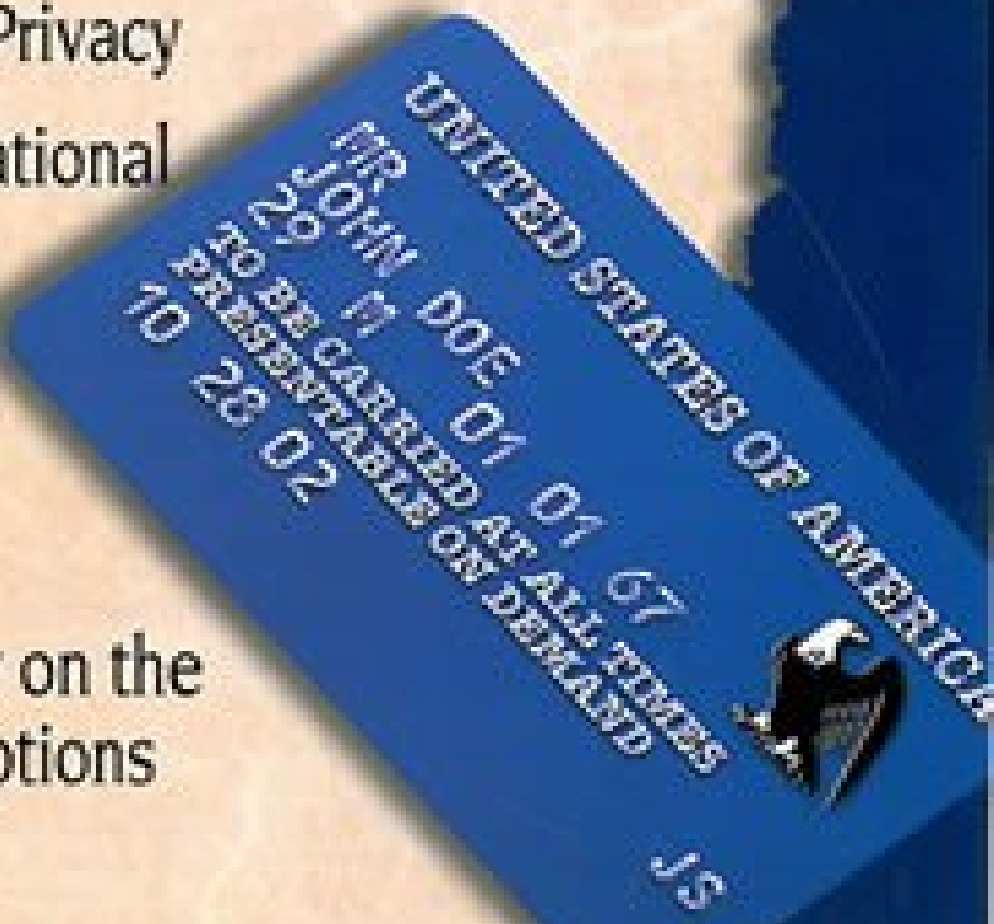
IDEAS ON LIBERTY

FEE's Monthly Magazine

- The Peril to Our Privacy
- The Danger of National Identification
- Dennis Avery on What's Starving the Poor
- Anthony de Jasay on the Effect of Stock Options



OCTOBER 2002

October 2002

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Dennis Avery
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Stephen Browne
C.C. Kraemer
Scott McPherson
Ted Roberts
James Peron
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Atlanta, GA 30309

Produced by
MiceEatCheese.co

Published by
Benjamin Tucker Institute, z.s.

Contents

OCTOBER 01, 2002 by Jared R. Price, Paul A. Cleveland

Race, Inequality, and the Market

The Free Market Is Not the Source of Black Underachievement
OCTOBER 01, 2002 by Thomas E. Woods Jr.

They Learned from the Workers

Polish Students Learned First-Hand Why Socialism Doesn't Work
OCTOBER 01, 2002 by Stephen Browne

Beware "New Urbanism"

Smart Growth Advocates Are Convinced That Their Ideas Are Morally Superior
OCTOBER 01, 2002 by C.C. Kraemer

Socialism in Retreat

Welfare for Farmers Is Absurd
OCTOBER 01, 2002 by Scott McPherson

Library Story

Libraries Should Be Funded by User Fees, Not Taxpayer Dollars
OCTOBER 01, 2002 by Ted Roberts

Why the Poor Need Property Rights

How Property Rights for Street Vendors Can Create Prosperity
OCTOBER 01, 2002 by James Peron

"Emeril" Economics

Critics Despise the Application of the Market to Any Area of Culture
OCTOBER 01, 2002 by Larry Schweikart

Evaluating New Drugs: Remember the Bigger Picture

Prescription Drugs Have Unseen Benefits
OCTOBER 01, 2002 by Lawrence W. Reed

Only Congress Can Declare War

The Founders Wanted to Make War Less Likely
OCTOBER 01, 2002 by Doug Bandow

Ironic Triangle

What Happened to the Hostile Takeover?
OCTOBER 01, 2002 by Sheldon Richman

A Tale of Two Brain Trusts

Americans Have Suffered for Decades under the Policies of FDR's Brain Trust
OCTOBER 01, 2002 by Robert Higgs

Muting Messages

All Price Controls Silence Truthful and Useful Messages
OCTOBER 01, 2002 by Donald Boudreaux

My Organs Are for Sale

Why Is Selling Organs Illegal?
OCTOBER 01, 2002 by Walter E. Williams

What's Happening?

Government Is Taking Steps to Alter Fundamentally Our Way of Life
OCTOBER 01, 2002 by Sheldon Richman

America Is Headed Toward Plutocracy?

Wealth Inequality Is Not a Problem
OCTOBER 01, 2002 by Aeon Skoble

The Seven Myths of Gun Control: Reclaiming the Truth About Guns, Crime, and the Second Amendment

Debunking Common Fallacies about Gun Use
OCTOBER 01, 2002 by Richard Poe, Tom Welch

Damned Lies and Statistics

An Excellent Diagnosis of the Problem of Deceptive Statistics
OCTOBER 01, 2002 by George C. Leef, Joel Best

How Wall Street Created a Nation: J. P. Morgan, Teddy Roosevelt, and the Panama Canal

What Really Happened to Create the Panama Canal?
OCTOBER 01, 2002 by Lawrence W. Reed, Ovidio Espino

Antitrust After Microsoft: The Obsolescence of Antitrust in the Digital Era

Antitrust Policy Protects Competitors, Not Competition
OCTOBER 01, 2002 by David Kopel, Laura Bennett Peterson

The Sixteen-Trillion-Dollar Mistake: How the U.S. Bungled Its Priorities from the New Deal to the Present

Interesting but Fundamentally Flawed
OCTOBER 01, 2002

Liberalism Beyond Justice

Stuck in the Cramped Corridor of Establishment Liberalism
OCTOBER 01, 2002 by Eric Mack

The Peril to Our Privacy

Americans Are Losing the Freedom to Maintain Confidential Doctor-Patient Relationships

OCTOBER 01, 2002 by Sue A. Blevins

If the Bush administration has its way, beginning in April 2003 individuals' personal health information–including genetic information–will be shared with data-processing companies, insurance companies, doctors, hospitals, researchers, and others without their consent. This is a major shift from today's standard whereby patients give their consent before their medical records are shared with third parties. The administration proposes to eliminate the current standard in order to make processing medical claims more efficient. If the changes are adopted, every American will have effectively lost any ability to maintain a confidential doctor-patient relationship.

How did the federal medical privacy rule come about? Who was behind it? What can Americans do to protect their medical privacy?

Until now, health privacy was considered a matter regulated by the states. Every state has a law to protect citizens' medical records. However, abiding by 50 different state privacy laws has proved difficult for the industries that want to create a national health-information system. National leaders of the medical, hospital, health-insurance, and other industries have been working for over a decade to nationalize standards for electronic claims processing. In 1991 the Workgroup for Electronic Data Interchange (WEDI) was established to lobby Congress for legislation to enable electronic medical records and payment systems.

WEDI was instrumental in getting many of its goals incorporated into the infamous Clinton health-care plan. President Clinton's 1993 Health Security Plan included a provision titled "Administrative Simplification." It called for establishing a national health-information infrastructure, requiring unique identifiers to be assigned to four groups for processing medical claims electronically: every (1) health-care provider, (2) health plan, (3) employer, and (4) individual. The Administrative Simplification plan also called for creating uniform national codes for medical claims and for establishing federal medical privacy rules. The bottom line is that you can't create a national health-care system without standardized information.

Congress and the American people vehemently rejected the Clinton plan to nationalize health care. However, the Administrative Simplification provision was tucked away in the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which was signed into law on August 21, 1996 (Public Law 104-191). Many remember HIPAA as the legislation that was supposed to make health insurance portable and affordable. (It never met those purported goals.) Under HIPAA, the same four groups mentioned above would be required to have unique identifiers for processing claims electronically. Thanks to the diligent work of U.S. Representative Ron Paul, federal funding for a health-identifier system has been put on hold over the past few years. But unless that provision of the HIPAA statute is repealed, all Americans may soon be assigned a number for tracking their medical information from cradle to grave.

Aware that the American people were concerned about medical privacy, legislators included a provision in HIPAA requiring that a medical-privacy law be passed by August 21, 1999, or the secretary of Health and Human Services (HHS) would have to generate such a rule. HIPAA also included a provision that gave WEDI (and other groups) legislative authority to advise HHS on the forthcoming national health-information system and medical privacy. Congress missed its self-imposed deadline, and the authority to establish federal regulations for medical privacy shifted to the Clinton administration.

Clinton Administration Rule

In November 1999 the Clinton administration proposed federal regulations relating to medical privacy. They would have prohibited doctors, hospitals, and others from obtaining patients' consent before releasing their medical information. However, the public spoke out against the rule. HHS received more than 52,000 comments during the public comment period. The issue most discussed was patient control of personal health information.

A final federal medical privacy rule was published in December 2000, just before President Clinton's departure. It prohibited release without consent of information for treatment, payment, or "health care operations"–a broad term encompassing many activities. However, many other third parties did not need patients' consent before obtaining their medical records. These included law-enforcement officials, researchers, public-health officials, and many more.

The medical and insurance industries were strongly opposed to the consent provision as it appeared in the final rule. They lobbied the incoming administration strongly to eliminate it. Not surprisingly, in March 2002 the Bush administration proposed to modify the rule so that health-care insurers, providers, institutions, and others could transfer medical information electronically to pay claims, treat patients, and do other tasks–without patients' consent. Instead, the Bush administration called for providers simply to notify patients about how their information is being shared. It will complete the revisions in the coming months.

In essence, the federal government is giving the medical industry regulatory authority to decide whether personal health information can be obtained by others without patients' permission. What's more, WEDI and other medical-industry groups strongly support pre-empting state laws regarding medical privacy. Given their strong lobbying success, it is likely that in the near future state laws will be replaced by the federal medical-privacy rule. This will be a large leap toward national health care.

The privacy rule is one of the greatest infringements on liberty that this country has ever experienced. It applies to all citizens, whether they rely on government assistance or pay privately for their health care. As written and soon to be enforced, the rule requires doctors, therapists, and other providers to share patients' health-related information–including psychotherapy notes–with the secretary of HHS. The government's rationale is that federal agents need to invade your privacy to protect it.

The only way that citizens will be able to maintain their medical privacy in coming years is to have private contracts with doctors and other health-care providers. It is not clear whether the current version of the privacy rule will interfere with an individual's right to make contracts. But what is clear is that every American is losing the freedom to maintain a confidential doctor-patient relationship.

The Danger of National Identification

Where Will We Draw the Line in Violating Individual Rights?

OCTOBER 01, 2002 by David M. Brown

It seems innocuous. What could be so sinister about finding out who people are? But the national identification regime that some in government and the media want to establish in response to the September 11 terrorist attacks would likely do much to threaten individual privacy and security while doing little in itself to prevent terrorism.

There are many different ID proposals floating around, but a full-fledged national ID system would impose a mandatory identification card for all citizens and residents of the nation. In *The Limits of Privacy*, Amitai Etzioni, an enthusiast for this and other forms of round-the-clock surveillance of innocent people, describes national ID cards as "domestic passport-like documents that citizens of many countries, including democracies, are required to have with them at all times."

Etzioni states that such a card has three characteristics: (1) all citizens and residents "of a given jurisdiction" must have it; (2) all must carry it and present it on request by authorities; (3) each card must be linked to a database with other information about the person. "Note that presenting such identification is required even when there is no specific evidence that a crime has been committed or a regulation violated," he explains. Most current proposals tout the benefits of linking the cardholder to a national database. The proposals vary only with respect to what kind of information is to be included in the database, which would aggregate and combine data from sundry existing databases.

Many proponents of the proposed "trusted traveler card" for airline passengers would like every possible kind of information about you to be included in the database, everything from your criminal record to how you bought your tickets to your travel record. The more information that is collected, the more robust will be the profile that is constructed. The purpose of the profile would not merely be to flag those with a violent criminal record who are on the run from the law. It also would be to predict how likely a terrorist threat you are based on such factors as how you bought your ticket and whether your name is Arabic or Anglo-Saxon. The implicit premise is that no one can be secure unless everyone is treated as a criminal suspect.

The United States already has experience with schemes of universal or quasi-universal identification. The Social Security number, often in conjunction with the state-issued driver's license, has become a kind of de facto universal identifier, even though its originally stated purpose was merely to log the so-called contributions of Social Security participants. For many years the Social Security card bore the legend "NOT FOR IDENTIFICATION." Nevertheless, the Social Security number is used continuously for identification. At the same time, it is not that hard to obtain somebody else's number if you have a little basic information about that person. Ironically, this government-imposed vulnerability of the individual is often cited by proponents of national ID as a premier reason why the privacy of Americans must be violated even more aggressively now.

The government would probably not succeed in ordering all Americans to apply for mandatory national ID cards. The outcry would be too great. But the government might accomplish the task gradually by establishing precedents that make it a little harder for people to function if they lack new quasi-mandatory forms of ID. Once the public had grown accustomed to living with a particular new violation of their privacy and freedom of movement, the stage would then be set for winching the noose even tighter.

Ten years ago nobody could have imagined that to fly from Manhattan to Albany it would be necessary to present a government-issued ID card. Once that coercive violation of air-passenger privacy had become routine, however, it was a small matter in the post-9/11 world to require passengers to present ID up to three separate times before being allowed to board a plane. Even without the active support of the public–no longer quite so willing to trade away liberties as they were in the immediate wake of September 11–a full-fledged national identification regime could be achieved by a series of small and not-so-small accumulating precedents.

Two new quasi-mandatory forms of ID now in the works could set the stage for such a regime.

The "trusted-traveler" card would be an ID passengers could obtain to (presumably) make it easier to get through airport security checks. To get the card, you'd need to submit to a background investigation. The card would be linked to a database of financial and other information about you so that you could be flagged as a security risk if, say, you have a criminal record, or buy your ticket in cash, or have a flying routine that is a little bit different from an alleged norm. If the card is successfully swiped without any alarm bells going off, you would presumably be able to board without being searched minutely.

The U.S. Department of Transportation is now authorized by Congress to look into developing such a card. At present, the aim is to prepare such a database-linked card for anybody who might work in the travel industry. Then the card would be extended to passengers on a purely voluntary basis.

Of course, once all the kinks have been worked out and many (or not so many) passengers have signed up for the card voluntarily, officials might then "realize" that there isn't much point to the trusted-traveler card unless absolutely everybody has one. It would be observed that would-be terrorists with something a little odd in their background would probably not rush to get the card; also that terrorists with a squeaky-clean record to date might especially want the card as a means of deflecting attention from themselves, if indeed possession of the trusted-traveler card would enable one to evade the highest levels of scrutiny. Citing these vitiating factors, policymakers could then push to make the card mandatory for all air passengers. And once that level of surveillance were typical, the next step would be to require all inhabitants of the country to carry such a card–not merely those currently traveling.

Another route to a national ID would be to beef up the state-issued driver's licenses. The federal government may require that all state driver's licenses be uniform in appearance, include biometric information like digitalized fingerprints, and be linked to a single national database. This, too, is a live proposal.

If both the trusted-traveler card and the amalgamated driver's licenses are instituted, the government could eventually merge them into a universally mandatory identification card–a national ID. Alternatively, either one could evolve into a national ID by itself. Because much more of the infrastructure to support a revamped state driver's license is already in place, streamlining it is the most probable route to a national ID.

The Danger

A national identification card would turn all Americans and residents of the United States into criminal suspects. It would also provide the means for many people to gain instant and regular access to information about the private affairs of cardholders.

Under the proposed national ID regime, even one's bank transactions could end up being routinely added to a national database to which anybody with authority to request your card could have access. All it would take is (1) computer memory and computing power; and (2) the political ability to add that information to the database. The rationale would be that the more information the government has about a person, the more accurate will be the profile its analytical software can build of that person. Computers are only going to grow more powerful, so what happens next will depend on what those in power are willing and able to do–which in turn depends on what the public is willing to let them get away with.

Nobody is as motivated to preserve and protect your own personal security as you are. But under a national identification regime, your ability to do so would be largely impaired. You'd be a perennial criminal suspect. And you'd always have to worry about when and whether some criminal or clerk will turn your life into a living hell.

The more information that is collected about you, and the more frequently you must provide access to such information to people who may not be scrupulous with it, the greater your personal risk. Today in the United States it is still possible to operate without a credit card and even without a driver's license. But a mandatory, presentable-on-demand national ID card would make it virtually impossible to function without providing such access to personal information. Under a full-fledged national ID, there would be a single key to your personal kingdom, even more so than is true today. If you lost that key, or if somebody corrupted it or stole it, you'd be in trouble. Privacy advocate Robert Ellis Smith has characterized the national ID card as "a license to live."

On top of all that, databases are not infallible. Nor are the guardians.

It’s not as if, under a national identification regime, only the president or a cabinet member would be able to demand your national ID card to gain access to what the national database has to say about you. IRS agents have been caught rifling through presumably confidential tax records when they weren’t supposed to, without suffering any great penalty. In the new identification regime, any rogue cop, any criminal with the money to bribe a clerk, any clerk who wants to exact revenge against an old girlfriend, anybody at all who can ask for your card and misinterpret what he sees on the screen–in other words, a lot of people–would be newly empowered to cause trouble.

Proponents of a national ID might reply that even granting that such an identification regime would be claustrophobic to Americans used to moving about freely, it might nonetheless also help prevent crime and terrorism. Sophisticated attackers might evade the net long enough to commit their planned violence, but not all terrorists are so sophisticated. Some will be sloppy, and the government’s ability to pry more easily into the affairs of all persons will give investigators a better chance to detect telltale clues inadvertently provided by a bad guy.

But information as such is insufficient to prevent a crime in any case. It has been widely reported that evidence of an al Qaeda terrorist plot against the United States was available to government agencies before September 11. Enough pieces of the puzzle were in the hands of officials to warrant a vigorous investigation. But for whatever reasons of political culture or organizational dysfunction, the puzzle was not solved. Had it been, much more conclusive assessments about fruitful lines of investigation would likely have been reached than could be reached merely by random trawling of massive databases generated by wholesale surveillance of the entire population. The data kingdom created by a national identification regime would spawn an abundance of false leads–”profile matches”–that could only drain and distract law enforcement, while resulting in unnecessary and unjust harassment of persons who happen to match one element or another of the profile.

Almost any systematic restriction of individual liberty might prevent a criminal act. Almost any ordinary, peaceful human action can also be a step in the perpetration of a criminal act. But if the mere possibility of such prevention constituted a moral warrant for violating American rights and freedoms, there could be no practical curb to such violations. And the capacity of innocent persons to defend themselves would also be hampered.

For the sake of preventing terrorism, would there be any point, for instance, to throwing everybody in the country in jail simultaneously? Granted, everybody's rights would be massively violated, the economy would grind to a halt, and the country would be rendered susceptible to foreign attack. But at least no existing domestic criminals or terrorists who had made their way into the country would be able to rob a bank or detonate a bomb in a shopping center. In such an extreme application of the principle, it is obvious that individual security is jeopardized far more than it is "protected" by any such systematic lockdown. But it would also be jeopardized by other, less severe, but still universal restrictions of human freedom of the sort that are congenial to the development of a totalitarian state–and without even the certainty that determined violent assaults on society could be thereby prevented. Israel has a kind of national ID card (not yet a "smart card" with a magnetic stripe; they're looking into it). Yet there seem to be many methods available of slaughtering innocent people if the perpetrator is willing to die–or be later identified.

Fighting Terrorism Without Assaulting Individual Rights

Any systematic, arbitrary violation of individual rights might prevent some criminal from carrying out some criminal act, at least temporarily. The problem is that each such violation also makes it all that much harder for the rest of us to live our lives and to defend ourselves against criminal acts.

There are many ways to combat terrorism. For example, by targeting known terrorists–and their networks and their governmental sponsors–and by investigating legitimate suspects. People will debate, as they should, exactly what methods of doing so are best and most moral.

But policymakers should and must at least draw the line at targeting and investigating . . . everybody.

David Brown is the publisher of The Crunch Report (www.thecrunchreport.com), a webzine. He helped develop the I Am Not a Number Campaign for the Bureaucrash website.

The Redistribution of Blame

Are Executives More Blameworthy Than Politicians?

OCTOBER 01, 2002 by Harold B. Jones Jr., Paul Jones

According to John Kenneth Galbraith, the economy will at any given moment contain a certain inventory of undiscovered fraud. This inventory (he called it the "bezzle") rises and falls with the business cycle. When an economic shakeout brings specific cases before the public eye, politicians cry for "reform!" They are unfortunately less interested in corporate morality than in avoiding responsibility for the consequences of their own policies. They apply their skills in the redistribution of income to the redistribution of blame.

Consider the most recent turn of events. Alan Greenspan, whose easy-money policies helped inflate the stock market bubble that just popped, talks about "infectious greed" in corporate America. President Bush, whose tariff policies threaten our foreign trade, calls for more transparency in company reports. Congress, whose tax policies dam economic progress at its source, increases the penalties for corporate fraud. The Fed, the President, and the legislature, unable to agree about anything else, are unanimous in blaming dishonest CEOs and creative accountants for the volatility of share prices and by extension for the economic strains of 2002.

Prices in the stock market, though, are not set by CEOs, however dishonest, or accountants, however creative. Prices are set by investors, most of whom are not deceived by earnings reports simply because they never look at earnings reports. If investors cared about earnings, they would not have bid up the dot-coms, which never had any earnings. The Dow Jones Industrial Average does not change by a thousand points in a few days because millions of investors have suddenly become privy to new information about balance sheets.

There are admittedly a few investors who pay attention to the financials, but these are not taken off guard by later revelations. They have taken Accounting 101 and 102, and they read the footnotes in the annual reports. They understand the effect of options. They go over everything with a fine-toothed comb. They do not buy a stock until they know what they are getting into.

The behavior of such persons does not, however, have much impact on share prices. They are the ones who are buying when everyone else is rushing to sell, and selling when everyone else wants to buy. They are the oddballs and weirdoes from whose strange antics others politely turn their gaze. No one pays them any mind.

Most investors follow the crowd. If the price is rising, they buy: "It can only go higher." If the price is falling, they sell: "I want to get out before it's too late." It is mob psychology. When panic reigns, even the professionals who manage mutual funds join the crowd, selling off their better holdings to meet redemption demands. In good markets, it is "infectious greed." In bad markets, it is infectious fear.

In times of infectious greed, the members of the market mob congratulate themselves. In times of infectious fear, they look for someone to blame. This is where the government steps in. Understanding that investors who are given the time to think will soon turn an angry glance toward Washington, D. C., public officials cast about for villains, which the operation of Galbraith's "bezzle" during the period of infectious greed always provides. And so we return to the curious agreement among Mr. Bush, Mr. Greenspan, and Mr. Daschle about how to calm the stock market.

This use of a *diabolus ex machina*, while it may bring a fleeting sense of moral closure, does not help to explain the economic realities. By refusing to face the facts about where we are, media-driven politicians prevent us from getting to where we want to be. Mr. Bush, for example, brags about the overall health of the economy and condemns the dishonesty of corporate leaders. He apparently does not understand that the economy cannot be healthy if the people who are responsible for its day-to-day management are crooks.

A recent headline reads, "House Toughens Penalties for Fraud: Guilty Execs Would Be Jailed 10-20 Years." Nothing could better generate a sense of insecurity regarding the economy.

Dishonesty Not Prevalent

But of course few executives are crooks. Suppose for a moment that one-half of 1 percent of America's CEOs really did want to rob their shareholders and ruin the lives of their employees. That would leave 99.5 per cent who are managing their companies honestly and to the best of their ability. That would be 99.5 to .5 or 199 to 1-pretty good odds. But even one-half of 1 percent of America's CEOs is a figure much larger than the number of cases that have actually come to light. There is no factual basis for the belief that most business leaders are dishonest.

Still, it is to the moral failings of business that politicians direct attention, and not for the first time. The easy-money policies of the late '20s made the stock market boom as investors chased after quick gains. When share prices began to drop, Herbert Hoover set precedents for Mr. Bush by insisting on the health of the American economy and calling for an investigation of the stock exchanges. He then put his signature to a protective tariff bill and stood by silently as the Fed turned to a tight-money policy. The Great Depression was on.

The excuse that these blunders were the result of ignorance about the relationship between policy and the economy will not hold water. In 1928, Canadian Ambassador William Phillips warned Hoover about the dangers of a protective tariff. When the Smoot-Hawley bill reached Hoover's desk, more than a thousand economists petitioned him to veto it. Having served as secretary of commerce under both Harding and Coolidge, Hoover himself had more than just faint glimmerings that the bill was economic folly.

Leaders at the Fed, similarly, understood the effect of their decisions. In 1927, Benjamin Strong said, "I will give a little shot of whiskey to the Stock Market." Hjalmar Schacht of the Reichsbank and Charles Rist of the Banque de France pointed to the dangers, but Strong ignored them. Interest rates fell and stock prices skyrocketed. The tight-money policy that followed the crash was the result of political infighting at the Fed, not ignorance.

This is not to suggest that every business leader is above reproach. Names like Insull, Kreuger, and Hopson deserve the opprobrium that attached to them in the aftermath of the Great Crash. Such men undoubtedly made a contribution to economic inefficiency, but the impact of their private corruption was tiny compared to the impact of public policy. The executives whose names now fill the news may be just as guilty as politicians claim and yet far less blameworthy than the politicians themselves.

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I, Government

Why Do I Inspire Such Wonder and Awe?

OCTOBER 01, 2002 by D.W. MacKenzie

I am government–the institution known the world over to all who pay taxes, get subsidies, and face regulation.

Coercion is both my vocation and my avocation; it is in my very nature to compel others to do that which they otherwise would not do. My nature should then be of great concern to you as I impinge on your liberty. My nature affects your life profoundly. Indeed, there is little in your life that escapes my grasp. I am also a mystery to many. Some see me as benevolent, though I murdered 119 million people in the twentieth century.[1] Some see me as omniscient, though I face an insurmountable knowledge problem in trying to comprehend the society I seek to control.[2] Some see me as an absolute necessity, though people have lived in societies without me.[3] But those whom I use seldom recognize any of this. These naïve convictions grant me an unwarranted place in society. These misconceptions have imposed great hardships on ordinary people, though they have served an elite of rulers well.

I, government, inspire wonder and awe in many. Some persist in this admiration even when confronted with my worst atrocities.[4] It is in my interest that you never truly understand me, for if you did, you would see that, at the very best, I am merely the defender of your personal and property rights and, at worst, the most efficient violator of these rights. In fact, if all did come to know my true nature, they would view me with distrust rather than with wonder. If you all knew what I have done throughout history, you would look on me with contempt rather than with awe.

I benefit few at the expense of the many. Small groups organize easily, and large ones do not. Hence if I serve any interests other than those of actual rulers, I serve narrow interests.[5] I grant monopoly privileges to influential industrialists and trade associations. I do this with tariffs and import restrictions that hobble foreign competitors. I do this with regulations that place burdens on new businesses. I do this with licensing laws that restrict access to professions. Of course, these interests pay me to get what they want. Sometimes they pay me simply to leave them alone.[6]

My form is difficult to comprehend as well. I am vast and complex. No one can fathom me in all my complexity. I comprise a gargantuan array of agencies, statutes and regulations, and discretionary policies. No one would have the time or the intellectual capacity to know me fully even if he were to try. There is little point in trying anyway. One person can do nothing to me. No significant election has ever turned on a single vote, so voters have no obvious incentive to learn about me.[7]

I waste resources. I employ labor in tasks that people do not want to pay for. My bureaucracies are rife with individuals who get paid to perform tasks that generate no value to others.[8] Some of these tasks are even odious–things that people would pay to stop. I do supply some useful things, but at a high cost. My schools cost more than private ones (which get better results). My postal service loses billions each year and cannot compete with the private sector.[9]

I cause industrial depressions. My central banks disrupt commerce by distorting interest rates with inflated money supplies. This inflation causes unsustainable economic expansions that lead to crashes. I compound this problem with wage controls, welfare, and anti-firing laws that hinder labor markets.

I devastate the environment. Where I reign supreme, the earth is a commons that all want to use and none want to care for. In Eastern Europe I created some of the worst environmental disasters the world has seen.[10] When I care for animal herds their numbers dwindle.[11]

War and Bigotry

I wage wars. People express nationalistic and ethnic bigotry through me.[12] I use my power to tax and conscript to marshal resources for combat. This has caused immense hardship, destruction, and death throughout history.

I am responsible for all the worst unnatural tragedies and unnecessary burdens that mankind has endured. Yet it seems that no one knows how to stop me. How can this be? My true nature is not easy to discern.[13] When tragedy strikes, I am called into action. If I raise taxes to fund the effort to deal with crises, all can see my costs clearly. If I instead expand my authority to conscript resources, I hide my true costs, thus causing many to overestimate the net benefit of my actions. This instills unduly favorable beliefs about me in many minds.

I have suffered setbacks. There have been successful efforts to restrain me for extended periods of time. There have been tax, currency, and regulatory reforms that have rendered me less effective in some places at some times. In such places, people have prospered.[14] But I have often succeeded in making strong comebacks.[15] Some seek to limit my power with constitutional rules.[16] However, there are strong reasons to doubt the efficacy of these rules.[17] Persons who have power to enforce constitutional rules also have the power to flout them.

Why then do I ever fail? This is a tough question. There must be an answer, because I do sometimes falter. But it must be a difficult matter because my failures are relatively uncommon. As difficult as the issues here are, they are vitally important–to you–because the continued success of free societies hinges on them. What is more important to you than that?

Notes

1. R.J. Rummel, Death by Government (New Brunswick, N.J.: Transaction Publishers, 1995), p. 9.
2. F.A. Hayek demonstrated that central planners could never comprehend the society that they intend to plan. See “The Use of Knowledge in Society” in Individualism and Economic Order (Chicago: University of Chicago Press, 1996 [1948]).
3. See David Friedman, The Machinery of Freedom (La Salle, Ill.: Open Court Publishing, 1989), chapter 44, for his discussion of anarchism in Iceland. Also, recent events in Somalia have left it with neither government nor a war of all against all.
4. Paul Hollander discusses the delusions that many notable Westerners had regarding twentieth-century socialist dictatorships they traveled to.

See Political Pilgrims (New York: Oxford University Press, 1990).

5. Mancur Olson discusses the importance of concentrated interests in The Logic of Collective Action (Cambridge, Mass.: Harvard University Press, 1965).
6. Fred McChesney distinguishes between rent-seeking, where individuals use the government to extract rents from other private citizens, and rent-extraction, where the government refrains from harming private interests in exchange for protection money. See his “High Plains Drifters: Politicians’ Lucrative Protection Racket,” The Freeman: Ideas on Liberty, January 1998.
7. “Rational ignorance” occurs when the private costs of information exceed their private benefits. See Anthony Downs, An Economic Theory of Democracy (New York: Harper and Row, 1957), p. 259.
8. For discussions of bureaucratic inefficiencies see Ludwig von Mises, Bureaucracy (New Rochelle, N.Y.: Arlington House, 1970 [1944]), Gordon Tullock, Politics of Bureaucracy (Washington, D.C.: Public Affairs Press, 1964), and William Niskanen, Bureaucracy and Public Economics (Brookfield, Vt.: Edward Elgar, 1994).
9. Scott Esposito, “Time for the Mail Monopoly to Go,” Ideas on Liberty, February 2002.
10. See Murray Feshbach, Ecological Disaster: Cleaning Up the Hidden Legacy of the Soviet Regime (New York: Twentieth Century Fund Press, 1995), and Alfons Georges Buekens and Vasily Victorovich Dragalov, eds., “Environmentally Devastated Areas in River Basins in Eastern Europe,” NATO ASI Series, Partnership Sub-Series 2, Environment, vol. 45, January 1999.
11. Tyler Cowen compares commercial versus public care for elephants. See “Public Goods and Externalities” in David R. Henderson, ed., The Fortune Encyclopedia of Economics (New York: Warner Books, 1993), p. 76.
12. See Geoffrey Brennan and Loren Lomasky, Democracy and Decision: The Pure Theory of Electoral Preference (New York: Cambridge University Press, 1997), pp. 50-51, for a discussion of the belligerent nature of political expression
13. Robert Higgs, Crisis and Leviathan (New York: Oxford University Press, 1987), argues that government expands because of errors in perceiving the true net benefits of government actions during crises.

14. See James Gwartney and Robert Lawson, Economic Freedom of the World: 2001 Annual Report (Vancouver, B.C.: Fraser Institute, 2001).
15. Mancur Olson, Rise and Decline of Nations (New Haven, Conn.: Yale University Press, 1982), describes how distributional coalitions arise following waves of prosperity.
16. James Buchanan and Gordon Tullock, The Calculus of Consent (Ann Arbor, Mich.: University of Michigan Press, 1962), and James Buchanan and Geoffrey Brennan, The Limits of Liberty (Chicago: University of Chicago Press, 1977), argue in favor of constitutional limits on governmental powers.
17. Anthony de Jasay, The State (New York: Blackwell Publishers, 1985), argues that constitutional rules offer no real limits on governmental powers.

How Not to Combat Corporate Corruption

Coping with the Principal-Agent Problem

OCTOBER 01, 2002 by Anthony de Jasay

The recent and unusually rich spate of corporate fraud by creative accounting has set off two streams of verdicts. One condemns capitalism as a rule system that has no moral and cultural foundations of its own. When the foundations it has inherited from earlier rule systems get eroded by wear and tear, capitalism becomes a source of iniquity and corruption. It is intrinsically evil, cannot be reformed, and must be done away with.

This view is an evergreen. Besides its other weaknesses, it ignores a clear lesson of history. Every rule system ever tried by mankind that was not based, as capitalism is, on finders keepers, the protection of ownership, and the freedom of contract has been found to be at least as corrupt and iniquitous as capitalism, and also much less able to relieve poverty and deliver the material prosperity all save saints crave. Anti-capitalists seem never aware of tangling themselves up in this self-contradiction.

The other, reformist stream accepts the ground rules of the system, albeit with reservations about the freedom of contract. However, it believes the system generates abuse by virtue of its increasing complexity. To stamp out abuse, the ground rules must be supplemented by regulations that, too, must become increasingly complex and demand vastly larger resources for their operation and enforcement.

However, going down the regulatory path may not turn out to be an advance. The more elaborate the regulations, the more elaborate become the abuses that evade them. The cost of enforcement keeps going up, and the operation of the regulated economy grows progressively more cumbersome, lawyer-ridden, and sluggish. At some point, the game is no longer worth the candle. Where this point lies is a matter of subjective judgment rather than cost-benefit measurement. Maybe we are still short of it, maybe already past it. The answer is not as important as is the constant awareness that such a point exists.

Instead of flailing blindly at the elusive white-collar crook, and writing reams of new laws and regulations, we should first seek a clearer understanding of what we are dealing with. Corporate fraud is a contingent but probable byproduct of the fundamental principal-agent relation that results when ownership and management are separated. (More generally, principal-agent problems arise when a function is carried out by an agent whose participation in the costs and benefits generated by the function differs from those of the principal. The most important principal-agent problem seems to be the one between society and its government.) The principal-agent problem separating the shareholders from the managers of a corporation is the price the former must pay for the specialized skill, attention, and effort the latter bring to the enterprise. It cannot be avoided altogether without abolishing the agents and requiring the principals to step in their place, that is, without reverting to owner management. Doing so would bar multiple ownership and throw away the advantages of the division of labor. Short of that, the problem can be mitigated by intelligent use of the freedom of contract.

The early forms of getting round the problem were to motivate the salaried manager by a pay raise or some ad-hoc reward for success, a bonus. More systematically, he would be entitled to profit-sharing according to some formula. This had obvious drawbacks, encouraging short-termism, a bias to seek profits even by risking unduly high losses, as well as a weakening of the enterprise through the cash outflow going to the manager. An improved solution seemed to be offered by the stock option, two incendiary words that act as a red rag to set off much current fury, some of it misplaced, some not. The stock option does not encompass the whole corporate principal-agent problem, but is certainly at the heart of it.

Like profit-sharing, the stock option rewards profits and fails adequately to punish losses and recklessness, particularly while the option is "out of the money." However, unlike profit-sharing, it creates no bias against the long term, and it does not conflict with the interests of creditors since it causes no cash outflow. At least in principle, it comes closest to the ideal contract that minimizes the conflict of interest between shareholders and managers. However, the conflict can never be wholly resolved.

To begin with, the terms of the stock option are the product of a bargain between the shareholders and the management. The shareholder interest is to fix terms so they are good enough to secure and motivate the managerial talent that will realize the full profit potential of the enterprise over its life span, but no better than would be needed to attract alternative management of comparable talent. The manager interest, of course, is to negotiate the highest possible terms the shareholders will concede, and never mind the terms an alternative management team of equal worth would be prepared to accept. However, with ownership widely dispersed, and non-executive directors in effect chosen by the management, the bargain over the terms of stock options is grossly asymmetric. Shareholders are, as it were, half-asleep, and it is often as easy for management to get outrageously favorable terms approved as it is to steal coins from a blind beggar's bowl.

Next, there is an asymmetry of means between principals and agents even where their interests are identical. Both shareholders and managers tend to prefer a high stock valuation. There is not much shareholders can do about the price of their stock except hope for the best. Management has a range of means for "massaging" the valuation, some acceptable, others not. Smoothing earnings, and gaining the confidence of security analysts by never lying to them, are in order; creative accounting, hype, and downright lies are not. Most managements are intelligent enough to value their own reputation higher than the risky chance of getting away with fraudulent practices, but the evidence tells us that some will succumb to obvious temptations. The incentives of auditors are likewise mixed; honesty is probably their best policy, but sometimes they will risk a reputation rather than antagonize management.

All in all, stock options are capable of generating a panoply of more or less subtle incentives, with the morally dubious and corrupting among them being the most conspicuous. With public hostility aroused by corporate abuses, there is a danger that regulatory fervor will smother the less conspicuous but surely far more important good that options do for economic efficiency.

In this regard, a strange proposal has been floated. It is strongly suggested that accounting standards should be modified so as to require corporate accountants to treat stock options as a cost. The proposal is a product of muddled thought. If a firm makes a pretax profit of $1,000 and then pays $100 in profit-sharing to its managers, its pretax profit is reduced to $900; the managers' share is a cost that, other things being equal, reduces the net worth of the enterprise. If instead of cash the managers get options on, say, 1 percent of the company's stock at an exercise price that is "in the money," pretax profits stay at $1,000, of which $990 belongs to the old owners and $10 to the new manager-shareholders both in the year in question and forever after. The stock options do not reduce profit or corporate wealth, but they dilute earnings per share and equity per share. The dilution is a side transaction that transfers value from old to new shareholders, rather than a cost to the corporation.

It is not clear how the capital transaction diluting the interest of old shareholders in favor of the new ones who exercise their options is meant to be translated into a cost that is supposed to reduce the corporation's total earnings. What seems to be clear, though, is that the proposed accounting treatment of stock options, whether at the point of grant or of exercise, as a cost is intended as a deterrent against their free-and-easy use, which sometimes comes close to brazen managerial self-dealing. But distorting corporate accounts by a logically faulty regulation, however well-meaning, is not the proper way to protect shareholders from abusive practice. Even if it did protect them, it would do so by sacrificing a good deal of the efficiency that the stock-option method of coping with the principal-agent problem has given us.

Are Meat Eaters Starving the Poor?

Bad Policy Is the Real Source of Global Hunger

OCTOBER 01, 2002 by Dennis Avery

Jeremy Rifkin, America's ever-present guilt-monger, says hundreds of millions of people are going hungry because the world's grain crops are being fed to livestock instead of people. Rifkin, writing in the May 27 *Los Angeles Times*, says eating grain-fed meat is "a new form of human evil." He blames wealthy consumers for "eating at the highest point on the food chain while their fellow human beings starve."

As usual, Rifkin is headed in the wrong direction.

He says, "In the past half a century, we have erected an artificial, worldwide protein ladder, with grain-fed beef and other meats on the top rung."

Shame on Rifkin's history teacher.

There has never been a voluntarily vegetarian society in all history. Our Stone Age ancestors stole wild birds' eggs, gathered clams, and hunted any creature they could club, trap, or spear-to get the vital amino acids and micronutrients that humans need and can't get from plants. Mammoth bones in Wisconsin show not only spear damage–but that the hunters also scavenged meat from long-dead carcasses.

"It's easy to tell from the skeletons of our ancestors whether they were agriculturists or hunter-gatherers," says Arthur De Vany of California State University, an expert on Stone Age diets. "The agriculturists have bad teeth, bone lesions, small and underdeveloped skeletons and small craniums, compared to the hunter-gatherers."

Rifkin's solution is to force vegetarian diets onto the people of the affluent countries. This would push the world's successful societies toward worse health, without noticeably helping the poor ones. A New York couple was recently arrested for child abuse, because the vegan diet they imposed on their baby had stunted her growth to half the normal size for her 16 months.

The problem for early man was that there weren't enough wild animals to feed many people. The Clovis hunters who came to America about 13,000 years ago hunted dozens of mammal species to extinction, including our native mammoths, horses, camels, and ground sloths.

Ten thousand years ago, humans invented farming to get more food per acre, more reliably, than pursuing wandering herds of elk. But farming shifted the human diet from about 65 percent livestock calories and 35 percent plant calories to 65 percent plants and only 35 percent livestock.

Only in the last 200 years has high-yield farming allowed us to have ample calories to satisfy our kids' hunger (including plenty of livestock calories that optimize growth and cognitive learning) without destroying all the wildlife habitat on the planet.

In fact, the world's farmers are currently feeding twice as many people as we fed in 1950, and giving them much more nutritious diets, from virtually the same cropland base. Modern plant breeding, industrial fertilizers, irrigation, and integrated pest management have tripled the yields.

The Third World has invested far less in agricultural research, and thus has had to clear some tropical forest for additional crops. The tropical countries are also hunting their wild animals to near-extinction for "bushmeat." Hunters in the Congo, for example, are cheerfully selling monkey brains and gorilla steaks.

Meat Production Up

Rifkin is right that world meat production has risen fivefold since 1970–but most of the increase has been in the "poor" countries. China's meat consumption, for example, doubled in the 1990s because China's family incomes have soared. Even in "vegetarian" India, three-fourths of the Hindus say they will eat meat (but not beef) when they can afford it.

Modern crop yields are not only the highest in history, but also the most sustainable. Modern farmers have conservation tillage, which eliminates "bare-earth" farming techniques like plowing. It cuts soil erosion by up to 90 percent, often with higher yields because it can double the soil moisture available to the crop plants. (Rifkin is against conservation tillage, because it uses herbicides for weed control.)

Recently, the University of California, Berkeley, engineered biotech plants that not only grow in salty soils, but remove much of the salt–and store it in their leaves. Thus we can harvest the crop, and then harvest the salt for industrial use. This makes the 40 percent of world food production grown on irrigated land fully sustainable for the first time. (Rifkin is also against genetically engineered crops.)

Rifkin hates the corporations that support high-yield agriculture. But if corporations didn't take 80 million tons of natural nitrogen from the air each year to fertilize crops, we'd need the organic N from 9 billion cattle instead of the 1.2 billion the world has now. Growing feed for that massive number of cattle might force us to plow down another 30 to 50 billion acres of wildlands.

If corporations didn't make pesticides, we'd lose half of our crop production to pests and have to clear billions more acres of wildlands for cropland.

Farmers grow the feed corn that Rifkin hates for three reasons: (1) the world's natural grasslands are limited and mostly too arid to produce high yields; (2) with high yields, we can grow the "people food" on less land, leaving good grain land available for feed; (3) corn frequently yields 180 bushels per acre, compared with the ten bushels of wheat per acre produced on my Shenandoah Valley farm in 1830. We could grow high yields of alfalfa instead, but alfalfa is harder to store and transport–and not as good for adding pounds to chickens and hogs.

Rifkin should take heart, however. Modern selective breeding has produced animals with much higher feed efficiencies. We also keep many of them indoors, where they're not bothered by heat and cold. And the creatures eat lots of grass and byproducts humans can't eat. Thus, in 1997, livestock consumed 74 million tons of human-edible protein and produced 54 million tons of human-food protein–a ratio of 1.4 to 1. As it happens, the human nutrition value of animal protein is 1.4 times as high as plant protein. That makes it unlikely the world could get more human nutrition if it gave up the animal products Rifkin wants us to renounce.

He is certainly correct, however, that we should not allow the world's current food situation to persist. Most of the world's poorly fed people are hungry because we haven't yet extended high-yield farming and high-paying off-farm jobs to the whole globe. Africa, in particular, is a building catastrophe for the next two decades, primarily because of its own horrible governance. Nor is the Islamic world doing much better.

Some 800 million people are not getting adequate nutrition consistently. And if we don't triple the yields again, the affluent people will be pitted against the poor and the wildlife. We need more agricultural research to raise the yields and incomes of poor farmers in Madagascar–as well as more exportable grain from Iowa. (Densely populated Asian countries will need to import some of their diet upgrading as they get richer.)

That means we also need to liberate farm trade. The average tariff on nonfarm products is 4 percent, but in farm products it's 65 percent. The rich countries should import their sugar, and tropical countries can't grow high-yield wheat.

Rifkin says meat is making us too fat. How come he's not crusading against Coca-Cola, Scotch whiskey, and Twinkies?

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Airline Protectionism Hurts Travelers

Removing Protectionist Restrictions Should Substantially Improve Air Travel

OCTOBER 01, 2002 by Jared R. Price, Paul A. Cleveland

In one form or another the U.S. government has regulated the domestic airline industry since 1930. The imposition of various rules and regulations has kept the industry from becoming as efficient as it might have become had it evolved in a free market. While many controls ended in 1978 and the Civil Aeronautics Board (CAB) was abolished in 1985, the bureaucracy associated with the Federal Aviation Administration (FAA) continues, and the government still thwarts the competitive process.

For example, foreign airlines are barred from flying passengers between domestic locations–so-called "cabotage." By requiring airlines carrying domestic passengers to be American-owned, the government limits competition in a way that resembles how the CAB limited it. During the CAB years, domestic carriers were allowed to serve only routes for which they held licenses. The certification procedure limited competition between carriers. In 1978 that control was abandoned. However, the protectionist policy continues to limit competition in domestic markets.

Airline deregulation was wildly successful.[1] In the aftermath of decontrol, airfares dropped while the number of passengers increased. Competition forced the airlines to significantly change their business strategies. Among the most prominent changes was the hub-and-spoke networking system now used by almost all major airlines. Only Southwest Airlines uses substantial point-to-point market segments in its system. Yet even Southwest employs hub locations. As expected, those unable to make the changes needed to succeed have been forced out of the industry. The system has thus been greatly improved, and travelers today have far better options than they have ever had before.

Despite the success of decontrol, a number of problems remain. Anyone who flies knows that a scheduled arrival time is only a tentative guess made by airlines. It is calculated that more than half the flights in the United States are late. In addition, passengers have leveled many other complaints against the airlines about a host of inefficiencies. Why do such inefficiencies remain? Some suggest that the problem is that there are fewer airlines operating now. However, that is the necessary result of a competitive process.

The real answer to why problems persist is that the industry is not entirely free. For example, airports are funded by tax dollars and operated as local government monopolies. In addition, the FAA maintains a monopoly on the air traffic control system, which continues to lag far behind the technology curve. This has resulted in gross inefficiencies in the routing of aircraft that might otherwise have been remedied. Finally, domestic deregulation never resulted in global free-market competition. As a result, the domestic market is not as competitive as it would otherwise be.

The federal law that prohibits cabotage also limits foreign investment in domestic airlines. Shareholders from other countries cannot own more than 25 percent of the voting stock of a domestic firm or more than 49 percent of the outstanding equity.[2] Given the high fixed costs of entry into the industry, this rule limits competition domestically. In effect, the regulation creates a cartel.

Airline Globalization

If globalization is understood as the ever-increasing liberalization of international trade and investment, then globalization of the airline industry would greatly benefit travelers. It would do so, first, by increasing their range of choice, putting pressure on airlines to improve quality and lower prices. To the extent that foreign carriers could undercut ticket prices profitably, domestic carriers would be forced to evaluate their use of scarce resources.

This would lead to a second benefit: domestic innovations in technology and organization. Airlines that did not improve their operations would risk being forced out of business.[3] While no one can know what advancements would be made, the history of the free market teaches us that the gains should be substantial.

A third benefit of removing the protectionist restriction is that it would pressure foreign countries to remove their restrictions on American carriers.[4] Unilateral decontrol would put the U.S. government in a better position to negotiate the liberalization of rules elsewhere. Maintaining barriers has never been effective in that regard. On the contrary, such policies merely maintain the status quo.[5]

One final benefit from relaxing the rules against foreign carriers and foreign investment is that it would open the door to greater capital investment in the domestic industry.[6] This, combined with decontrol of airports and the air traffic control system, would rapidly attract the capital investment needed to address some of the worst problems associated with air travel today. A more efficient air transportation system would ultimately serve the traveling public.

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Notes

1. See Kenneth J. Button, “Opening U.S. Skies to Global Airline Competition,” Trade Policy Analyses no. 5, Cato Institute, November 24, 1998, www.freetrade.org/pubs/pas/tpa-005es.html, and Paul A. Cleveland, Market Performance Under Deregulation: An Industry Study of Air Transportation (College Station, Tex.: Texas A&M University, 1985).
2. Button, p. 2.
3. Kenneth J. Button, “Open U.S. Skies to Global Competition,” Center for Trade Policy Analysis, Cato Institute, December 23, 1998, www.freetrade.org/pubs/articles/airline.html.
4. Ibid.
5. Jim Powell, “Protectionist Paradise?,” in Edward L. Hudgins, ed., Freedom to Trade: Refuting the New Protectionism (Washington, D.C.: Cato Institute, 1997).

6. Button, “Open U.S. Skies to Global Competition.”

Race, Inequality, and the Market

The Free Market Is Not the Source of Black Underachievement

OCTOBER 01, 2002 by Thomas E. Woods Jr.

Not long ago I found myself in a debate with colleagues about the economic status of black Americans vis-à-vis whites. Naturally, their presumption was against the free market. The logic, such as it was, ran as follows: (1) we live under a market system (more or less); (2) in a variety of areas blacks have not performed as well as whites; and therefore, (3) the free market is the source of black underachievement.

Let us consider, first, the corollary assumptions that only political action could have made black economic advancement possible, and that such political action has constituted the unambiguous source of black prosperity. It is routinely asserted as established fact that the Civil Rights Act of 1964 represented a major turning point in the fortunes of black employment seekers. Today's so-called civil-rights spokesmen have a vested interest in perpetuating the idea that political solutions are always the most desirable and effective. But as Thomas Sowell points out, black employment was improving before 1964: "In the period from 1954 to 1964, for example, the number of blacks in professional, technical, and similar high-level positions more than doubled. In other kinds of occupations, the advance of blacks was even greater during the 1940s–when there was little or no civil rights policy–than during the 1950s when the civil rights revolution was in its heyday." He also notes that the increase in the number of blacks in professional and technical occupations in the two years following passage of the 1964 Act was actually less than in the year from 1961 to 1962.[1]

Similar trends are evident in employment among Hispanics and Asians. "The income of Mexican Americans," Sowell explains, "rose relative to that of non-Hispanic whites between 1959 and 1969 (after the Civil Rights Act), but no more so than from 1949 to 1959 (before the Act)." The Japanese in America were discriminated against so badly that 120,000 of them were interned in relocation camps during World War II; yet by 1959, Japanese-American households had equaled those of whites in income, and by 1969 they were earning one-third more. Chinese Americans overtook whites in income five years before the 1964 Act.[2]

Thus nonwhites were well on their way to prosperity even before the landmark 1964 Act. There is still the question of the poor and chronically unemployed within the black community, which has attracted considerable attention over the years. William Julius Wilson and others have attempted to argue that the reason for the increasingly poor performance among lower-class blacks is a dearth of jobs in urban areas. Thus the free market is yet again made the villain, and the state the putative savior.

But this explanation is practically impossible to reconcile with the data. As I have pointed out before, many of the jobs that have been going unfilled are hardly "skilled" jobs whose vocational requirements would eliminate unskilled blacks from the running.[3]

No serious observer can attribute an inability to secure these kinds of jobs to having been educated in an "underfunded" school system.

Dependency and Entitlement

The perverse incentives of the welfare state have all too frequently enticed the poor, blacks included, away from finding remunerative work and toward a mentality of dependency and entitlement. In 1995 the Cato Institute examined the welfare packages (which, recall, are tax free) in all 50 states and the District of Columbia. In 40 states, the study found, welfare paid more than an $8 per hour job; in 17 it paid more than a $10 per hour job; and in six states and the District of Columbia it paid more than a $12 per hour job. According to researcher Michael Tanner, "In 9 states welfare pays more than the average first-year salary for a teacher. In 29 states welfare pays more than the average starting salary for a secretary. In 47 states welfare pays more than a janitor makes." In the six most generous states, welfare benefits even constitute more than the entry-level salary for a computer programmer. Such incentives only reinforced certain perverse cultural trends, discussed below.[4]

It is revealing that when the Bureau of the Census asked the unemployed poor in 1990 why they were not working, only 4.1 percent gave as the reason an inability to find work.[5] Likewise, when Harvard economist Richard Freeman surveyed unemployed inner-city black youths in 1980, 70 percent told him they could easily find a job. By the end of the enormously prosperous 1980s, the figure had risen to 75 percent. They simply refused to take the relatively low-paying jobs open to them, even though the interpersonal and other skills one learns at such jobs have traditionally been the first step toward prosperity for a great many Americans, particularly immigrants eager to succeed.[6]

There are always those who, despite the overwhelmingly destructive effects of the Great Society welfare state, will nevertheless come up with nothing more creative than more of the same.[7] Perhaps the solution, they argue, is a still greater welfare state, or still more government intervention. Such observers like to point to Sweden, supposedly an example of a prosperous country that nevertheless provides a systematic package of "benefits" from the cradle to the grave.

In fact, though, a major study released in May by the Swedish Institute of Trade (HUI) decisively punctured the myth of welfare-state "prosperity" in Sweden: by the end of the 1990s, Sweden's median income was $26,800, compared to $39,400 in the United States. More to the point, the HUI economists specifically pointed out: "Black people, who have the lowest income in the United States, now have a higher standard of living than an ordinary Swedish household."[8]

Further solidifying the moral and practical superiority of free markets and less government, and nicely complementing the HUI study, is the work of Robert Lawson. Professor Lawson recently demonstrated that even if we accept John Rawls's premise that the just society is the one in which the condition of the least well-off is maximized, we still have to favor the free market, since the condition of the poorest is consistently far higher in market societies than in heavily interventionist ones.[9] In still further support of this position, Walter Williams wrote an entire book showing how government regulations have (at times deliberately) had disproportionately adverse effects on blacks.[10]

Beneath the statistics that economists and social scientists collect is a cultural dimension that cannot be neglected. Last year, Professor John

McWhorter, in his controversial *Losing the Race: Self-Sabotage in Black America*, said what many blacks had been saying privately (and, in Spike Lee's case, even publicly) for years: a cult of victimology and anti-intellectualism has become widespread throughout black culture in America. "Black America," he wrote, "is caught in certain ideological holding patterns that are today much more serious barriers to black well-being than white racism, and constitute nothing less than a continuous, self-sustaining act of self-sabotage. . . . It has become a keystone of cultural blackness to treat victimhood not as a problem to be solved but as an identity to be nurtured.

. . . [B]lack Americans too often teach one another to conceive of racism not as a scourge on the wane but as an eternal pathology changing only in form and visibility, and always on the verge of getting not better but worse."[11]

Encouraging Victimization

The self-appointed black leadership has positively encouraged this sense of victimization. It is simply impossible to imagine Booker T. Washington or even W.E.B. DuBois doing what Jesse Jackson did in 1999: rushing to the defense of young black men who had initiated a riot following a football game in Decatur, Illinois. Washington would undoubtedly have condemned the violence and demanded of these men the virtue and excellence that would force the white world to respect them. And we can only imagine his shocked outrage at a black leadership that says nary a word about rap "music" that glorifies violence and crime, and teaches young black men to treat women like disposable objects.

Shelby Steele, a professor at San Jose State University, agrees that the traditional explanations for black underperformance trotted out by "liberal" sociologists need to be transcended, and are only making the problem worse. "Of the eighteen black students (in a student body of one thousand) who were on campus in my freshman year," Steele recalls, "all graduated, though a number of us were not from the middle class." And the situation now? "At the university where I currently teach, the dropout rate for blacks is 72 percent, despite the presence of several academic support programs, a counseling center with black counselors, an Afro-American studies department, black faculty, administrators, and staff, a general education curriculum that emphasizes 'cultural pluralism,' an Educational Opportunities Program, a mentor program, a black faculty and staff association, and an administration and faculty that often announce the need to do more for black students."[12]

We are dealing here with a matter of the utmost seriousness and complexity, and it is therefore entirely unhelpful to attribute lingering problems in the black community to Ronald Reagan, George Bush, or "capitalism." It should be obvious that none of these things is relevant to the points raised here. Educational and income disparities between blacks and whites involve a variety of factors, only a few of which can be treated here, but they certainly cannot be reduced to a simplistic condemnation of the free market.

Although government power was brought to bear during the civil rights movement, given the radically changing state of public opinion on race in America (even before Brown), the growth of the black middle class was certainly inevitable.[13] Meanwhile, an obsessive emphasis on political agitation, left over from the civil rights movement, has served to reinforce the destructive view that blacks can never prosper in an atmosphere of free and voluntary exchange and contract, and that only the power of the state can rectify the injustices that their leaders insist are blacks' inevitable lot in American society.

The black poverty rate in 1960 was 55 percent; today, fewer than one in four blacks are in poverty. If such progress is to continue, it will have to occur by means of the only method known to man to increase the overall stock of wealth: increased capital accumulation and the private-property order, which has brought such spectacular prosperity, even to the poorest, wherever it has been tried.

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Notes

1. Thomas Sowell, Civil Rights: Rhetoric or Reality? (New York: William Morrow, 1985), p. 49.
2. Ibid., p. 50.

3. Thomas E. Woods Jr., “The Economics of Infantilism,” Ideas on Liberty (June 2002), pp. 23-24.
4. Michael Tanner, The End of Welfare: Fighting Poverty in the Civil Society (Washington, D.C.: Cato, 1996), pp. 67-68.
5. Ibid., p. 21.
6. Cited in Myron Magnet, The Dream and the Nightmare: The Sixties’ Legacy to the Underclass (San Francisco: Encounter Books, 2000 [1993]), p. 47.
7. The destruction wrought by the welfare state is famously described in Charles Murray, Losing Ground: American Social Policy, 1950-1980 (New York: Basic Books, 1984). Less well known but also excellent is James L. Payne, Overcoming Welfare (New York: Basic Books, 1998).
8. “Study Discovers Swedes Are Less Well-Off than the Poorest Americans,” Reuters, May 5, 2002.
9. Robert A. Lawson, “We’re All Rawlsians Now!” Ideas on Liberty, June 2002, pp. 49-50.
10. Walter E. Williams, The State Against Blacks (New York: McGraw-Hill, 1982).
11. John McWhorter, Losing the Race: Self-Sabotage in Black America (New York: Harper Perennial, 2001).
12. Shelby Steele, The Content of Our Character: A New Vision of Race in America (New York: HarperCollins, 1990), pp. 138-39. When the University of California system moved away from affirmative action several years ago, the usual suspects cried that this was yet another act of hostility by malicious whites. Hardly ever mentioned was that at many of California’s schools it was not unusual for the black dropout rate to be 70 percent or higher (as Steele testified in his own case). This is why John McWhorter strongly favored the move. Happily, there is already evidence that since the scaling back of affirmative action in California, the black dropout rate has begun to decline, as black students find themselves better able to compete in academic environments for which they are more adequately prepared. This is clearly a boon for all concerned.
13. See Paul Craig Roberts and Lawrence M. Stratton, Jr., The New Color Line (Washington, D.C.: Regnery, 1995).

They Learned from the Workers

Polish Students Learned First-Hand Why Socialism Doesn't Work

OCTOBER 01, 2002 by Stephen Browne

I have a confession to make: there has always been something attractive to me about the Maoist idea of sending the intellectuals out into the countryside and into the factories to "learn from the peasants and proletarians." When I listen to the endless stream of leftist pronouncements that comes from academia these days I really would like to send these folks out into the world of real work.

Wouldn't it be great if someone proposed that in the interest of solidarity with the working poor every academic and Hollywood insider, as a condition of keeping his cushy position, be required to spend summers at a real job somewhere? I worked as a garbage man during my undergrad years and moved up to sewage treatment plant worker on the relief shift in grad school. I often had to come to class directly from work or go to work directly from class, and so I was in class in my blue-collar uniform quite a lot. I used to love the discomfort that caused my Marxist-Leninist professor.

Here in Poland we have an example of an intellectual class that learned from the workers. Communism did not abolish the class barriers, quite the opposite in fact. A former student of mine was the owner of a law firm. (Under communism he defended kids caught sticking dissident stickers on walls–an offense that could get you seven years hard.) One day in class, for some reason, I had cause to explain "affirmative action" to him. He laughed in my face. "That's what was tried in the communist times! The universities had to take so many students from the proletarians and so many from the peasants. It not only didn't abolish the class distinctions, it deepened them."

What did bring the young intellectuals in close contact with the workers was the student disturbances of 1968. That year, of course, saw student demonstrations and riots all over the United States and France but also in Eastern Europe. In Warsaw the proximate cause was the closing, by government order, of the play Dziady by Adam Mickiewicz, the nineteenth-century Lithuanian writer who is the national poet of Poland and Lithuania.

The play was deemed to be anti-Russian, which it is, but anti-Czarist. There is a story that when some of the student demonstrators were hauled before a magistrate, he sternly asked them, “What are you young hooligans doing here?” They replied, “We are protesting the closing of Mickiewicz’s play.” The magistrate is said to have buried his face in his hands and cried, “Mickiewicz? Oh no, it can’t be true!”

The upshot of it was that the authorities decided that the students were privileged and spoiled, which they probably were, and that they should be sent into the factories to learn from the workers. There wasn’t much of an opportunity to learn from the peasants since agriculture in Poland had never been collectivized except for a few showcase collective farms. (Poland had resisted Stalin’s demands to immediately collectivize agriculture in the early ’50s, and this delay was tacitly allowed to stand when it became obvious that Poland was, to a large extent, feeding Russia.)

What’s the Job?

What happened then was related to me by a fellow English teacher, a Pole who had immigrated to America and worked as a language teacher in the Foreign Service Academy for a while. In 1968-69 he was one of the young intellectuals sent to learn from the workers in a radio factory.

The first thing he tried to learn on the first day of his new job was: exactly what was his job? He asked the foreman who told him to hide somewhere until quitting time. He asked, “But what am I going to do all day?” “Well here,” he said, “take all the parts you need and build yourself a radio.” In his career as a workingman he saw that there were always at least three men doing one man’s job (“full employment” I believe it was called by Western intellectuals such as John Kenneth Galbraith) and that a huge percentage of the materials went home in workers’ lunch pails. Probably just as well considering the inefficiency of the distribution system.

This was the experience of a whole generation of university students. While students in America were learning the socialist dogma that they carried into public life in the Clinton generation, students in Poland were given a first-hand look at why the system didn't work. Many of these students became part of the intellectual wing of the resistance in the '80s who could actually understand and talk to the workers of Solidarity. Some also became Party members who joined for the usual reason of self-advancement but had no real belief in classical Marxist-Leninist theory and were thus willing to reach an accommodation with the resistance as soon as it became obvious that the Soviet Union was no longer willing or able to project force into Poland.

They learned from the workers all right!

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Beware "New Urbanism"

Smart Growth Advocates Are Convinced That Their Ideas Are Morally Superior

OCTOBER 01, 2002 by C.C. Kraemer

Most folks would never consider that the choice between intown and suburban living could hold any moral implications. The questions of cost, security, education options, house size, and yard size are far more important in buyers' minds. But to those who fear the sprawl of cities into suburbs and beyond, the decision to live either in an urban setting or in tract housing outside the city is the choice between salvation and damnation. They think in terms of auto emissions, storm-water runoff, community disconnect, and livability, a code word that hides their desire to make housing choices for everyone.

They never think in terms of property rights and choice.

"Let's not try to pretend these choices are morally equal," Charles Brewer, MindSpring founder, millionaire, and now a developer of intown housing, told the *Atlanta Journal-Constitution* in March when comparing traditional neighborhoods with suburbia. Last October the Catholic Archdiocese of Detroit joined others in the church to proclaim urban sprawl an enemy of the church to be fought through a political–not spiritual–crusade. A few years ago, the *New York Times* declared that it is freedom that "lies at the root of Atlanta's [sprawl] crisis."[1] The implication, of course, is that sprawl rivals money as the root of evil.

Since the 1950s, America has been moving away from the cores of its cities to suburbia. The middle class thought it was simply opting for larger houses, bigger yards, less crime, and better schools. But the Sierra Club has called the move "The Dark Side of the American Dream," a malignancy that could not be allowed to spread.[2]

The remedy was “smart growth,” which has been widely expressed through “New Urbanism.” Proponents of New Urbanism, such as Brewer, wish to recreate the traditional cities of pre-World War II America, where people lived in dense, self-contained, pedestrian- and mass-transit-centered communities in urban settings.

It’s not nostalgia that motivates the smart-growth advocates. They are driven instead by what they judge to be a superior worldview based not on choices made by individuals but on what the advocates see as important. They believe in the “traditional neighborhood pattern,” which they declare (in Brewer’s words), as if it’s settled fact, “consumes much less land and wildlife habitat, and . . . leads to much less air pollution and much less water pollution as compared to the conventional suburban pattern. From an environmental point of view, it is simply a better choice.”[3]

The first claim is debatable. Unless all future intown housing is of the high-rise variety, as long as homes are being built, new neighborhoods based on traditional patterns will consume land. How much more or less than suburban housing depends on market choice and public policy.

Destruction of wildlife habitat is not limited to suburban development. There is potential for animals to be dispersed wherever man builds. Wildlife was displaced when those quaint old homes so tightly packed together were built 50 or more years ago. And it continues. In the spring of 2000 construction on the government-subsidized Bay Area Rapid Transit system in California was shut down for 18 days when a foot-long garter snake was crushed and his habitat presumably destroyed at a work site. Dozens of luckier snakes were caught–and apparently displaced from their habitats–at the site, where workers were expanding public mass transit, the sort of progress that has enormous appeal to smart-growth activists.

The second statement is arguable. The gridlock found in dense cities causes greater air pollution.[4] Think of all those cars idling while drivers wait for traffic lights to change just to move a block or two before doing it again.

All that makes the third assertion simply wrong. The traditional pattern may be the better choice for some but not for others. Anti-sprawl projects and the gridlock found in a densely packed urban core have their own harmful effects on the environment.

Seaside, Florida

The most visible face of New Urbanism is Seaside, Florida, an early project of designers Andres Duany and Elizabeth Plater-Zyberk, widely recognized as leaders of the New Urbanism movement. Seaside is the substance of the imagination of Robert Davis, who began in 1982 to recreate on his 80 acres on the Gulf the beach towns he had known as a child. It is a planned beachside community of charming wood-frame cottages with clever names and wide porches; shady, pedestrian-friendly lanes; and neighbors who are gracious, even if they're in town only for a short visit. It offers a glimpse and a feel of a time gone by.

Critics say the town is a bit cloying, almost too perfect. It's the unreal world of *The Truman Show*, the Jim Carrey movie filmed in Seaside, whose pastel homes and picket fences seemed to share top billing with the star rather than support him.

Yet Seaside works. It works largely because it was privately planned, privately developed, and is privately owned. Those who enjoy Seaside, the homeowners and the repeat visitors, enter into the experience voluntarily. They take pleasure in the escape from reality offered by its pink and turquoise hues.

There is a central plan, and there are central planners who administer strict architectural codes, from roof pitch to roofing materials, and from outside lighting to the color of exterior paint. But Seaside is not a retrofit development in an existing city where the property is owned by discrete parties who are unlikely to share a common goal, yet are highly likely to have many of their choices made for them by a government board or agency. Nor is it an urban or suburban infill project micromanaged by bureaucratic decree. It is a vacation destination for all but a few full-time residents, 40 at last count, and its visitors appreciate the beauty created by the code, just as vacationers value the architectural planning that makes large hotel resorts the havens that they are.

Seaside works for those reasons. And it works because it was built from the sugar-white sand of Florida's Panhandle where the beach once met the pines. There was no government agency dreaming up and managing its development, no board dictating the actions of others. No one used the coercive power of the state.

Whether by design or accident, the development of Seaside acknowledged the integrity of the free market. Those who liked the Seaside design were free to join Davis in his vision to build a town. Those who didn't were just as free to go elsewhere. It was Davis's land and he was exercising his property rights. If he wished to sell only to those who would comply with his plan, that was his business. At Seaside, no one's liberty is being violated by an urban boundary, restrictive government building codes, or limits on lot size, all ingredients of the smart-growth stew Americans are being asked to swallow.

That point seems to be lost on the advocates of smart growth. Convinced that their ideals are morally superior, many want the force of government to further their movement. While understanding that to achieve their goals they'll have to coerce people to do things they don't want to, these activists fail to recognize that their goals can never be realized–unless society falls entirely under the absolute control of the state.

What Do Americans Want?

The New Urbanists believe–and use data to try to prove–that Americans don't want sprawl. These advocates are convinced the country favors traditional neighborhoods over tidy developments in the suburbs with serene-sounding names and prefers expanded public transportation over more asphalt. So they push their agenda, yet seem puzzled that New Urbanism hasn't sucked masses of suburbanites back to town or at least halted the growth of suburbia. Despite their efforts to rein in growth, cities continue to sprawl out from their cores.

The obvious factor they're missing is that planning has its limits and its outer boundary is public choice. In places where governments have tried to fight sprawl with policy, they've lost. When the central planners have attempted to force their idea of the good on an ostensibly free people, those people have rebelled.

Portland, Oregon's Metro plan, arguably the most ambitious effort to direct smart growth, was going to curb sprawl by keeping growth within an urban ring. But not only did the boundary create an artificial shortage of housing that has sent home prices soaring, the 1979 plan hasn't yet stopped the spread. The city's metro area has extended past the mandated perimeter by leaping the no-build zone onto land beyond the Portland Metropolitan Council's jurisdiction. The homeowners who built on that land now have to drive farther to their jobs and other destinations in and around Portland than they would have if they had been free to live in the green area the Metro

Council roped off to development. That means more time in cars and more emissions filling the air, a reality the smart-growth crusaders apparently didn't anticipate and certainly don't welcome.

The lesson, still unlearned by the smart-growth camp, is that while traditional neighborhoods might be appealing, a large segment of America wants the bigger homes, larger yards, better schools, and relative safety they typically find in the suburbs.

Still the smart-growth advocates march on. They block new road and infrastructure construction intended to serve suburban development. They seek out government grants to curb sprawl and would ban gated communities if they could. Look behind light-rail projects that go nowhere and there will be a stubborn troop of anti-sprawlers.

Some of the more zealous even believe in the morality of their convictions so deeply that it's reasonable to fear that they are on the brink of urging local governments to seize private homes through eminent domain so they can be replaced with high-rises. So far it hasn't happened. But Dana Smith, a homeowner from Daly City in the San Francisco Bay area, is worried it might.[5] Smith's concerns are so great that she's even handed out fliers at government smart-growth workshops that say: "Excuse me, someone already lives where you want to build your high-rises."

Moral Component

Ultimately, there is a moral component to sprawl, but it's exactly the opposite of what the anti-sprawl faction assumes. There are deep moral questions when government considers using the powers of taxation and coercion to order lives. Should governing bodies limit choice through public policy to achieve what a few believe is the ideal for the many? Or should they defend the freedom to live where one chooses?

If it's the former, government has entered into the business of making value judgments, a realm better left to individuals. If it's the latter, then governments across the country will have to give a hard look at where public policy fits into the trend toward smart growth.

None of this is meant to defend suburbs, which can be a blight even to those who defend suburbanites' right to live where they wish. Nor is it an attack on traditional and intown neighborhoods, which often have the soul and charm that's missing from tract homes. The only defense is of choice and property rights, and the only rebuke is of those who feel a moral imperative to restrict them.

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Notes

1. David Firestone, “Choking on Growth: A special report. In Atlanta, Suburban Comforts Thwart Plans to Limit Sprawl,” New York Times, November 21, 1999, p. 1.
2. “The Dark Side of the American Dream: The Costs and Consequences of Suburban Sprawl,” Sierra Club, September 1998.
3. Charles Brewer, Katharine Kelley, and Walter Brown, “Morality Does Play a Role in Neighborhood Choice,” Atlanta Journal-Constitution, March 26, 2002.
4. Wendell Cox, “Smart Growth: Retarding the Quality of Life,” Demographia, May 27, 2002, www.demographia.com/dib-smg.htm.
5. Carol Lloyd, “Surreal Estate: Stopping Suburban Sprawl,” San Francisco Chronicle, May 21, 2002.

Socialism in Retreat

Welfare for Farmers Is Absurd

OCTOBER 01, 2002 by Scott McPherson

Free-market economists have argued for decades that interventionist government policies inadvertently lead to negative long-term consequences that far outweigh the perceived benefits. This has resulted, of course, in cries from the political left that advocates of capitalism care nothing about the indigent, needy, or otherwise downtrodden. So it is with bittersweet satisfaction that one sees farm subsidies, a crown jewel of the welfare state, coming under fire because they hurt the poor.

"Of all the problems that plague the world's poor in the age of globalization," writes the *Washington Post*, "few are so widely condemned as the subsidies that rich countries provide their farmers" ("U.S. Farm Bill Finds Few Fans Abroad," *Washington Post*, May 5, 2002). The farm bill signed into law by President Bush, "which substantially increases price guarantees for crops such as corn and wheat and creates new subsidies for others such as soybeans," gives U.S. farmers large, artificial incentives to produce more, causing market floods and depressing crop prices worldwide. This in turn makes it difficult for Third World nations to build healthy agricultural infrastructures to boost their economies. The *Post* quoted Nancy Birdsall, director of the Washington-based Center for Global Development, as saying that farm subsidies are "very discouraging for developing countries."

For example, the Post also reported that a then-forthcoming study by the World Bank and the International Monetary Fund would show the effect that subsidies have on the world cotton industry. U.S. cotton farmers' average annual income is $35,000, approximately one-third of which comes from subsidies. In the African nation of Burkina Faso, by comparison, cotton farmers are making around $1 per day. The study concludes that if world cotton prices were not being driven down by wealthy countries' subsidies to their farmers, poverty in Burkina Faso could be cut in half within six years. "This [farm bill] is pretty galling," said a senior World Bank official quoted by the *Post*. "A few American farmers will benefit, but at the expense of a very large number of poor people in developing countries."

In addition, "European trade officials" warned, "the U.S. farm bill will make it tougher to overcome the resistance of farmers [in European countries] to giving up their subsidies," the Post said. Commenting on the bill, Canadian agricultural minister Lyle Vanclief called U.S. price supports "ridiculous policy" because his government might now have to increase aid to Canadian farmers. The cycle of world crop-price deflation will continue, bankrupting impoverished countries' farmers and condemning more of their people to squalor.

None of this is surprising. After all, advocates of free and open agricultural markets have warned for years that price supports, subsidies, and tariffs only benefit, in the World bank's words, "a few at the expense of a very large number." They also noted that the best way to help agriculture is to let market prices reflect real conditions. Naturally, such suggestions drew only the wrath of more "progressive" thinkers.

The U.S. government, continuing the welfare-state programs of the New Deal, and European countries (particularly France), following the "enlightened" path of their own cradle-to-grave mentalities, have proudly proclaimed their allegiance to price supports and other farming subsidies as a cornerstone of their agricultural agendas. When pressed on the moral and economic wisdom of a course that takes wealth created by one group and uses it to prop up another, government officials and media mouthpieces can be counted on to charge, "Do you want all of the farms to go away and people to starve?" By adhering to such socialist dogma they have greatly contributed to starvation and the failure of farms elsewhere.

Risks and Rewards

There is no doubt that welfare-for-farmers is absurd. Those who choose to go into agriculture should be expected to take all the risks and enjoy all the rewards of their chosen occupation. But while earlier the left condemned the "evil" and "heartless" free agriculture market, today they scold the rich countries for aiding their farmers too well. No one yet has the courage or vision to call for an end to subsidies, but with their global consequences becoming clear, many self-styled advocates of the poor are urging the West to move away from a once-cherished pillar of the welfare-state agenda. This at least implies a concession to a more market-oriented approach.

Unfortunately, now comes the lesson that socialism breeds not only economic disorder, but also the power of political pull. Representative Larry Combest of Texas, chairman of the House Agricultural Committee, perfectly illustrated the atmosphere that has been fostered by a socialist farming policy: “This [farm bill] is for rural America. This is not for rural Mexico. This is not for rural Canada, and this is not for rural Europe.” Even in traditionally pro-market countries politicians have been hammered for so long to do “more” for farmers that they’ve decided to do precisely as they were told. And the world is united in its chagrin over the result.

It is certainly encouraging that more people are beginning to see the value of free and open markets and the dangers of government interference–even if George W. Bush does not. Observing the passage of the farm bill, ABC News analyst Terry Moran remarked that it pitted “free market rhetoric against political reality” and “reality won.” A more accurate analysis would be that the universal criticism of the President for signing this bill clearly shows that socialist “reality,” when transformed from rhetoric into public policy, is a tragic failure. America should take note and forthwith abandon all its welfare-state designs. When the planet’s “humanitarians” predictably lament, “What about the poor?” remind them that once upon a time they saw the answer to that question.

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Library Story

Libraries Should Be Funded by User Fees, Not Taxpayer Dollars

OCTOBER 01, 2002 by Ted Roberts

The universe is full of mysteries; like when does the phone company collect the coins in pay telephones? (Have you ever seen a guy in a phone company uniform lugging a satchel full of quarters out of the airport phone booths?) Why is it that your driver's-side windshield wiper is always the faulty one? and why do we southerners say "lyberry" instead of "library"?

This puzzle leads me to the greatest conundrum of all time. Why are municipalities in the book-lending business?

Law enforcement and road maintenance as municipal monopolies I can almost understand. These are common, basic functions with a long history of municipal management. Maybe it's an irrational history but at least it's traditional; and maybe they are assigned to the public sector because they are essential to municipal life.

Sure, if law enforcement crumbles, violent guys without paychecks or scruples will explore my mattress at midnight looking for my cache. And if the roads collapse, I'm as immobile as Homopithicanthrupus, who thought a vine ride between two trees was a great public transportation system.

But no library? Am I intellectually marooned? No. There's the Internet, the bookstores, the newspapers, my wife bursting with news, and the neighbor next door who's dying to show me slides of his trip to Brazil. Where's the showstopper?

Let no one say (before reading at least two or three basic economics texts from the public library) that the municipally owned library system is free. We pay with our taxes, which is the worst form of compensation from a consumer point of view, since it attenuates the relationship between supplier and consumer. The guy who cuts my yard loves that $40 weekly check. He loves me. I stand out in his vision as the man with the pen who writes the check. The relationship between his work and the $40 that buys his gas and pizzas and T-shirts is as clear as the big red rounds of pepperoni on his five- topping pizza. When I ask for a better trim around my pecan tree, the responsive smile and the roar of his weedwacker is instantaneous.

And I'm still somebody special when I hand over $2.49 at the Krystal counter for three burgers, a small order of fries, and a large Coke. True, the server's smile is a microsecond slower than the yard man when I ask for extra onion and pickle. I'm not quite so grand since she doesn't get to keep the entire $2.49, only the minuscule fraction that makes up her paycheck. But she still grasps the dependency between her and me.

This relationship is cloudier between book-borrower and librarian since there's no money transaction in exchange for her services. I'm not her pizza provider. I'm only one of a couple hundred thousand citizen-employers who stream through the library. And this dim, invisible host of consumers stands far behind the bureaucracy that writes her paycheck. Her smile, when I get it, and her search for the requested bio of Frédéric Bastiat comes from her heart–not her pocketbook. Her inherent goodness is her only motivation.

But sometimes, when she has a toothache or her husband forgets to come home the night before, her goodness is not sufficient. I get no smile and the search for Bastiat is halfhearted. My yard man has toothaches, too, and maybe the night before his Alicia danced home at 2 a.m. smelling of merlot and infidelity. But he tries a little bit harder than my remuneratively remote librarian. He vividly associates the two twenty-dollar bills from my wallet with a six-pack, two fried chicken dinners, and Alicia's romantic remorse after supper.

My librarian has yet to learn the lesson my daughter learned on entering the world of waitressing. Early in life she had heard rumors that there was a relationship between performance and reward. In fact, she had studied it in her college economics courses. All the professors knew about it and even tested her understanding in the final exam via a heavily weighted question: "True or False: out there beyond these ivied halls those who work harder and smarter make more money." She got it right, too. But somehow three single dollar bills beside a plate of leftover chicken alfredo spoke louder than any economics professor she had ever heard. Sleeping or waking. It was an economic epiphany. Giddy with delight, she was energized by the discovery that prompt delivery of food–warmed with a smile–allowed her eventually to purchase a serviceable used car. She smiled and moved briskly and responsively for the duration of her career as a server. So, why not apply this concept to the book-borrowing business?

User Fees

If somewhere in the U.S. Constitution or the Bill of Rights there's a mandate that Hometown, USA, must be in the book business, let's at least change the funding concept. No municipal budget. A user fee instead. Whatever the market will bear. Charge a fee to all users except for the walletless, the homeless, the bookless who realize that they can't live on bread alone. Give it to them free–absolutely free. To each according to his intellectual needs. We'd still have a more responsive, efficient library system. That fee, forked over by the reader, would validate Jane T. Bookborrower as the "customer" and light up the mind of the library employee with the knowledge that the customer is the virtual writer of her paycheck.

Sooner or later some librarian on a slow day at the desk will dream a dream. Why not, she would think, run this business the way it should be run, without the mayor and six city commissioners and five departmental supervisors politically manipulating our budget, priorities, inventories, and locations? Maybe the marketplace of readers could mold our services better than the Politburo downtown.

And maybe after a few years, the library folks would engineer an employee buyout and set up the operation on a profit basis. My daughter would immediately understand the advantages to consumers. Why doesn't our mayor? Maybe he never collected a $3 tip on a platter of chicken alfredo.

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Why the Poor Need Property Rights

How Property Rights for Street Vendors Can Create Prosperity

OCTOBER 01, 2002 by James Peron

Early in the morning the streets below my flat would become a beehive of activity. Small stands were scattered everywhere, cramming every available inch of sidewalk. Small bundles of bananas, packets of tomatoes, or potatoes were for sale. Newspaper vendors grabbed the busy corners. Hawkers with every imaginable product had set up business.

As the day waned the activity didn't cease, though it did slow down. The vendors of vegetables went home. Now the streets were perfumed with the aroma of boerewors (sausage) on the grill. Walking down the streets well after dark, I was surrounded by food vendors hoping to cash in with those looking for a late-night snack.

These vendors are among the first memories I have of living in Africa. Not only was I in Africa, I was in the most densely populated area on the entire continent–the Hillbrow section of Johannesburg. Those vendors were a key element of the life in Hillbrow. Some even say they were responsible for its demise. Today Hillbrow is a slum, filled with prostitutes, drug pushers, illegal aliens, and rundown buildings. But just ten years ago it was the center for the chic of Johannesburg.

The hawkers were blamed for much of the demise because their stands were run down. Each day they left behind growing piles of rubbish and rotting food. Just walking down the sidewalk became impossible as each square foot was crammed with more and more hawkers as the weeks went by.

The honorable attempt to make a living had become a nuisance. As the politics of South Africa changed, government enforcement of hawking regulations changed. At first the new government attempted to curry favor with the hawkers and no regulations were enforced. As time went by the central business district became a no-go area. The luxurious Carlton Hotel closed its doors and 50 floors of hotel rooms now sit empty. Even the Johannesburg Stock Exchange fled Johannesburg for the cleaner affluence of Sandton. Where I once walked well past midnight I refuse to enter in broad daylight. As the inner city crumbled the government fluctuated between strict enforcement and no enforcement of the hawking laws.

But whatever sins are ascribed to the hawkers, can you really fault them? In a nation of over 40 million, less than 25 percent are employed–a problem exacerbated by new labor laws. Sidewalks were designed for pedestrians not for street trading. Yet without street trading, the hawkers' children would go hungry.

Anger would flare up over the hawkers, and to this day the conflict continues, since even now the sidewalks are considered public property or a commons. Economists have written of the "tragedy of the commons," and this is just one more example of how communally owned property is overexploited in ways that end up counterproductive for just about everyone.

Even the litter problem is a problem of common ownership. Economist Walter Block has noted that litter is something that takes place only on public property. Sure, trash is thrown down on private property open to public use–places like shopping malls, ballparks, and movie theaters. But in those venues the owners, instead of sending police out to give tickets to litterers, send out cleaners. Cleaning is just part of doing business.

But the world of street trading lacks property rights, and that brings a plethora of problems. The traders have no property right to their stands and know that they may be evicted at any moment. Periodically battalions of police sweep down on them and confiscate their goods and their stands. As a result, the traders never bother investing in decent trading stands. Any old piece of cardboard on the ground will do. Anything else would represent an investment they couldn't afford to lose.

Hernando de Soto noticed the same problem with street traders in Peru. He wrote: "The threat of eviction always hangs over street vendors, especially when there is traffic congestion or growing pressure from residents. Practically speaking, this rules out any long-term investment in improving the location, forcing the vendors to keep selling from barrows rather than from stalls made with proper building materials and equipped with running water, electricity, refrigeration, storage, display space, or any of the other facilities that permit the supply of a steady volume of merchandise. The installation of such improvements as toilets, parking lots, or gardens would be impracticable."[1]

One solution for the conflict that arises when competing interests attempt to grab a commons is privatization. As I have pointed out before, the only alternative is the use of authoritarian measures, such as police enforcement, fines, and confiscations.[2]

Property Works

In one area of Johannesburg the private solution has been tried and is working. Private management districts have been created by business owners in attempts to solve the problems. One such district is just down the road from me, the Rosebank Management District (RBMD).

There was a hawker problem there. A small stretch of Craddock Avenue runs between the Mall of Rosebank and a few smaller malls across the road. Some 140 hawkers crammed into this two-block area. Attempts to restrict the amount of sidewalk used were fruitless since once the enforcement stopped, hawkers would capture as much space as possible for themselves. Pedestrians were often forced to walk in the street. Just one person stopping to look at a curio for sale would block the walking space that was left. Each hawker, acting in his own rational self-interest, had engaged in behavior that collectively was detrimental–all because no one had a right to the property he was using.

The RBMD had a solution. First, the street itself was ceded to it. The street was closed off to through traffic. Second, most of the street was turned into an outdoor area for the public. A two-story market for street traders was built and a private flea-market firm was hired to run the premises. Some 60 street traders were then chosen to occupy the building at minimal rent. Just below the building, where the hawkers used to trade, the RBMD has traditional African dancers putting on regular shows. Restaurants in the area have tables outside. The district, which was starting to run down, has become a major tourist attraction.

The RBMD also hired a team of security guards and cleaners. With improved security, shoppers, formal traders, and hawkers benefit. In addition, the city no longer has to worry about cleaning up, as the RBMD takes care of that as well.

Previously, conflict was inevitable, because clashing incentives were allowed to operate. Once the informal traders were brought into a market system with property rights, formal and informal traders could cooperate for mutual benefit.

Another way to end the commons is the creation of street-trading stands. Here specific sites are established, and traders who operate there are given ownership of the stand itself. By granting a property right in the land they are using anyway, the city can create a new set of incentives for street traders.

Under current law, each stand represents dead capital: its value can't be used properly because it lacks legal recognition. Throughout the Third World, as de Soto has so aptly pointed out in *The Mystery of Capital*, there exists vast amounts of dead capital.[3] Informal housing without title, underground businesses, street traders–all represent a portion of the Third World's dead capital. Legal recognition alone would create vast amounts of wealth almost over night, wealth the poor could tap into for expansion and to create further wealth.

Transferable Sites

A property-rights system allows transfer of sites. Current trading regulations amount to a law of capture. A trader can use a site provided he has grabbed it before other traders do so. But transferring sites under such a system can be difficult, since the traders have no property rights. This creates economic stagnation and makes it difficult for street traders to take advantage of an evolving marketplace. It will quickly become apparent that not all sites have equal economic value for all traders. If traders have property rights, they will be able to arrange site usage according to economic value. Some sites will increase in value, and just as formal businesses sort themselves out according to profitability in a specific location, the same thing will happen with these street traders as well. In Peru, de Soto discovered that extralegal systems of property ownership eventually evolved allowing vendors to sell specific sites. And like all products, the sites varied in price.

Flexibility in usage could also mean that one vendor might use a site in the morning while a different vendor uses it in the afternoon. Exactly such flexibility was noted among the informal traders by de Soto. He writes:

It is not unusual, for instance, to see the pitch occupied by the breakfast seller in the early morning hours who then, around 9 or 10 in the morning, makes way for the juice seller who, at midday, makes way for the lunch seller who, after four in the afternoon, is followed by the vendor of herbal remedies, who later gives way to the vendor of Chinese food, who stays until the end of the day. These shifts enable a single barrow to operate like a large store, maximizing its commercial value. On their own, the different vendors offer only a small range of goods and services. When proximity does not operate satisfactorily, they try to improve it by establishing shifts, adapting the barrow's use to the different demands of consumers as they arise in the course of the day, thus exploiting the location's commercial value around the clock.[4]

The creation of property rights will also change the behavior of street traders. It gives them new incentives to improve their businesses. It allows for investment that is currently discouraged. And it permits the transfer of business rights. Such a system of property rights will help move informal traders into the formal arena. Instead of being a dead end, street trading could become the incubator for vibrant, growing businesses. An entire class of entrepreneurs could be created, with all the benefits such individuals bestow on society.

A property-rights approach induces not only greater flexibility but also more efficient policing of trading areas. Local management districts know their areas. They know who should or should not be on a specific site. They are aware when a trader is causing problems for other traders and who is responsible for refuse problems. So they are better able to micromanage specific street locations. A mega-city with millions of people and tens of thousands of streets can't possibly compete in flexibility with such localized management.

In Lima, Peru, the city government came to recognize that attempts to ban street trading were useless. The city government then decided to create specific market locations for street traders. But according to de Soto, the municipality "did not try to monopolize the building of markets. On the contrary, with the agreement of the central government, it exempted anyone interested in building such markets from paying taxes and even fees for building permits, and it even established more favorable rules for vendors' organizations." The result was that between 1964 and 1970 informal traders "built four markets for each market built by the state."[5]

Street traders represent the beginning of what de Soto calls "a long march" to capitalism. When hampered and harassed by government, the natural evolution of property rights is prevented. The result is decline and decay. But when, instead of controlling, government acts as a protector of property rights, then street trading is the first step toward prosperity.

Find a Portuguese translation of this article here.

Notes

1. Hernando de Soto, The Other Path (New York: Harper & Row, 1989), pp. 66-67.
2. “Liberty, Property and Crime,” Ideas on Liberty, November 2001, p. 11.
3. Hernando de Soto, The Mystery of Capital (New York: Basic Books, 2000).
4. De Soto, The Other Path, p. 67.
5. Ibid., p. 81.

"Emeril" Economics

Critics Despise the Application of the Market to Any Area of Culture

OCTOBER 01, 2002 by Larry Schweikart

How many times have you gone to a movie and left thinking, "That was fun. I was entertained"? Then you get the newspaper the next day and read what the movie critics have to say about the picture you just enjoyed: "Two stars. Predictable, wooden acting." "Two thumbs down. Don't producers and directors have any respect for the audience any more?"

About that time, you begin to think, "What's wrong with me? Is my taste really that poor? Why is it that the movies I like the critics always hate?"

This question nagged me as I watched a television biography of the famous "BAM!" chef, Emeril Lagasse. People who don't know garbanzos from garlic know Emeril. His live concert-type shows draw thousands, and people line up for hours to—are you ready for this?—watch a guy *cook*! I can understand: I've watched his show, and realize that even if you don't like to cook, you like to eat. Anyone who makes cooking and eating so much fun has to be on the right track.

Not according to the critics. A *New York Times* food writer trashed Emeril's live show and his cookbooks, complaining he doesn't "educate" enough. Or, in other words, Emeril makes food too much fun. Even in food, it seems, critics insist on belittling and attacking anything that in the slightest way seems popular.

You realize I must not have had much to do when, at this point, I began to ponder seriously this as an economic problem. Think of a television show, or a movie, or a novel, or any entertainment as a collection of scarce resources. With a movie, we have, within about two hours, elements of plot, character, photography, and music as just a few of the major pieces that go into a motion picture. So when we see *Spider-Man* or *Episode II: Attack of the Clones*, we are really looking at how the producers and directors allocated their scarce resources. Did they spend two hours developing character? Did the camera linger endlessly on scenery and color? Was the music intended as a central factor in moving the plot?

Believe it or not, these essentially are economic questions put to film. The filmmaker cannot, under normal circumstances, develop character, feature action, celebrate beauty, weave intricate plots, and underscore music at the same time. The eye–and the ear–naturally choose *something* on which to focus. Imagine, for example, Annakin Skywalker and Padme having meaningful discussions of their inner thoughts while evil robots blasted at them and winged insectoids zipped by. On the other hand, any appreciation of scenery (even computer-generated scenery!) or animated art demands the viewer's attention. If it is diluted by action or dialogue or music, it loses its impact.

So how does that relate to Emeril? It struck me that what the critics were complaining about—and what they *always* seem to complain about—is that we, the viewing/reading/dining/listening public allocate our limited resources differently than they do.

They choose the "education" function of Emeril's show as the most valuable aspect, but most viewers obviously do not. They choose the entertainment function. That drives the critics wild! Elite critics, or "the anointed," as Thomas Sowell calls them, know what is best for people. When they attack Emeril for "too much" entertainment, or *Spider-Man* for shallow characters, their real targets are the viewers, who must be made to allocate resources the way the critics see fit.

Ahead of the Market

In areas of culture, more so than in economics, critics can hide behind a mystical veil of "taste" and *savoir-faire*. Food preparation, music, theater, after all, have no "bottom line" in and of themselves. Thus it becomes easy for the failed producer of a musical, or the writer whose manuscripts never sell, to claim that they are in reality "ahead" of the market. Once in a while, they are right. Literary history is full of people who became famous and whose works became best sellers after their deaths. However, more often than not, this is an out. Usually, unless people are willing to pay for something, it does not have a great deal of value.

Which brings us back to our critics. Ever notice how the “People’s Choice” awards have almost nothing in common with the Oscars, the Emmys, or other awards shows? With the “People’s Choice,” the voting usually (though not always) reflects the fact that people were willing to spend money—their scarce resources—on someone else’s labor. It is, of course, the application of the market to any area of culture or “taste” that critics despise most of all, because it is the one area where there is no appeal, no equivocation. When the market rules something a success, regardless of what one thinks of the person, song, book, or movie, the profit line cannot be explained away.

Now, “The Osbournes,” anyone?

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Evaluating New Drugs: Remember the Bigger Picture

Prescription Drugs Have Unseen Benefits

OCTOBER 01, 2002 by Lawrence W. Reed

"Don't be penny-wise and pound-foolish" is an old adage that cautions us about false savings. Sometimes spending a little more now makes the best sense if it maximizes our savings in the long run. Failure to understand this lesson is at the root of many misjudgments and bad policies swirling around prescription drugs these days.

Critics of the pharmaceutical industry cite heavily promoted, expensive new drugs as the 800-pound gorilla in our nation's costly health-care system. Lawmakers are debating ways to address this issue–including price controls and requiring more use of generics. As usual, government is part of the problem, and most of its attempts at a solution are almost sure to fail.

To begin with, it's important to separate what media reports often confuse as one and the same: increases in total spending on drugs and increases in the prices of drugs. Drug spending rose 13.6 percent in 2000 while the average price of drugs went up by a rate comparable to price inflation, at 3.9 percent. There's a big difference between 13.6 and 3.9.

Moreover, a core problem with America's health-care costs afflicts drug prices like just about every other aspect of health care–third-party payments. Back during World War II, the U.S. government imposed wage controls. In an effort to compete for workers, employers began offering health-care benefits. Later, the IRS approved employer-provided health care and health insurance as deductible business expenses. Individuals, who previously took care of these things themselves, could not get a similar deduction when they purchased health insurance out of pocket. This bias in the tax code helped mightily to push America toward a third-party (employer-provided insurance) payment system. As a result, Americans spend more freely for health care without shopping around and asking tough questions.

"Nobody spends someone else's money as carefully as he spends his own," Nobel laureate Milton Friedman often says. That truism has been on brilliant display in our health-care system for half a century.

But now back to drugs specifically. A new body of research offers a compelling contradiction to the notion that we need a "cure" for high-priced drugs. It turns out that these "expensive" new drugs might just be the best weapon we have against rising health-care costs–food for thought for government programs and employers who help pay for our health insurance. Are we getting good value for our drug dollars? "Yes," says researcher Frank Lichtenberg, an economics professor at Columbia University and author of a recent, incisive article in the journal *Health Affairs*.

Lichtenberg looked at newer drugs versus older drugs and found that people who are using newer ones may be paying more for their medicines, but they have lower overall health costs, due in part to reduced hospitalizations. In addition, they live longer and have fewer lost workdays. We're spending more time at the pharmacy, but less time in the hospital or on the surgical table. That means we are managing our conditions better and spending less on more expensive types of care. That's good news for consumers and patients, as well as employers and our health-care system as a whole.

A study by Lichtenberg for the National Bureau of Economic Research last fall demonstrated that replacing 1,000 old drug prescriptions with 1,000 newer and more expensive drug prescriptions would increase drug costs by $18,000 but would also cut hospitalization costs by $44,469.

Innovations in drugs are helping us treat many conditions with often dramatically better results than previous treatments. Stomach cancer used to be an ailment that was treated primarily by invasive surgery and long hospital stays but today, drugs are more commonly used. The newest drugs do the best job, and though they seem "expensive" up front, they're doing more to save lives and reduce overall health-care costs than surgery.

What Is Unseen

This is the “bigger picture” that often gets lost in the rush to save a few bucks. As Lichtenberg writes, “Drug costs (and changes in drug costs) are visible to the naked eye; identification of drug benefits requires careful analysis of good data.” Sound policy requires that we take into account “the full range of effects, not just the costs, of newer drugs.”

For this reason, the case for generics (older drugs for which the patents have expired) is vastly overstated. And the advertising that pharmaceutical companies sponsor for new drugs, contrary to those who champion generics, serves a useful economic purpose of informing patients and encouraging them to ask about the newest innovations.

Meanwhile, a growing number of state governments are implementing sweeping prescription drug cost-control programs. In Michigan, for instance, a state-appointed panel now authorizes only certain discounted medications for the 1.6 million Michiganians who rely on state programs (like Medicaid). To the extent the program shifts people to older drugs, the state may end up in the long run spending more for health care while patients suffer through longer recoveries.

Profits aren’t the problem either. Throughout the industry, they’ve been steady over time and comparable to the profits in other industrial sectors. Moreover, a study by Harvard economist F.M. Scherer proved there is a close correlation between pharmaceutical profits and research and development (R&D). The more companies make, the more they pour into finding the next cure or treatment for what’s ailing us. Profits encourage innovations, while regulations of dubious benefit add millions to the cost and long lag times before a drug can be marketed.

Furthermore, making a profit on drugs is not easy or automatic. Pharmaceuticals have the same patent life as other innovations (20 years), but because of the need for early filing, pharmaceuticals have about 11 years on average to recoup R&D costs and make a profit. Only 30 percent of drugs that reach the marketplace ever earn enough to cover average R&D costs. Government efforts to reduce profits in the industry can only increase the risk, reduce the investment, and ultimately yield fewer new drugs–all of which spells higher prices and a less healthy people.

American pharmaceutical companies have produced a constant stream of new pharmaceuticals for your doctor’s toolbox when you get sick.

Common sense dictates that we consider *all* costs and *all* benefits, long-term as well as short-run, lest we be penny-wise and pound-foolish.

Only Congress Can Declare War

The Founders Wanted to Make War Less Likely

OCTOBER 01, 2002 by Doug Bandow

The Bush administration has been looking at other potential military targets almost since the war in Afghanistan started. But should the President decide he wants to expand the war, he should get legislative approval.

After September 11 Congress authorized President Bush to retaliate against any "nations, organization, or persons" he determined to be involved in the atrocity. But there is no evidence linking even that ugliest of regimes, Iraq, to the September attacks.

So the administration has spent months developing an alternative justification for attacking: the refusal to accept United Nations inspections aimed at deterring development of weapons of mass destruction. Nonproliferation is a worthy concern, but not one obviously warranting war. Indeed, Baghdad has been out of compliance with the U.N.'s inspection regime since 1998.

Moreover, the President has no authority to act for this reason. Congress authorized him to retaliate against terrorism, not to commence war to enforce U.N. inspections-or overthrow a nasty dictator.

After the Senate Foreign Relations Committee held hearings on the prospect of war with Iraq last August, President Bush promised "to consult with Congress." But consultation is not nearly enough.

Article 1, Sec. 8 (11) states, "Congress shall have the power . . . to declare war." The president is commander-in-chief, but he must fulfill his responsibilities within the framework established by the Constitution and subject to the control of Congress.

Today, of course, presidents prefer to make the decision for war themselves. In effect, American presidents claim to possess power comparable to, if not greater than, that of the onetime head of the Soviet communist party. As then-Defense Secretary Caspar Weinberger rightly criticized the Evil Empire: “Now who among the Soviets voted that they should invade Afghanistan? Maybe one, maybe five men in the Kremlin. Who has the ability to change that and bring them home? Maybe one, maybe five men in the Kremlin. Nobody else. And that is, I think, the height of immorality.”

Now who among Americans has voted to attack, say, Iraq? Should one man in the White House make that decision, it would also be the height of immorality.

One of the founders’ criticisms of the British king was that he could unilaterally drag his nation into war. President Abraham Lincoln, a “strong” president apt to act on his own authority, nevertheless reflected: “Kings had always been involving and impoverishing their people in wars, pretending generally, if not always, that the good of the people was the object.”

The Constitution’s framers consciously rejected such a system. Still, some Americans opposed the proposed Constitution because they feared that it gave the president too much authority. Don’t worry, explained that great friend of executive power Alexander Hamilton. The president’s power “would amount to nothing more than the supreme command and direction of the land and naval forces . . . while that of the British King extends to the declaring of war.”

The founders wrote the Constitution as they did because they feared that presidents would act as they do now. Explained James Madison in 1793, it is necessary to adhere to the “fundamental doctrine of the Constitution that the power to declare war is fully and exclusively vested in the legislature.”

Constitutional convention delegates did change Congress’s power from “make” to “declare” war, but the intent was to give the president authority to respond to a sudden attack, not initiate a conflict. The Founders wanted to make war less likely.

The president “is not safely to be entrusted with” the power to decide on war, said Virginia’s George Mason. James Wilson advocated a strong presidency, but was pleased that the proposed constitution “will not hurry us into war.” Instead, “It is calculated to guard against it. It will not be in the power of a single man, or a single body of men, to involve us in such distress.”

The founders were prescient. Presidents have routinely deceived the public, lied to Congress, and manipulated the political system when taking America into war.

Monarchical Powers

What argument can be made by those who would give today's presidents monarchical powers? There will always be potential gray areas. A world in which nuclear missiles can deliver destruction almost instantaneously, and transnational organizations can turn hijacked airliners into cruise missiles, is not a simple one.

But most cases, such as attacking Iraq, are clear. The President must go to Congress.

Naturally, chief executives offer creative reasons to short-circuit the Constitution's clear requirement. One claim is that the president has some unspecified, ill-defined "foreign affairs power" that reduces the explicit war powers clause to a nullity. However, the framers consciously circumscribed the president's foreign policy authority by vesting countervailing power in Congress, including the responsibility to declare war.

Are there any legitimate exceptions to the congressional war power? Some analysts would have Americans believe that in the modern world it is simply impractical to involve legislators in foreign policymaking.

Yet no one thinks that 535 legislators should manage the ensuing war-that's why the Constitution names the president commander-in-chief. But Congress must decide whether or not the president will have a war to run.

Some would expand the president's power to use the military for "defensive" purposes. Defensive means defensive, however. Constitutional convention delegate Roger Sherman of Connecticut explained that "the executive should be able to repel and not to commence war."

In an uncertain world, presidents also like to argue that they must be able to respond instantaneously to unpredictable events. Yet there is almost always time to go to Congress before going to war. Even in the case of the September 11 attack, Congress had ample time to act. There obviously has been no hurry to make war on Iraq.

Today the favorite presidential excuse for claiming the right to unilaterally initiate war is simple: everyone else does it. Those lawyers favored by former President George H. W. Bush point to 200-plus military deployments without congressional approval.

The precedent is thin. Legal scholar Edward Corwin notes that these examples are largely “fights with pirates, landings of small naval contingents on barbarous or semi-barbarous coasts, the dispatch of small bodies of troops to chase bandits or cattle rustlers across the Mexican border, and the like.”

Anyway, future presidents are not absolved from having to follow the Constitution because past presidents violated it. President Dwight Eisenhower respected the Constitution enough to announce: “When it comes to the matter of war, there is only one place that I would go, and that is to the Congress of the United States.” So should President Bush, if he wants to attack a member of the Axis of Evil or another country.

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Ironic Triangle

What Happened to the Hostile Takeover?

OCTOBER 01, 2002 by Sheldon Richman

"No man's life, liberty or property are safe while the legislature is in session."
-Unidentified New York Surrogate Court judge, 1866

"President Bush has strongly hinted that he will sign any bill that emerges from Congress."
-New York Times*, July 17, 2002*

Did you hear the one about the congressional committee that grilled the businessman about fraudulent accounting and lies to stockholders?

Whatever other reasons there are for the fall in the markets, one is crystal clear. Who could be enthusiastic about investing while Congress is running amuck? Politicians pontificating sanctimoniously about corporate fraud and greed, pandering to an economically ignorant electorate, parading CEOs before congressional tribunals, and promising new regulatory edicts are hardly confidence-building measures.

Are we really so immune to irony? This is the same gang that can't account for trillions of dollars, that wrote the book on creative budgeting, that reduced budget projecting to propaganda, that took the "owners'" retirement money and squandered it, and that has devalued the dollar for decades.

Now these same sterling stewards of the people's wealth sit in judgment of a few crooked businessmen, smearing the rest by association and decreeing new rules that will do nothing to prevent fraud in the future and may actually create new opportunities for it.

The last thing we need is new technical rules. The business world is awash in rules. After decades of government regulation, you'd think that the recent scandals might prompt some rethinking of that approach. You'd think that until you remember the vested interests involved.

The fact is that regulation makes big business scandals more likely. The regulatory state anesthetizes people's natural wariness. "The watchdogs are on the job, so I don't need to be so alert" sums up the attitude engendered by the regime. Agencies such as the Securities and Exchange Commission require the frequent disclosure of so much information, much of which would never be demanded by investors, that an overload occurs. It has to dull the senses.

Also, in its zeal to regulate, government has short-circuited one of the most effective checks on management misconduct: the hostile takeover.

Beginning with Adam Smith, there has been concern that the corporation separates ownership from management. This is known as the agency problem. Stockholders own a firm, but managers run it. Most stockholders don't have a strong enough incentive to monitor the managers closely. So the managers are able to get away with things the owners wouldn't tolerate if they knew what was going on. Even if the typical stockholder gets wind of problems, he'll find it easier to dump the stock than to try to change things.

This indeed may at times be a problem. Unfortunately, it has been used often to justify government regulation of corporations, most famously by future New Dealer Adolph A. Berle Jr. and Gardiner C. Means in their 1932 book, *The Modern Corporation and Private Property*. There they wrote that the corporation's division of ownership and management "destroys the very foundation on which the economic order of the past three centuries has rested."

That was a grossly inaccurate statement by two men with a socialist agenda. As usual, the market generates its own solution. Its solution to the agency problem is the corporate takeover. If managers are misusing a corporation's assets, there will be profit opportunities for the alert entrepreneur who figures it out, buys up a controlling share of the stock, and replaces the bad managers with better ones. This is a hostile takeover. Notice that the only ones with a reason to be hostile are the inefficient or corrupt managers, not the stockholders who freely sell their shares at attractive prices.

The Market for Corporate Control

The takeover is a key tool in what Henry Manne, the great economist and former dean of the George Mason University Law School, long ago dubbed "the market for corporate control." As Manne wrote recently in the *Wall Street Journal*, "New scandals will continue until we bring back the most powerful market mechanism for displacing bad managers: hostile takeovers."

Why do they have to be brought back? Where did they go? The federal and state governments have done all they can to prevent corporate takeovers. In 1968 the federal government enacted a law forcing anyone who acquires a specified amount of a corporation's shares (today it's 5 percent) to disclose his intentions. Obviously, if someone announces that he intends a takeover, the stock price will rise, reducing or wiping out the anticipated profit. That was the point.

The law was passed when managers afraid of losing their jobs lobbied Congress and the president. It was special-interest, protectionist legislation all the way, but its proponents managed to portray the takeover specialist as a villain. In fact, he is a hero.

In the 1980s the state legislatures and state courts imposed even harsher anti-takeover measures. The result? "The number of hostile tender offers dropped precipitously and with it the most effective device for policing top managers of large, publicly held companies," Manne writes. He adds that that the barriers shifted wealth from stockholders to bad managers.

No one would say that the drop in the markets was purely a result of impediments to takeovers, the general regulatory regime, or today's unpredictable politicians itching to do something. There's a fourth culprit, the Federal Reserve. The run-up of the market is now widely seen as a bubble that was waiting to burst. As the *Wall Street Journal* wrote, "Serious people can debate just what a bubble is, but if there was one, then who created it? One suspect would have to be the Federal Reserve itself, for feeding the economy too much liquidity for too long."

The *Journal* continued: "But one former Fed official we know cites as a crucial mistake an FOMC [Federal Open Market Committee] meeting in September 1996, when the Fed failed to tighten. [Fed Chairman Alan] Greenspan nonetheless eased again in 1998, though perhaps prudently amid the Asian crisis and Russian default. Economist Arthur Laffer argues with a lot of evidence that the Fed really goosed the bubble by easing money in the run-up to the Y2K scare, only to pop it later when it drew liquidity back out. The broader point is that much more was fueling the stock market in the late 1990s than ‘greed,’ infectious or not.”

Socialized money fails again.

A Tale of Two Brain Trusts

Americans Have Suffered for Decades under the Policies of FDR's Brain Trust

OCTOBER 01, 2002 by Robert Higgs

"A political war," said Raymond Moley, "is one in which everyone shoots from the lip."[1] He knew what he was talking about. Moley was the organizer and unofficial leader of Franklin Delano Roosevelt's "Brain Trust," the coterie of close advisers and speechwriters who helped FDR win the election of 1932 and assisted in formulating many New Deal policies. (The term "brains trust," coined by journalist James Kieran, caught on immediately, but the plural "brains" soon became the singular "brain,"[2] and the expression evolved into a generic term for a politician's expert advisers.)

As John T. Flynn remarked, the words "brain trust" "had in them the clear implication that the group was made up of beings possessing Big Brains. There was in it the suggestion of ponderous cerebral horsepower. Here was a thinking machine into which Roosevelt could throw any problem and watch it pass mercilessly through the cognitative gears to emerge beautifully broken down into all its ultimate components. Here was the Great Brain itself surrounded by all these bulging foreheads handling easily the toughest problems that had baffled the feeble intellects of bankers, magnates, and politicos."[3]

Sure enough, Roosevelt, guided by his Brain Trust and aided by radio broadcasts of his reassuring Fireside Chats into millions of living rooms, won the political war of words. Yet the New Dealers lost the economic war of deeds. Despite an unprecedented six-year campaign of legislatively authorized interventions, the economy still had not recovered fully from the depression when the New Deal ran out of steam in the late 1930s.[4] In short, Roosevelt's advisers had failed to provide him with an understanding of how to restore prosperity. So much for their alleged braininess.

They did have impressive credentials. Moley himself had received a Ph.D. from Columbia University in 1918, and later he had taught political science and public law there. Although his expertise lay in criminal justice, he plunged into advising FDR on various economic-policy issues about which he had at best an amateur's understanding. Like the other leading members of the Brain Trust, he opposed laissez faire and favored business-government cooperation–the sort of official collusion that had blossomed during World War I.

Columbia economics professor Rexford Guy Tugwell, another leading member of the Brain Trust, was a dreamier man, though he possessed a worldly hunger for power. He held a Ph.D. from the University of Pennsylvania. Like Moley, he admired the economic planning the War Industries Board had practiced in 1918, and he yearned to reinstitute such centralized economic management, including government control of all land. "We have depended too long on the hope that private ownership and control would operate somehow for the benefit of society as a whole,"[5] he declared in 1934–scarcely an odd idea for one who had visited the Soviet Union in the 1920s and had written admiringly of the communist experiment there. In 1933 this collectivist participated in the drafting of the National Industrial Recovery Act and the Agricultural Adjustment Act. Appointed to high offices in the Department of Agriculture, he contributed a steady stream of bad ideas to the New Deal.

A third member of the Brain Trust, Columbia law professor Adolf A. Berle Jr., had acquired early notoriety by co-authoring with Gardiner C. Means *The Modern Corporation and Private Property* (1932), a book whose thesis was that large business corporations no longer served the public interest and therefore the government ought to control them. In memoranda to Roosevelt in 1932, Berle "stressed that nineteenth-century competition and individualism were anachronistic."[6] Although he occupied no full-time position in the Roosevelt administration until he became assistant secretary of state in 1938, he influenced New Deal policies for banking, securities, railroads, and many other matters. He exemplified, as the title of Jordan Schwarz's biography indicates, the quintessential "liberal" in the modern, leftish, bleeding-heart sense. His politics, as described by the left-liberal historian William E. Leuchtenburg, "reflected the hope of the Social Gospel of creating a Kingdom of God on earth."[7] Heaven help us!

A Different Era

How different the situation had been 40 years earlier, when a severe economic depression coincided with Grover Cleveland's second term as president. Then, too, many people had called on the national government to intervene in the economy to aid the distressed and to restructure major economic institutions. Cleveland's brain trust, however, had consisted not of collectivistic Ph.D. holders and law professors too clever by half, but of men devoted to classical liberalism.

Therefore, when the Russian minister at Washington proposed in 1896 that the major wheat-exporting nations form an international cartel, Agriculture Secretary J. Sterling Morton responded: "In my judgment, it is not the business of government to attempt, by statutes or international agreements, to override the fixed laws of economics, nor can government repeal, amend, or mitigate the operation of those laws."[8] Treasury Secretary John G. Carlisle and Cleveland himself worked tirelessly and at great political cost to save the gold standard, which was under attack by speculators, and ultimately they succeeded. Attorney General Richard Olney hastened to quell the hoodlums who were destroying property and blocking interstate commerce in the great railroad strikes of 1894.[9]

How much better the country would have been served had FDR been advised by men such as Morton, Carlisle, and Olney instead of by Moley, Tugwell, and Berle. Sad to say, Americans have been paying the price for the latter group's intellectual arrogance and rank ineptitude for the past 70 years.

Notes

1. Moley quotation from www.discover.net/~dansyr/quotes5.html.
2. William E. Leuchtenburg, Franklin D. Roosevelt and the New Deal, 1932-1940 (New York: Harper Colophon Books, 1963), p. 32.

3. John T. Flynn, The Roosevelt Myth (Garden City, N.Y.: Garden City Books, 1949), p. 34.
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Muting Messages

All Price Controls Silence Truthful and Useful Messages

OCTOBER 01, 2002 by Donald Boudreaux

As schoolchildren we learn of ancient kings who, when told of their armies' defeats, angrily commanded that the messengers be put to death. Each of us recoils at the cruelty and pointlessness of such killings. We ask ourselves how anyone could be so foolish as to imagine that a messenger is in any way to blame for the reported misfortune. A messenger, after all, simply carries and conveys information. The facts he reports would be the same if he failed to report them, and these facts aren't altered by his death.

While no modern political leader is known to have shot a postman delivering an unwelcome letter or to have ordered the death of an associate reporting a calamity, we moderns shouldn't be so quick to applaud ourselves for having advanced beyond the mindlessness that led ancient rulers to blame messengers for unwelcome news.

We blame messengers relentlessly.

We blame messengers when we criticize competitive firms that raise prices. Every price change, whether downward or upward, happens because of some change in the market's underlying conditions. Sellers who change their prices deliver to the rest of the world the message that some important market condition has changed–a change that we'd best be aware of so that we can adjust our plans and actions accordingly.

At the end of every spring, for example, the price of a gallon of gasoline typically rises a few cents. The reason is that more of us jump into cars for long road trips. The demand for gasoline increases. This increase in demand for gasoline is an underlying fact of the market. It's not created or conjured by oil companies. It is simply a fact that must be dealt with.

Oil is scarce; there's not enough of it to satisfy all the demand there would be for it if its price were zero. The price charged for oil (and for each product made with oil) tells producers how much they should produce, and it tells consumers how much they should use. By regulating the quantity of oil supplied and demanded, prices ensure that producers supply enough oil to satisfy consumers' demands without, at the same time, generating excess supplies.

The price of gasoline is a shorthand, easy-to-read summary–a report-of an extraordinarily vast array of relevant facts about the oil market: the amount of gasoline currently demanded by motorists; the amount of heating oil currently demanded by homeowners; the amount of available refining capacity; the size of known reserves; the experts' best estimates of the size of future oil reserves; the expected costs of regulations and tort liability. These and many other fundamental facts of the oil market interact with each other and result, at each moment, in a market price.

When any of these underlying facts of the market changes, the price of gasoline changes. When consumers start driving more, the resulting higher price of gasoline reflects consumers' greater demand for gasoline. It is the message to all concerned that gasoline has become scarcer relative to demand.

In the 1970s the United States government didn't quite kill the messenger (say, by destroying or nationalizing oil companies), but it did something almost as bad: it outlawed the message. By imposing price controls on oil, the government effectively declared, "We dislike the message of higher prices; therefore, we refuse to let it be heard. Silence!"

Of course, a chief benefit of information to those receiving it is that they can adjust their plans and actions to the facts described by that information. Even if it is unpleasant, acquiring and dealing with it is a must if things are to work out as well as they possibly can under the circumstances.

Facts Unchanged

Outlawing the message of higher oil prices did nothing to undo the facts that, but for the price cap, would have caused higher prices. Indeed, by silencing the message, government encouraged everyone to act as if the underlying facts of the market were different than they really were, thus making the facts increasingly worse.

By keeping the price artificially low–that is, by keeping the market's message about the facts of the oil market deceitfully rosy–price controls told consumers to try to acquire more gasoline than was available. Simultaneously, these artificially low prices told producers not to expand production. The result was a series of severe shortages.

And as those of us who remember the 1970s recall, the results were long waits in long lines at gasoline stations, as well as great anxiety over the very real threat of being unable to fuel our automobiles.

A tragicomic irony here is that keeping the price of gasoline deceitfully low raised gasoline's cost. Waiting in line, anxiety, and empty fuel tanks are very real and very high costs that consumers in a market suffering a shortage of gasoline must endure.

In 1981 Ronald Reagan stopped the foolish practice of muffling the message. By delivering honest information to consumers and producers, prices set by the market now prevent the problems that were so prominent during the 1970s.

All price controls silence truthful and useful messages. Rent control silences the message that the demand for rental housing is higher, and the supply lower, than the silencers wish. Minimum-wage regulations silence the message that many low-skilled workers would prefer to work at wage rates lower than the legislated minimum rather than be unemployed. Regulations limiting how far stock-price composites, such as the Dow Jones Industrial Average, may change during each trading day silence messages about the true state of the market for corporate equity.

Only those who believe that reality is a storybook–that you change reality merely by changing the words and symbols used to describe it–can believe that price controls improve matters. Such people are like the kings of old who killed messengers out of some primal notion that doing so might undo the unwelcome facts.

Of course, perhaps no king ever believed such foolishness. Perhaps messengers were killed simply because vindictive rulers vented their frustrations on convenient targets. And perhaps the same pointless vindictiveness is what motivates modern governments to institute price controls.

Regardless of the reasons governments impose price controls, to support them is akin to killing messengers. It is to believe that muting messages will somehow make reality better.

My Organs Are for Sale

Why Is Selling Organs Illegal?

OCTOBER 01, 2002 by Walter E. Williams

According to a new book, The *U.S. Organ Procurement System*, written by economists David Kaserman and A. H. Barnett, there are 80,000 Americans on the organ-transplant waiting list. Twenty of them die each day as a direct result of organ shortages; that's over 7,000 each year. These lost lives are not so much an act of God as they are an act of Congress because of its 1984 National Organ Transplant Act, which prohibits payment to organ donors. Reliance on voluntary donations has been an abject policy failure. It's noteworthy that everyone else involved in the organ-transplant business is rewarded handsomely–that includes surgeons, nurses, and organ-procurement workers.

How might an organ-transplant market work? Lloyd Cohen, a law professor at George Mason University, envisions letting people contract in advance to permit the harvesting of any usable organs when they die. The money earned would become a part of their estate. Many people are offended by the notion of human body parts becoming commodities for sale. That's at least a tiny bit inconsistent because there is a market for human blood, semen, and hair.

How many vital things in our lives do we depend on altruism or voluntary donations to provide? Food is vital, water is vital; so are clothing and housing. We don't depend on altruism and voluntary donations to provide these goods. And for good reason–there'd be massive shortages. Why should we depend on altruism or voluntary donations to provide what we may one day need more urgently than food, water, clothing, or housing? All objections to organ sales are either nonsense, ignorance, or arrogance. Let's look at some of them.

One concern is that if organs are sold rather than donated, poor people couldn't afford them. There's a difference between methods of attaining organs and methods of distributing them. For example, poor people need food but Congress hasn't mandated that food prices be zero so that poor people can eat. If Congress did that, there'd be massive shortages and poor people would probably starve. Instead of such a policy, we simply allow the market mechanism to supply food and then subsidize purchases, through programs like food stamps. That same principle can be applied to organ transplants: allow the market to supply organs, and if needed, subsidize or rely on charity for their distribution.

Won't organs be very costly? Kaserman and Barnett and others estimate that the organ shortage would be resolved at prices of $1,000 to $3,000 per donor. To the extent that markets would eliminate organ shortages, they would significantly reduce health-care costs. For example, the cost of kidney dialysis is about $44,000 per year. The cost of kidney transplant and medical care for the first year is about $90,000. After the first year, medical treatments, mostly for immunosuppressant drugs to prevent rejection, are $16,000. That means after about two and a half years, transplants save the medical system $27,000 per year compared to long-term dialysis.

Another concern is that if there's a market for organs, poor people will sell theirs and become ill. The proposals made so far provide monetary payments only for cadaver organs. But from a strictly ethical point of view, people should be able to dispose of their organs for whatever reason they please. Why? If we agree that people have property rights in themselves, that is, own themselves, they have a right to dispose of themselves any way they please so long as they do not violate the property rights of others. If I needed a kidney, I would prefer that someone who is unwilling to give me one would be free to sell me one, rather than for me to do without.

Some people have argued that an organ transplant market will lead to murder and the sale of the victim's organs to unscrupulous organ brokers. Murder will remain illegal and punishable. However, when the sale of a commodity is illegal there's a heightened potential for illegal activity and concomitant social disorder. During Prohibition there was far more criminal activity associated with alcohol manufacture, distribution, and consumption than there is now. To the extent that prohibition of organ sales reduces supply, everything else equal, there's greater incentive for illegal activities involving organ transplants, including murder.

The medical profession has traditionally been opposed to organ sales. Its opposition would seem to violate Hippocrates' admonition, *primum non nocere* (first do no harm). But the profession has recently taken steps, however timid, toward ending the day-to-day deaths due to organ shortages. At its July meeting, the American Medical Association endorsed trials in which payments will be made to organ donors or their families as a means to encourage cadaveric organ collections.

What's Happening?

Government Is Taking Steps to Alter Fundamentally Our Way of Life

OCTOBER 01, 2002 by Sheldon Richman

Every day brings news of another government threat to our liberty. President Bush has asked for a new look at the posse comitatus law, which prohibits use of the military in domestic law enforcement. He also called for “a nationwide program giving millions of American truckers, letter carriers, train conductors, ship captains, utility employees, and others a formal way to report suspicious terrorist activity.”

Both statements were ominous. Fortunately, the citizen-monitoring proposal, Project TIPS (Terrorism Information and Prevention System–who comes up with these puerile names?) appears to be dead, thanks to the leader of the President’s own party in the House of Representatives. The idea of training meter readers to do some snooping while going about their seemingly innocuous business is unworthy of this country’s original ideals. Must we begin being concerned about what magazines are on our coffee tables when the cable guy comes over?

The posse comitatus principle has been a valuable tradition in American life. The use of the military in civilian matters better fits authoritarian and totalitarian regimes.

These are not the first steps this government has taken to alter fundamentally our way of life. It is holding foreign nationals without charge and sometimes incommunicado. It claims–and has exercised–the authority to hold, indefinitely without charge, American citizens it has branded “enemy combatants.” We are seeing the erosion of that august principle, habeas corpus. Federal agents may now more easily electronically eavesdrop, monitor peaceable assembly, and secretly search premises and seize possessions.

It is all under the cover of combating terrorism, of course. But that makes it no less discomforting. It looks too much like government's doing what it has always done: seizing on a terrible event to expand its power.

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Favoring medical privacy is like favoring virtue. No one dares come out against it. But when you read the details of the rules being written in Washington, you'll wonder if we live in a "hypocracy." Sue Blevins explains.

It's not only medical privacy that's at risk nowadays. How'd you like to be required to carry a national ID card with you? David Brown wouldn't.

The current business scandals have launched the latest blame game. Harold Jones and Paul Jones want to know why the real culprit isn't on the field.

What exactly is government? Read its firsthand account, as told to Doug MacKenzie.

Part of the frenzied reaction to the business scandals involves changing how corporations account for executive stock options. Anthony de Jasay says that, as to be expected, the "reform" would be a mistake.

Are the rich meat eaters of the world starving the poor would-be grain eaters? Jeremy Rifkin thinks so. Dennis Avery doesn't.

There's an impression that commercial aviation was deregulated in the 1980s. If so, why aren't foreign airlines allowed to compete with domestic carriers within the United States? Paul Cleveland and Jared Price expose the folly of this protectionism.

If the welfare state is really the way to raise living standards, then why do American blacks live better than Swedes? Thomas Woods has an answer to that and other conundrums.

Most intellectuals favor government control and social engineering. Maybe it's because they've never lived in the real world. Stephen Browne relates a lesson from the other side of the defunct iron curtain.

Have you heard of the New Urbanism? Unfortunately, sooner or later you will. C.C. Kraemer prepares you for the coming debate.

Everything is not bleak in the world of public policy. People are starting to realize that subsidies to rich Western farmers hurt people in the developing world. Scott McPherson has the details.

There's nothing more commonplace than the municipal library. Ted Roberts wants to know why.

Like grass sprouting through cracks in a sidewalk, trade will flourish anywhere it can, regardless of government prohibitions. Jim Peron has observed street traders in South Africa and finds some important lessons.

The people enjoy television chef Emeril, but the critics don't. Larry Schweikart says, "So what's new?"

Have we got columns! Lawrence Reed finds the pharmaceutical market woefully misunderstood. Doug Bandow reminds us that only Congress may declare war. Robert Higgs considers two Brain Trusts. Donald Boudreaux says don't shoot the messenger. Walter Williams believes people should be free to sell their organs. And Aeon Skoble, reading the charge that America is becoming a plutocracy, protests, "It Just Ain't So!"

Reviewers this month curled up with books on the myths of gun control, the misuse of statistics, the Panama Canal, the Microsoft antitrust case, government priorities, and "liberal" political theory.

America Is Headed Toward Plutocracy?

Wealth Inequality Is Not a Problem

OCTOBER 01, 2002 by Aeon Skoble

In a *New York Times* op-ed (June 14, 2002), columnist Paul Krugman lamented the increasing inequality between rich and poor, and expressed concern that this will lead to an erosion of democracy. He needn't worry himself (more important, he needn't worry his readers), since his argument depends on misleading arguments about wealth disparities and philosophical confusion about American democracy.

The very title of his column, "Plutocracy and Politics," is misleading. Plutocracy means government by the wealthy. Even if we grant the assumption that income inequalities are increasing, that wouldn't make our society a plutocracy. If it wasn't a plutocracy during the hated (by Progressives) Gilded Age, it isn't now. Even if it were true that income inequalities are more pronounced now than in John D. Rockefeller's day, there is simply no evidence that we are governed by a cabal of the wealthiest few. For one thing, many of our richest citizens are left-leaning. More to the point, politicians are still democratically elected, and fears about campaign finance notwithstanding, it remains the case that a rich person has as many votes as a poor person. Even if we wanted to reduce the citizenry to convenient, polarized categories like "rich" and "poor," the politicians would be a distinct third class. They work to get re-elected. Sometimes that means catering to what they see as the interests of the rich. Other times it means catering to what they see as the interests of the poor.

But politicians are notorious for attaining results contrary to their stated goals. For example, it might seem to be "catering to the interests of the working class" to enact import quotas on foreign goods, because they protect the jobs of those who produce the corresponding domestic goods. But it is not, since it is predominantly the working class that will bear the burden of paying the higher prices for those goods. What is in everyone's real interests, of course, is to have the maximal amount of liberty that is consistent with everyone else having equal liberty. But there's scant evidence that any politicians consistently work toward that end.

There's a deeper point about income inequality, which can be summarized as "so what?" Since when is disparity between incomes the only gauge of how good a state of affairs is? If all philosophy professors could double their incomes, but only as part of some scheme whereby history professors would triple theirs, is it not in my interest to agree to this? There's a sense in which this may be "unfair," but preferring the status quo is clearly detrimental, to me as well as to everyone else. If all the historians start driving Jaguars, I have still doubled my income. It's more a matter of attitude whether I am filled with joy at the increase in my wealth or resentful that the historians have even more. I prefer the former. The latter is psychologically, as well as socially, destructive. If one approach to political economy makes both Smith and Jones richer, but to different degrees, that is preferable to one in which both are equally impoverished. So to lament inequality without taking into consideration real gains by all is morally obtuse at best. At worst, it's deceitful.

Part of Krugman's complaint is that the pay for top CEOs has skyrocketed (4,300 percent!) even in cases where one has had a disastrous tenure at the company. This is largely a non sequitur. It may be true that some CEOs are overpaid. The free market respects people's freedom to make decisions, but it doesn't guarantee that all decisions are wise. Do some corporate boards pay their CEOs too much? Sure. And the company suffers when they do.

But excessive salaries for ineffective CEOs aren't directly charged to my account (unlike, say, tax increases). One suspects that Krugman has invoked the overpaid but inefficient CEO as a rhetorical device to foment indignation about income disparities. Another example might be a professional athlete who signs a multimillion-dollar contract and then has a terrible year, or a big-budget action picture that flops. These examples make people more acutely aware of income disparities because they seem to be examples of someone making lots of money for doing nothing. But the appeal is largely rhetorical, operating in defiance of economic logic. People make mistakes. This is neither here nor there with respect to Krugman's larger argument that we are heading toward "government of the rich." And contrary to what he thinks, these examples do not refute the idea that riches generally are a reward for achievement.

Cause for Concern?

Even if it's true that America isn't heading toward plutocracy, some might argue, should we not be concerned about the erosion of democratic sentiment that wealth inequality engenders? No, for two reasons. First, there's ample evidence that these disparities are not increasing the way Krugman implies. According to economist Steven Horwitz, the real cost of living has dropped significantly and consistently over the course of the last hundred years, and the last few decades, for the poor as well as the rich. Between 1975 and 1991, the average income of those in the bottom fifth rose, in real terms, at a greater rate than the average income of the top fifth. So the slogan "the rich get richer while the poor get poorer" turns out not to be the case. While examples of ostentatious consumption of luxury goods may make it seem that disparities are growing, the statistics belie this. And of course the trend toward ostentatious consumption is as common to lower-income and middle-income families as it is among the rich.

Second, democracy, in the sense of popular voting for congressional representatives, is not threatened by some people making more money than others. Other senses of democracy, for example, that all wealth belongs to the state and hence inequalities must be "arranged" in order to achieve certain outcomes, are not consistent with liberty and are not part of our political heritage.

It's a shame that the most prominent economics columnist, in the country's most prestigious newspaper, relies on misleading statistics and appeals to resentment and envy to make an alarming point when he could be passing along some good news: that everyone is better off now than 100 years ago, and government manipulation of wages and prices isn't why.

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The Seven Myths of Gun Control: Reclaiming the Truth About Guns, Crime, and the Second Amendment

Debunking Common Fallacies about Gun Use

OCTOBER 01, 2002 by Richard Poe, Tom Welch

Guns increase the incidence of violent crime. Using a gun to deter crime is more dangerous to the intended victim than the perpetrator. Guns pose a special threat to children. Such statements, reinforced in the media, are accepted at face value by many Americans. But are they true?

According to Richard Poe, editor of FrontPageMagazine.com, the answer is a resounding no. In *The Seven Myths of Gun Control* he identifies common fallacies used to promote gun control and sets forth arguments to refute them.

Five of the myths are of a practical nature, while two deal with the legal and social context of the Second Amendment. To his credit, Poe prefaces his discussion with the declaration that the issue is primarily a moral one: the right to keep and bear arms. His aim is to show that gun ownership is in fact more beneficial than portrayed by proponents of gun control. Were it not, however, there would still be no justification for authorities to forbid citizens a priori from owning firearms and using them in self-defense.

Armed with this solid grasp of the concept of rights, Poe wisely avoids the “let’s enforce the gun laws we already have instead of creating new ones” approach. Such a position accepts the premises of gun-control advocates and reduces the debate to a quibble over degree.

In each myth, Poe discusses the underlying assumptions and presents facts, arguments, and anecdotes to counter them. A recurring implication is the necessity of presenting statistics that are not only valid but also meaningful. So often the myths he cites rest on statistics that either omit vital data or consolidate disparate groups into a single category. For example, the level of gun violence among U.S. teens is not significantly different from that in other industrialized nations–when you exclude certain identifiable violence-prone subcultures. Gun ownership deters crime–when you consider that in 98 percent of cases in which U.S. citizens use guns to defend themselves from criminals, no shot is fired. Guns cause far fewer deaths to children than automobile accidents or drowning–especially when you exclude older teens engaged in violent criminal activity from the category "children." Crime has increased in Great Britain and Australia since those nations confiscated virtually all private firearms–when you consider burglaries, robberies, and assaults committed without a gun.

Poe contends that not only is private gun ownership not the evil it is so often portrayed to be, but it is also beneficial–indeed, essential–for the preservation of a free and prosperous society. Throughout history the most violent criminals have been the ones in power. An unarmed populace is an invitation to dictatorship, and the disarming of populations, from sixteenth-century Japanese peasants to twentieth-century German Jews, has been a prelude to oppression. Poe warns us not to think America is immune from such a scenario–and indeed points out that the forcible disarmament of American Indians and southern blacks by official or semiofficial means left these groups defenseless against the depredations visited on them.

While relying on documented facts and statistics, Poe's narrative is not void of passion. Indeed, some of the examples he gives are downright chilling. Especially ominous are the scenarios he depicts of widespread chaos and/or deprivation of civil liberties following a large-scale natural disaster or "catastrophic terrorism."

The Seven Myths of Gun Control is a helpful resource for gun-control opponents. It may prove less effective in swaying its logical target readership: those who accept the myths but who are open to opposing views. The latter may be turned off by such elements as a snide reference to Al Gore not germane to the topic of gun control or a favorable reference to the movie Death Wish, which could be construed (mistakenly I believe) as condoning vigilantism.

The most troublesome argument, however, is Poe's contention that gun-control advocacy is part of a feminist scheme to emasculate men. While such sentiments may indeed play a role, Poe relies on an analysis of the psychological motives of gun-control advocates that must be regarded as highly speculative. Moreover, his proposed antidote–instilling a “warrior culture” among young males–is debatable. Cannot the violence-prone youth in certain American subcultures be said already to have a “warrior culture”? One might argue instead that a reassertion of man’s rational nature is the solution.

Still, Poe is to be commended for his attempt to bring facts and logic to a debate that, as he notes, is too often clouded by purely emotional arguments.

Tom Welch is a writer in Atlanta, Georgia.

Damned Lies and Statistics

An Excellent Diagnosis of the Problem of Deceptive Statistics

OCTOBER 01, 2002 by George C. Leef, Joel Best

One of the most infuriating aspects of the "information age" is that it makes it easy for those who want to undermine freedom to get their way by peddling falsehoods. Statistics can be among the most damaging of falsehoods. Undoubtedly you've seen them at work on behalf of meddlers who want something from government: statistics on Americans without health insurance; statistics on homelessness; statistics on deaths of children due to firearms, and so on. The well-documented "innumeracy" that characterizes much of our populace helps the meddlers because few people are able to see when they're being deceived.

Joel Best's *Damned Lies and Statistics* is a level-headed look at the problem of the use (mostly misuse) of statistics in America. He observes that "bad statistics are potentially important: they can be used to stir up public outrage or fear; they can distort our understanding of our world; and they can lead us to make poor policy choices." The book proceeds to show how bad statistics come into existence, how they take on a life of their own, and how people can spot them.

Best, professor of sociology and criminal justice at the University of Delaware, begins his examination of the problem by citing what he regards as the worst social statistic ever. When serving on a dissertation committee, he read a student's prospectus that stated, "Every year since 1950, the number of American children gunned down has doubled." Best checked the citation, an academic journal, thinking that the student had copied the quotation incorrectly. But no, the quotation was accurate. The problem was obvious to anyone with a familiarity with mathematics and the powers of two. By 1980 the number of children gunned down would be two to the power thirty–more than one billion! Obviously and fantastically wrong, there it was, being cited by people interested in propounding the notion that huge numbers of children are killed by guns every year.

The root of the problem is that it is so easy to use statistics to hoodwink people into believing things that government activists want them to believe. Best shows the several ways in which numbers can be cooked to convince people that "Like wow! The government better do something!" His third chapter, "Methods for Mangling Numbers" does a wonderful job of explaining the tricks of the trade. One is the use of questionable definitions to inflate minimal problems into headline makers. A good example is the frenzy over church arson of 1996. By defining as a "church arson" every instance of church fire, including those that could not conceivably have been racially motivated, the crisis-mongers managed to convince Congress and the media that the nation was in the throes of a wave of Klan-like violence directed at black churches. Once its political usefulness had been mined out, the issue quietly went away.

Another reason for bad statistics is bad sampling. The often-repeated "fact" that 83 percent of Internet traffic is pornography is a good example. The researcher who compiled that statistic drew his sample from, as Best writes, "precisely that portion of the Internet where pornographic images were concentrated; it was anything but a representative sample."

It's rather easy to create a bad statistic, or to transform a good one into a deceptive one. Then a process kicks in that often results in the widespread dissemination of that statistic:

Once someone utters a mutant statistic, there is a good chance that those who hear it will accept it and repeat it. Innumerate advocates influence their audiences: the media repeat mutant statistics; and the public accepts–or at least does not challenge–whatever numbers the media present. A political leader or a respected commentator may hear a statistic and repeat it, making the number seem even more credible. As statistics gain wide circulation, number laundering occurs. The figures become harder to challenge because everyone has heard them.

The numerous groups that desire to manipulate public opinion in order to get favors know exactly how to put those wheels in motion.

In the author's view, most Americans are either "awestruck" or "naïve" when it comes to statistics. He would like to see far more of us become "critical," which is to say, "appreciating the inevitable limitations that affect all statistics, rather than being awestruck in the presence of numbers. It means not being too credulous, not accepting every statistic at face value (as the naïve do).” He does not, however, suggest any means by which we might make any improvement in our ability to understand and analyze statistics. Given that our government-run education system has a strong incentive to keep the citizenry credulous, it’s not easy to see how we can make headway against this educational deficiency.

Nevertheless, the book provides an excellent diagnosis of the problem.

How Wall Street Created a Nation: J. P. Morgan, Teddy Roosevelt, and the Panama Canal

What Really Happened to Create the Panama Canal?

OCTOBER 01, 2002 by Lawrence W. Reed, Ovidio Espino

When traveling from the Atlantic Ocean entrance of the Panama Canal to the canal's exit into the Pacific Ocean at its other end, what direction are you going?

Most Americans would respond, "That's easy. It's east to west." But they would be wrong. Check a map. The shape of the Isthmus of Panama and the cut of the canal make the journey a 51-mile trip from northwest to southeast.

If the author of a new and revisionist history of the Panama Canal is correct, geography isn't the only thing about the Big Ditch that Americans don't know. Ovidio Diaz Espino's account of the political intrigue and treachery that made a few people a lot of money certainly isn't standard fare in the history books. Instead, we're taught that the swashbuckling visionary Teddy Roosevelt rushed to the aid of freedom fighters in Panama, helped them secure their independence from Colombia, and then led the building of the Canal in just the right spot.

History texts often offer a quick reference to TR's playing fast and loose with the Colombians, but they usually wink at it and move on. What's wrong with a little gunboat diplomacy if that's what it takes to get those selfish, backward Latin Americans to get in line? Great ventures for the good of all require a little bending of the rules.

Like other schoolchildren growing up in Panama in the 1960s, Espino learned about the struggle of the Panamanian patriots helped by TR. But it was years later as a lawyer for J.P. Morgan in New York City that he first learned of a very different perspective. At a party he was introduced to a screenwriter named Webster Stone, who asked a startling question, "Did you know that your country was conceived in Room 1162 of the Waldorf Astoria?" Stone's revelation plunged Espino into a four-year investigation that culminated in this book.

The French attempted a Panamanian canal in an ill-fated venture that collapsed in 1889. Shares of Ferdinand de Lesseps' company languished nearly worthless as its equipment rusted in the Panamanian jungle, but the rights to build a canal there were another matter. They could be worth a fortune–but only if the United States entered the picture and took up where the French left off.

The U.S. government had long favored the idea of a canal somewhere in Central America. When the French adventure collapsed, it was only a matter of time before the United States got involved. A consortium of Wall Street financiers schemed to buy the rights to a Panamanian canal for a song and sell them to the U.S. government at a huge profit. But a roadblock called Nicaragua stood in their way.

By the turn of the century, it was widely accepted that the best route for a canal would be across Nicaragua. That country was offering the land for free, whereas the Wall Street crowd that had bought up de Lesseps' rights in Panama were holding out for $40 million. Moreover, the route through Nicaragua was closer to the United States, featured upwards of a hundred miles of navigable lakes and rivers, and offered the easiest-to-cross pass through the Central American highlands. To top it off, Nicaragua was more stable than strife-ridden Panama.

Espino's story of how the New York financiers swung both TR and Congress over to the Panama side of the debate is an extraordinary account of double-dealing, deception, and dollar diplomacy. The pro-Panama forces even swayed some votes by claiming that Nicaragua was too risky, offering samples of that country's postage stamps, which depicted volcanoes spewing ash and lava, as proof!

Congress passed a bill on June 19, 1902, giving preference to Panama on the condition that a satisfactory treaty be negotiated with Colombia; otherwise, the president was ordered to proceed with construction through Nicaragua.

What happened next is too juicy to betray here. Suffice it to say that if Espino is right, both the Panamanians and the Colombians were double-crossed by Uncle Sam, while well-connected men like J.P. Morgan, Philippe Bunau-Varilla, and William Nelson Cromwell cleaned up. The author doesn’t claim that TR pocketed anything for his work on behalf of the Wall Street syndicate, but notes that he took extraordinary measures to make sure the trail went cold short of him.

The author’s work is marred by a tinge of class-warfare rhetoric. Espino seems to buy into the “robber baron” canard that rich men are inherently mischievous, if not corrupt and exploitative. In nonpolitical ventures, scions like J.P. Morgan accomplished much good. If Espino’s case is accurate–and he presents strong evidence–it was clearly political power and incompetent or corrupt government officials who made possible any undue gain from the Canal affair.

Antitrust After Microsoft: The Obsolescence of Antitrust in the Digital Era

Antitrust Policy Protects Competitors, Not Competition

OCTOBER 01, 2002 by David Kopel, Laura Bennett Peterson

What's in a name? Even the simple title, *Antitrust After Microsoft*, suggests a question: Will there ever be an after Microsoft? Federal antitrust agencies have investigated and prosecuted Microsoft since 1990. The resolution of the federal suit, the focus of the author's attention, will not lay to rest the actions it encouraged, as entities including state attorneys general, the European Commission, rivals AOL Time Warner and Sun Microsystems, and private class-action plaintiffs join in the fray.

While the title looks to the future, the book's strength is its description of the present and recent past. David Kopel, director of the Heartland Institute's Center on the Digital Economy, draws on a wide array of scholarly and business sources to set forth a detailed topography of the terrain in which Microsoft operates.

In describing this terrain, Kopel debunks several myths. For product after product–from operating systems to browsers, office applications, and (largely beyond this book's horizon) business server software–Microsoft has not behaved like the textbook monopolist, reducing output, raising price, and neglecting quality. Software prices have fallen by 60 percent on average in markets Microsoft entered, but only 15 percent in other software markets. Pure coincidence? Even trial court Judge Thomas Penfield Jackson, who likened Microsoft's managers to gangsters, found that Microsoft "contributed to improving the quality of Web browsing software, lowering its cost, and increasing its availability, thereby benefiting consumers."

Microsoft has not, moreover, been able to "leverage" its "monopoly power" in Windows to defeat applications consumers prefer. AOL's subscriber base dwarfs MSN’s; Intuit’s Quicken leads Microsoft’s Money; RealNetworks’ media software prevails, despite the “bundling” of Media Player with Windows. Microsoft’s Internet Explorer browser only began seriously to erode the market share of Netscape’s Navigator when it was judged technically superior and when Microsoft, unlike Netscape, offered a version that could be embedded in AOL’s access software.

Kopel stresses, too, the competition Windows faces from software and hardware products–such as the Linux operating system, Web-based services, handheld digital devices, and interactive television–that were less widely used, or not even invented, when the Justice Department filed its complaint in 1998. He calls this expansion of the computing universe beyond the desktop a “paradigm shift not unlike the change” from the Ptolemaic to the Copernican view of the universe.

Any such paradigm shift is, however, still unfolding and represents competition to Windows as yet more nascent than “intense.” A limited and, in Kopel’s view, “phony” market definition, including only Intel-compatible PC operating systems like Windows, survived on appeal because Microsoft failed to show that other products were reasonably interchangeable for the same purposes. In this narrowly defined market, Microsoft holds a sufficiently large share to be deemed, for antitrust purposes, a monopoly.

Why does Kopel strive to show that Microsoft is not–or at least does not behave like–a monopoly? Monopolies are suspect, if not evil, in the antitrust world; behavior that would otherwise be legal becomes illegal at the hands of a monopolist. But is a monopoly necessarily bad? Temporary monopolies may flow from market-transforming innovations, intellectual property rights, economies of scale, and network effects (with the value of an item increasing the more it is used by others)-all common in high-tech markets.

Kopel, as his subtitle suggests, entertains a sweeping vision: the end of antitrust. He rests his case on a review not only of *United States v. Microsoft* but of “antitrust’s greatest hits”: Standard Oil (1911), Alcoa (1945), and AT&T (1982). He does not mention an even more apposite case, *United States v. IBM*. Reagan antitrust chief William Baxter ended the IBM prosecution for a number of reasons: the cost of the 13-year litigation, the weak causal connection between illegal acts and market share, and the difficulty of fashioning relief that would inject competition but not retard innovation.

But antitrust policy has a life of its own and all too often, as *Antitrust After Microsoft* well shows, protects competitors and not competition.

Laura Bennett Peterson, an attorney, was an amicus curiae on the appeal of United States v. Microsoft*.*

The Sixteen-Trillion-Dollar Mistake: How the U.S. Bungled Its Priorities from the New Deal to the Present

Interesting but Fundamentally Flawed

OCTOBER 01, 2002

The Sixteen-Trillion-Dollar Mistake is an interesting, but fundamentally flawed book. Those who share the author's ideological position (more on that in a moment) will find the book a treasure-trove of information to support their preconceptions. Most people, however, will be hard-pressed to wade through the tome's biased economic misconceptions.

Jansson starts out innocently enough, writing, "I began this research with the suspicion that Americans had made numerous errors in their priorities from the presidencies of Franklin Roosevelt through Bill Clinton." Virtually any well-read American can point to government blunders in the allocation of resources, and from the book's title, you might suppose that the author is about to pitch into the tremendous waste that we have seen in federal farm subsidy programs, housing programs, welfare, education meddling, and so forth.

But no–Jansson is a professor of "social work" at the University of Southern California, and his complaint is not with those familiar boondoggles. Instead, he is upset that our "national priorities" have not matched his utopian dreams.

In an interview distributed by Columbia University Press, Jansson was asked, "How can a non-economist, non-military expert, non-budget expert intelligently criticize budget decisions of various Presidents and Congresses?" To which he answered, "To the research and recommendations of these experts, I have added value judgments." Politicians, it hardly need be said, are not "experts," but Jansson's "value judgments” for the most part reflect a socialistic mindset that uncritically accepts the efficacy of government at solving “social problems” and looks askance at free enterprise.

As a long-time taxpayer activist, I believe that the money Americans earn is theirs to do with as they choose. Jansson’s view is just the opposite: “Failed priorities stem from misguided tax rates at excessively low levels, thereby depleting the resources available for military or domestic programs.” He grumbles that “members of Congress have often curried favor with voters by cutting taxes, even though they needed money to address domestic or international needs.” In short, what Jansson gives us is the old Galbraithian argument that we are starving the public sector by leaving so much money in private hands. The sixteen-trillion-dollar mistake, in his mind, is that the government hasn’t grown far bigger than it is!

Looking back into history, Jansson argues that FDR failed to raise taxes high enough to adequately fund the New Deal. “Historians often portray the New Deal as mammoth,” he writes, “but it had relatively few resources.” Jansson here is entirely oblivious of the well-argued case that the New Deal was a great hindrance to the economy’s recovery. He just takes it as an article of “liberal” faith that increased government spending would have done more to “stimulate” the economy and boost employment.

The author also echoes the jaded leftist cry that corporations are undertaxed. The problem here is that people who study the economics of taxation have generally concluded that the incidence of taxation doesn’t fall on corporations, but instead falls on customers, workers, and stockholders.

Jansson argues that higher taxes would give the government more revenues for all those programs that the left holds sacred–Head Start, Medicare, welfare, foreign aid, and more–while not affecting productivity. He thinks it a myth that high taxes stifle the economy and lead to rising unemployment, but never comes to grips with the argument of serious economists that by siphoning resources from the private sector, the government necessarily reduces industry’s ability to employ people and produce goods and services. It never occurs to Jansson to compare the economic performance of high-tax and low-tax nations.

Some of his complaints are well-taken, especially on corporate welfare, but others have done better work in identifying the waste.

There is little to be learned from this feeble book except that limited-government scholarship and basic economics still have not penetrated far into academia–especially schools of "social work."

Donald Racheter is professor of political science at Central (Iowa) College and president of Public Interest Institute.

Liberalism Beyond Justice

Stuck in the Cramped Corridor of Establishment Liberalism

OCTOBER 01, 2002 by Eric Mack

The first several chapters of John Tomasi's *Liberalism Beyond Justice* are devoted to his pledging eager and cloying allegiance to the world of Rawlsian liberalism that dominates political theory and philosophy, especially in the corridor of academic power that stretches from the University of Pennsylvania through Princeton, Columbia, Brown, and Harvard. In his last two chapters, however, Tomasi mildly dissents from some of the most culturally elitist and economically egalitarian policy recommendations of what he calls "High Liberalism."

But in the course of his deferential dissent, Tomasi, who teaches political theory at Brown, avoids any reference whatsoever to the arguments of unfashionable classical-liberal or libertarian theorists. This is particularly striking because the dissenting arguments that Tomasi advances have for some time been advanced much more clearly and powerfully by various classical-liberal or libertarian authors–including authors such as Tibor Machan and David Schmidtz with some of whose works Tomasi must be familiar, since they appear in his bibliography.

To understand the character of Tomasi's venture, one needs a brief sketch of the breathtaking intellectual developments that have issued from Harvard philosopher John Rawls over the last several decades. In his 1971 book, *A Theory of Justice*, Rawls argued that the principles of justice are the norms to which rational people who are unencumbered by any concern about their own specific personal traits, circumstances, or goals would agree. Such rational people would seek out principles that would nullify as much as possible social and natural inequalities. According to Rawls, these people would agree to principles that would mandate equal political liberty and radical income redistribution.

Despite his endorsement of extensive state action, Rawls's position has one virtue from the point of view of genuine liberalism. Once one complies with Rawls's various (and too demanding) principles of justice, one has satisfied all the demands of sound political theory and may live what remains of one's life free from further political surveillance. It is this virtue of Rawls's theory that Tomasi objects to in the first several chapters of *Liberalism Beyond Justice*.

According to Tomasi, what goes on in one's life beyond one's compliance with justice is also a concern of a proper political liberalism. Tomasi construes even one's self-development and search for meaning as a civic duty, part of what citizenship demands. Accordingly, Tomasi contends that liberal theory mandates a civic education that "must also prepare each citizen to play her socially constructive role in making her society flourish as the type of society it is." In effect, Tomasi politicizes dimensions of life that even Rawls at his most intrusive places beyond the purview of political liberalism. One shudders at the thought of the curriculum that would comprise that "civic education" and the people who would teach it.

Tomasi also focuses on the problem that, although a regime of political liberalism purports to be neutral among different conceptions of the good life, it in fact is likely to undermine certain of those conceptions. For example, a public emphasis on rights that individuals may exercise as they choose inclines people to think of their life plans as objects of deliberate choice, and this inclination undermines traditionalist or authoritative conceptions of the good life. Tomasi's solution is to require liberal regimes to work harder at being respectful of all "reasonable world views." This might involve, for example, greater tolerance within schools for expressions of religious views. It is a strange twist on liberalism to conclude that authoritarians must not only be free to promote their ideas, but that the state is obliged to help them.

More significantly, Tomasi dissents from the Rawlsian conclusion that all reasonable people would agree to a regime of coerced maximal downward income redistribution. Some reasonable people will instead believe that the way for them to fulfill their citizenship duty of nullifying misfortune is for them to engage in uncoerced income redistribution. A sound political liberalism must to some extent accommodate those who dissent from coerced maximal downward redistribution.

Tomasi has a glimmering here of two ideas that many classical liberals and libertarians have articulated. The first is that generosity and benevolence are virtues that only contribute to the goodness of one's life if they are undertaken voluntarily. The second is that the more pluralistic a society is, the more difficult it becomes to get general agreement on enforceable positive duties. But, to do justice to these ideas, Tomasi would have had to venture beyond the cramped corridor of establishment liberalism.

What this book illustrates is how little the case for liberty has advanced within the confines of academic orthodoxy. Tomasi may think of himself as a bold intellectual rebel, but it would have been far bolder to have done justice to the classical-liberal ideas with which he is familiar.

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D. W. MacKenzie is an assistant professor of economics at Carroll College in Helena, Montana.

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About Ted Roberts

About James Peron

About Larry Schweikart

About Lawrence W. Reed

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

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

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

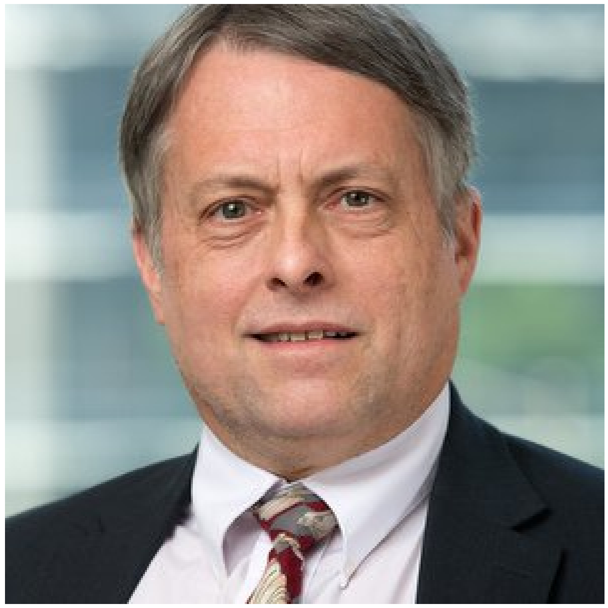
Reed has delivered at least 75 speeches annually in the past 30 years in virtually every state and in dozens of countries from Bulgaria to China to Bolivia. His best-known lectures include "Seven Principles of Sound

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

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

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

About Doug Bandow

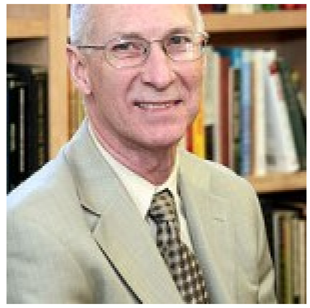


Doug Bandow is a senior fellow at the Cato Institute and the author of a number of books on economics and politics. He writes regularly on military non-interventionism.

About Sheldon Richman

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

About Robert Higgs



About Donald Boudreaux

About Walter E. Williams

Walter Williams has served on the faculty of George Mason University in Fairfax, Virginia, as John M. Olin Distinguished Professor of Economics since 1980. He is the author of more than 150 publications that have appeared in scholarly journals. Learn more about him at here.

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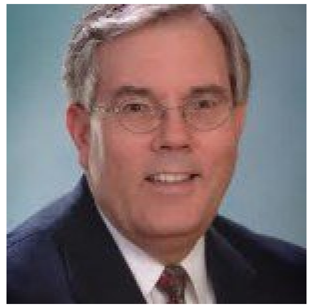

George Leef is the former book review editor of *The Freeman*. He is director of research at the John W. Pope Center for Higher Education Policy.

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About Ovidio Espino

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About David Kopel

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