THE
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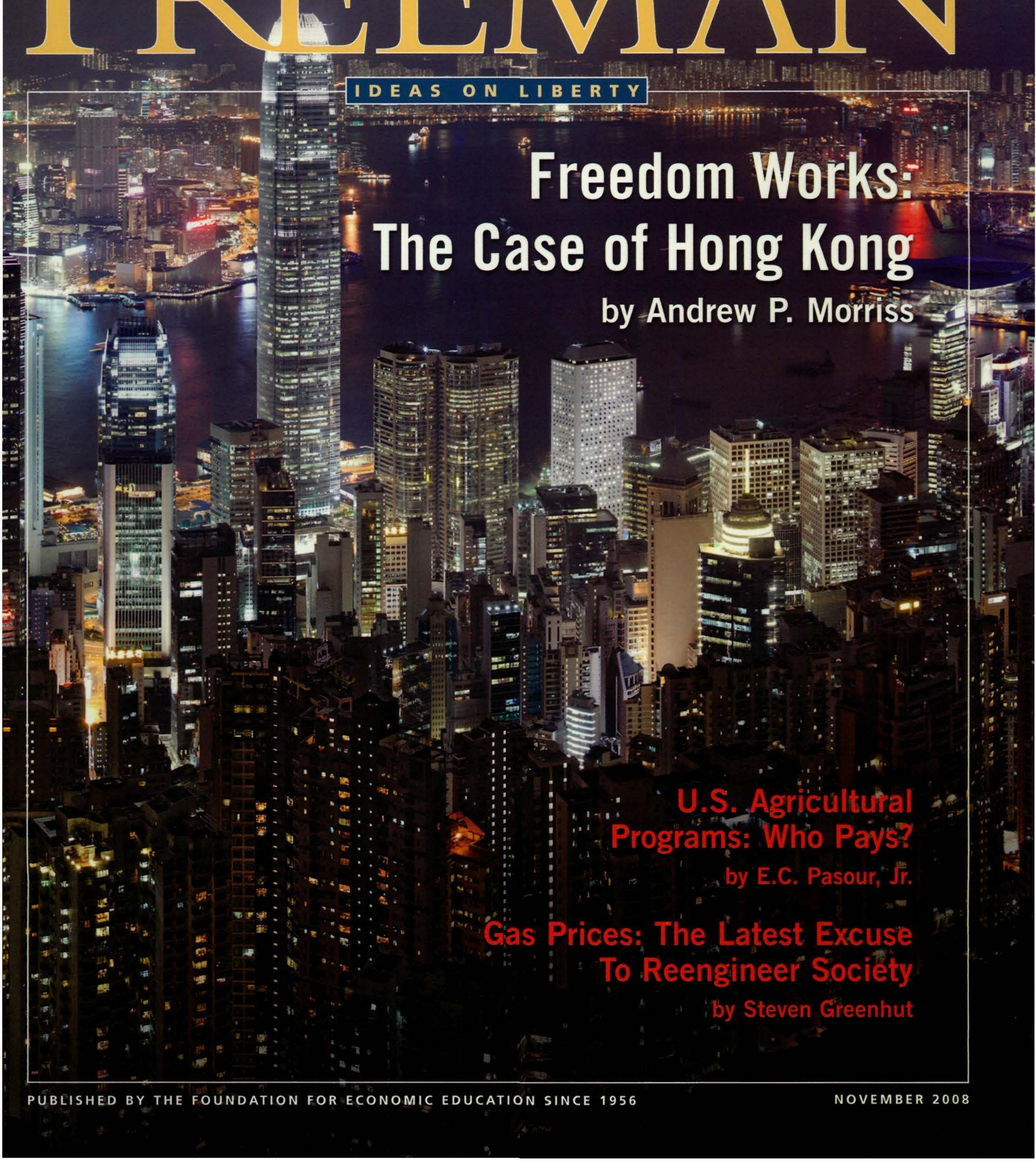
IDEAS ON LIBERTY



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by Andrew P. Morriss

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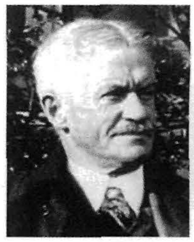

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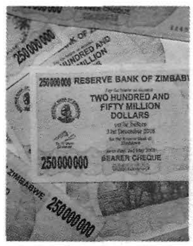

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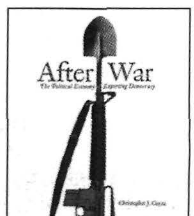

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Perspective

Paternalist Nudges

Harvard law professor Cass Sunstein and University of Chicago economics professor Richard Thaler are self-proclaimed "libertarian paternalists" (http://tinyurl.com/6xy6l4). Contradiction in terms? They think not. According to their approach, "[G]overnments try to move people in good directions without imposing penalties, mandates or bans." The part about "moving people in good directions" is the paternalism. The part about "without penalties" is the libertarianism.

So they say.

I'm thinking they've got this wrong. It's too clever by half. In fact, there's nothing libertarian about it.

Sunstein and Thaler are impressed that people are influenced by the context they find themselves in. Marketers and others have noticed this. So, for instance, when people buy something online and are given the option to receive future e-mail offers, they will tend to accept whichever option is already checked—the default. If "yes" is pre-checked, lots more people will receive the notices than if "no" is pre-checked or, I surmise, if nothing is checked.

Sunstein and Thaler sense important implications for public policy. "Automatically enrolling people in a savings plan dramatically increases participation, even though people retain the right to opt out," they write. So why can't government do things like that? Leave people free to opt out—but *opt them in to begin with.* Sunstein and Thaler see great things on the horizon:

"The mounting international interest suggests the possibility of developing a genuine Third Way, one that accepts some of the progressive goals traditionally associated with the left, but insists on the market-friendly means traditionally associated with the right. Libertarian paternalists resist coercion. They think that freedom of choice is an important safeguard against the bias, confusion and self-interest of government. They also think that everyone can benefit from a friendly nudge."

Libertarian yet paternalistic at the same time. Brilliant!

Not so fast. As Dwight Lee points out in the July 2007 *Freeman,* Sunstein and Thaler seem in no hurry to apply their revolutionary principle to Social Security and Medicare (http://tinyurl.com/6xm9d4). I'd have to concede that a no-penalty opt-out provision for these government interventions would be an improvement on the current system. So why isn't it proposed? (Hint: Because the system has no chance of working if everyone isn't compelled to participate. It can't be sustained under those circumstances either.)

There's another criticism. Government by nature is coercive. It is the only group that may legally use non-defensive physical force, that is, force against people who have aggressed against no one. Yet this same group—the one Sunstein and Thaler admit is riddled with "bias, confusion and self-interest"—would decide what the default "choice" would be in a variety of matters. It would decide what is good for everyone and give them a "friendly nudge" in that direction. The government's inherent knowledge deficiencies don't much bother Sunstein and Thaler.

Of course, if government permits people to opt out of some programs, *there must be programs to opt out of*—programs that can exist only because the government has the power to aggress, namely, taxation. Will the opt-outs really see their taxes lowered? What do you think?

So on closer examination, libertarian paternalism is not so libertarian after all. It requires a background of coercion.

Sunstein and Thaler hasten to add that they do not mean that government-by-nudge is sufficient for all things. "We concede that in some contexts libertarian paternalism is not enough," they write. ". . . No sensible person could argue that government action should be limited to nudges. But too often governments resort to coercion when gentler approaches, preserving freedom of choice, are at least as effective."

What these authors ignore is that the gentlest approach of all is to preserve real freedom of choice by letting people keep what they earn and spend it as they see best. In a free society, government wouldn't presume to construct the default environment in order to "move people in good directions." The "good" is for people to decide for themselves—without the nudges from friendly, biased, confused, or self-interested politicians. Let's remember that "nudge" is also Yiddish for someone who pesters, annoys, or complains.

⋆ ⋆ ⋆

Hong Kong holds a special place in the hearts of advocates of economic freedom. How did that rock void of resources becomes a model of prosperity? Andrew Morriss traces the journey.

Government aid to farmers goes back a long time. If it's a benefit to some, it's also a burden to others. But to whom? E.C. Pasour, Jr., shows who pays.

The government's terrorist watch list ballooned to one million people last summer. Are there really that many people who must be kept off airplanes? Becky Akers takes a look.

Social engineers seize on anything to justify expansion of government control over our lives. So wouldn't you know that the increase in gasoline prices would summon forth an elaborate land-use-control program? Steven Greenhut exposes the ploy.

The credit crunch has spread to the student-loan market, prompting politicians to want to "do something." They've already done too much, George Leef claims.

Albert Jay Nock is one of the godfathers of the libertarian movement. Who was he and what did he stand for? Joseph Stromberg has the details.

Our columnists have been hard at work. Lawrence Reed explains why inflation is back. Donald Boudreaux discusses the importance of idea retailers. Steven Davies ponders presidential reputations. John Stossel blesses the oil speculators. David Henderson says beware the one who sets the terms of a debate. And Alan Schaeffer and Marshall Fritz, repeatedly bumping into the argument that government can fix education, protest, "It Just Ain't So!"

Coming under review this month are books on global intervention, nation-building, great libertarians, and famous economists.

Capital Letters features another lively exchange.

—Sheldon Richman
srichman@fee.org

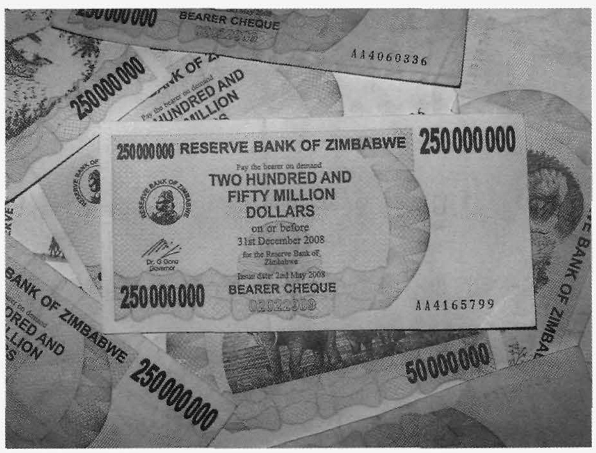
Why "Inflation" Is Back

BY LAWRENCE W. REED

"Government," observed the renowned Austrian economist Ludwig von Mises, "is the only institution that can take a valuable commodity like paper, and make it worthless by applying ink."

Mises was describing the curse of inflation, the process whereby government expands a nation's money supply and thereby erodes the value of each monetary unit—dollar, peso, pound, franc, or whatever. It shows up in the form of rising prices, which most people confuse with the inflation itself. The distinction is important because, as economist Percy Greaves once explained so eloquently, "Changing the definition changes the responsibility."

Define inflation as rising prices and, like Jimmy Carter, you'll think that oil sheiks, credit cards, and private businesses are the culprits, and price controls are the answer. Define inflation in the classic fashion as an increase in the supply of money, with rising prices as a *consequence*, and you then have to ask the revealing question, "Who increases the money supply?" Only one entity can do that legally; all others are called "counterfeiters" and go to jail.



Most economists worth their salt have long argued that inflation is always and everywhere a monetary matter. As one of them put it, rising prices no more cause inflation than wet streets cause rain. The monetary authorities inflate and then prices rise, in that order, and if the people's confidence in that money dissipates, the price hikes will be astronomical. Now that prices in the United States are going up at their fastest pace in more than 25 years, a little history lesson is in order.

Before paper money, governments inflated by diminishing the precious-metal content of their coinage. The ancient prophet Isaiah reprimanded the Israelites with these words: "Thy silver has become dross, thy wine mixed with water." Roman emperors repeatedly melted down the silver denarius and added junk metals until the denarius was less than 1 percent silver. The Saracens of Spain clipped the edges of their coins so they could mint more until the coins became too small to circulate. Prices rose as a mirror image of the currency's worth.

Rising prices are not the only consequence of monetary expansion. Inflation also erodes savings and encourages debt. It undermines confidence and deters investment. It destabilizes the economy by fostering booms and busts. If it's bad enough, it can even wipe out the very government responsible for it in the first place. It can lead to even worse afflictions. Hitler and Napoleon both rose to power in part because of the chaos of runaway inflations.

All this raises many issues economists have long debated and about which I have my own views. Who or what should determine a nation's supply of money? Why do governments so regularly mismanage it? What is the connection between fiscal and monetary policy? Suffice it to say here that governments inflate because their appetite for revenue exceeds their willingness to tax or their ability to borrow. British economist John Maynard Keynes was an influential charlatan in many ways, but he nailed it when he wrote, "By a continuing process of inflation,

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governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."

Inflation in Africa and South America

Paper money is falling in value all over the world these days, but no place is more ravaged by inflation than Zimbabwe, in southern Africa. There, the government's confiscation of wealth is no longer secret and unobserved. Prices are rocketing upwards at an annual rate exceeding 11 million percent. After printing trillions of Zimbabwean dollars to finance its socialist schemes, the dictatorship of kleptomaniac Robert Mugabe lopped three zeroes off all currency notes a week before last Christmas. The $200,000 bill, for instance, became a new $200 bill, worth about a dime in American money.

South America is home to many serial inflationists—corrupt, crackpot regimes that destroy one paper money after another. Prices in Argentina and Venezuela are currently climbing by about 20 percent annually, and all indications are that the rates will accelerate in coming months. As Mugabe did in December, Hugo Chávez started 2008 in Venezuela by scratching three zeroes off the paper bolivar. In Bolivia, prices are going up by nearly 15 percent, but if the country's recent past is prologue, the Bolivian regime may be on its way to ruining the nation's third currency since the 1950s.

> "Inflation is like sin; every government denounces it and every government practices it."

In April 1985 I visited Bolivia to observe the world's then-highest rate of price hikes, an astonishing 50,000 percent. After stiffing its foreign creditors in the early 1980s, the government in La Paz could only finance its bad habits through taxing its own people and printing paper money. It did lots of both. By 1985, however, only 10 percent of its spending was covered by taxes; the rest was taken care of by the printing press. Paper money became the country's third largest import. Its own presses couldn't keep up with the government's demands, so planeloads of the stuff were flown in every week from Europe.

On the day I arrived, the Bolivian peso traded at 150,000 to the dollar. Just days later, it had sunk to 200,000. I brought nine million pesos home with me—a million pesos (in 1,000-peso notes) in each of nine wads bound together with string by a local bank. I kept one million, which I have to this day, and sold the other eight to gold bugs and currency collectors for $500 each. Not bad, considering that, at 200,000 to the buck, I paid just $5 for each million-peso wad ($45 for the whole nine million). That little bit of international arbitrage financed my trip, incidentally.

Bolivian hyperinflation ended just four months later, in August 1985, after the socialist government that engineered it was ousted. It had printed pesos until they were worth less than the ink and paper.

So, you say, inflation is nasty business but it's just the really rotten few that do it. Not so. The late Frederick Leith-Ross, a famous authority on international finance, observed: "Inflation is like sin; every government denounces it and every government practices it." Even Americans have witnessed hyperinflations that destroyed two currencies—the ill-fated continental dollar of the Revolutionary War and the doomed Confederate money of the Civil War.

Today's slow-motion dollar depreciation, with prices rising at persistent but mere single-digit rates, is just a limited version of the same process. Government spends, runs deficits, and pays some of its bills through the inflation tax. How long it can go on is a matter of speculation, but trillions in national debt and politicians who make misers of drunken sailors and get elected by promising even more are not factors that should encourage us.

Inflation is very much with us but it must end someday. A currency's value is not bottomless. Its erosion must cease either because government stops its reckless printing or prints until it wrecks the money. But surely, which way it concludes will depend in large measure on whether its victims come to understand what it is and where it comes from. FEE

Government Education Is "Broken"? It Just Ain't So!

BY ALAN SCHAEFFER AND MARSHALL FRITZ

New York Times op-ed columnist Bob Herbert is rightfully worried about American education. He's bothered that no one else seems worried. In his article "Clueless in America" (April 22), Herbert notes a lack of concern in coverage of the presidential campaign. He says, "[Education] is much too serious a topic to compete with such fun stuff as Hillary tossing back a shot of whiskey, or Barack rolling a gutter ball." He's disturbed that "no one seems to have the will to engage any of the most serious challenges facing the U.S."

Mr. Herbert's rant hits hard on the facts of educational failure: "An American kid drops out of high school every 26 seconds. That's more than a million every year, a sign of big trouble for these largely clueless youngsters."

It's a fallacy to think government schools have failed.

More: "A recent survey of teenagers found that a quarter could not identify Adolf Hitler, a third did not know that the Bill of Rights guaranteed freedom of speech and religion, and fewer than half knew that the Civil War took place between 1850 and 1900." And so on.

He quotes Microsoft's Bill Gates saying, "By obsolete, I don't just mean that they [the high schools] are broken, flawed or underfunded, though a case could be made for every one of those points. By obsolete, I mean our high schools—even when they're working as designed—cannot teach all our students what they need to know today."

Finally, Herbert cites the Educational Testing Service's report, "America's Perfect Storm," which warns of a triad of "powerful forces" threatening our children's future: wide disparity of literacy and math skills, "seismic changes" in the economy, and sweeping demographic changes. He concludes that "we" are not equipping our children to meet these challenges and seems to imply that beating other countries on standardized tests will save us from this Malthusian triad.

Somehow, reading Herbert's article reminded me (Alan) of a story my father used to tell about the old trains on the New Haven line, on which he commuted into New York City each day. Occasionally, these rolling sardine cans would break down or lose power. All of a sudden, some red-faced passenger—an executive about to have a blood-pressure incident—would explode, "Somebody *do something*!!!"

Inappropriate Reaction

Like the pressured executive on the train, Herbert is right to be alarmed. But like the executive, his reaction is inappropriate for the crisis at hand. In fairness, it's not all Herbert's fault. He doesn't know how the machine actually works. His frustration stems from placing his faith in (and addressing his demands to) the wrong entity.

Herbert is working from two fallacies: that the government school system is a failure and that the government can fix it. You could almost miss the fallacies behind his powerful litany of failures. Everyone, especially the present audience, will nod his head to this litany and think of even more failures to add to the list.

The problem is, it just ain't so! It's a fallacy to think government schools have failed. In fact, the problems

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Herbert lists are not a result of the school system's failure, but of its success. To understand this point, we must stop and consider the true purpose of government schooling.

The following passage from John Taylor Gatto just scratches the surface. I hope you will read the rest of this article, "Against School" (*Harper's*, September 2003):

> The reason given for this enormous upheaval of family life and cultural traditions was, roughly speaking, threefold:
>
> 1) To make good people.
> 2) To make good citizens.
> 3) To make each person his or her personal best.
>
> These goals are still trotted out today on a regular basis, and most of us accept them in one form or another as a decent definition of public education's mission, however short schools actually fall in achieving them. But we are dead wrong. Compounding our error is the fact that the national literature holds numerous and surprisingly consistent statements of compulsory schooling's true purpose.

Gatto then quotes H.L. Mencken, who wrote in *The American Mercury* (April 1924) that "the aim of public education is not to fill the young of the species with knowledge and awaken their intelligence. . . . Nothing could be further from the truth. The aim . . . is simply to reduce as many individuals as possible to the same safe level, to breed and train a standardized citizenry, to put down dissent and originality. That is its aim in the United States . . . and that is its aim everywhere else."

Producing Standardized Citizens

What we observe as the failures of our system of compulsory schooling are actually the inevitable fruits of its true purpose: standardized citizenry. If we are to truly understand what has given rise to Bob Herbert's litany (which is actually modest compared with the full story), we must acknowledge that the government school system actually works too well. The lack of "will to engage" that Herbert laments is a product of this system, a system designed to "put down dissent and originality."

The second fallacy is almost as easily missed. Speaking of presidential candidates in terms of whiskey or bowling is merely a rhetorical device. But although drinking and bowling may be within the right and power of those aspiring to the highest office in the land, fixing education is not.

It's quite simple: the federal government's powers are strictly outlined in the Constitution. All other powers "not enumerated" are forbidden. Education is not enumerated. Ergo, it's not the feds' job.

Boston Globe columnist Jeff Jacoby in his column of October 17, 2007, puts it succinctly: "[W]e should be concerned. Not just because the quality of government schooling is so often poor or its costs so high. . . .

"In a society founded on political and economic liberty, government schools have no place. Free men and women do not entrust to the state the molding of their children's minds and character."

Once exposed, the two fallacies point to one historically stubborn dynamic: Government involvement in schooling is the real "perfect storm." Therefore, to hope that candidates will talk about fixing education—or to think that the federal government should have any say in how we as free people educate our children—is to give the fox the keys to the hen house for another four-year term.

Instead, let's be practical. As parents, let's do everything in our power to take back our children for their protection and prosperity, and for freedom itself. That will make us an example of freedom to our own children and to others. It will open children's lives to the creative thinking and wisdom that will enable them to rise above the challenges they will face. Gatto again: "Children need to know that the ultimate form of private property is full possession of one's own mind and volition." Withholding consent will also further indict the system.

Let's possess freedom and not wait for the ruling powers to hand it to us. Meanwhile, candidates and presidents may talk about education. Let them. But let's not give them our children. FEE

Freedom Works: The Case of Hong Kong

ANDREW P. MORRISS

Hong Kong has an impressive reputation for economic freedom and classical-liberal virtues. In a series of articles, Milton Friedman used Hong Kong to show how the power of free markets combined with little else can create wealth, pointing out that its per-capita income rose from 28 percent of Britain's in 1960 to 137 percent of Britain's in 1996. As Friedman wrote in 1998, "Compare Britain—the birthplace of the Industrial Revolution, the nineteenth-century economic superpower on whose empire the sun never set—with Hong Kong, a spit of land, overcrowded, with no resources except for a great harbor. Yet within four decades the residents of this spit of overcrowded land had achieved a level of income one-third higher than the residents of its former mother country" (http://tinyurl.com/5s3cmw).

View of Hong Kong from Victoria Peak

Photo by Stephen_AU (flickr). Licensed under Creative Commons Attribution.

Friedman's evaluation corresponds to Hong Kong's consistent ranking at the top of both the Heritage Foundation's *Index of Economic Freedom* and the Fraser Institute's *Economic Freedom of the World* reports. In the 2008 Index, for example, Hong Kong scored 90 percent or better on seven of the ten measures of economic freedom. Impressively, Hong Kong's weakest score (freedom from corruption, where it ranks 13th of the 180 countries rated in 2006 by Transparency International) put it well ahead of the United States (fifth most free overall, 20th on freedom from corruption).

Why has Hong Kong been so free?

Hong Kong never would have become the economic powerhouse it is today if either British or Chinese senior politicians had had any say in the matter. Britain acquired Hong Kong island in 1842 (additional territory came later) through a deal between the British representative, Captain Charles Elliot, and the Chinese negotiator, the Marquis Ch'i-ying, to settle a small war that had broken out over trade issues. (Compensation for a Chinese seizure of British opium was one issue, but the dispute was broader than the issue of opium, and recent scholarship tends to cast doubt on the conventional labeling of the dispute an "opium war.")

The resulting deal was unpopular both with the Chinese Imperial Court and the British government. The Chinese authorities disliked any cession of territory to the British and worried about the impact on tariff revenues of creating a British-controlled port. Moreover, the Chinese disdained the British obsession with trade. The British government thought Hong Kong a poor location compared to the possible alternatives, such as Formosa. Nonetheless, the limits to communication in the nineteenth century had forced the two governments to delegate the authority to resolve the dispute to their representatives on the

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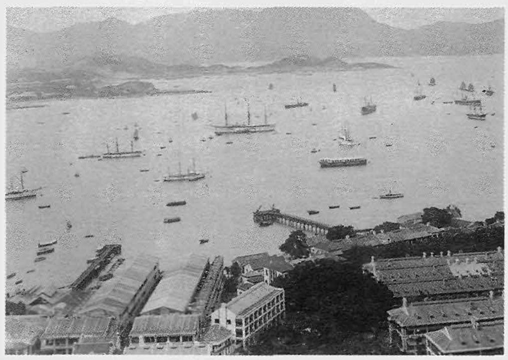
scene, so they were left with what Frank Welsh's excellent one-volume history, *A History of Hong Kong*, terms "a source of embarrassment and annoyance to its progenitors since it first appeared on the international scene." (Unless otherwise indicated, quotations are from Welsh's book.)

Early History

Early assessments of Hong Kong's potential were pessimistic. Lord Palmerston, in possibly the worst prediction ever made by a British diplomat, concluded that it was "a barren island, which will never be a mart of trade." The colonial treasurer, Robert Montgomery Martin, a prolific writer on Britain's overseas possessions (including a five-volume *History of the British Colonies* published in 1840), echoed Lord Palmerston's assessment in 1844, finding that "there is no trade of any noticeable extent in Hong Kong. . . . There is scarcely a firm in the island but would . . . be glad to get back half the money they have expended in the colony and retire from the place. . . . There does not appear the slightest probability that, under any circumstances, Hong Kong will ever become a place of trade."



Hong Kong Harbor, January 1, 1910
Library of Congress

Some trade did begin, however, as a result of the establishment of British merchants' warehouses. But early British policies concerning their new territory did little to promote economic growth. An 1847 Parliamentary investigation of the economic situation in Hong Kong found that British rule had initially brought with it a government bent on raising "as large a revenue as possible" and that this had damaged trade, concluding that the restrictions on trade instituted by the early British administration to raise revenue meant that "[f]rom this time may be dated the reverses of Hong Kong."

Hong Kong physically expanded twice during the nineteenth century. Territory on the mainland opposite Hong Kong island, Kowloon, was acquired in a "casual way" for 500 taels during a Sino–British conflict in 1859 in a deal between a British Consul and a Ch'ing official. And in 1898 Britain leased for 99 years the New Territories, additional mainland territory plus some islands. In both cases, the rationale for expansion was to protect the harbor from the range of guns located on the mainland. Although the British hoped to eventually make the New Territories lease a more permanent arrangement, their agreement to the lease rather than a permanent cession of control played an important role in the eventual return of the entire territory to the People's Republic of China in 1997.

Britain did relatively little with its new colony, beyond establishing public order and extending the rule of law. The result was essentially a treaty port, much like those that European powers established on the mainland under the Treaty of Nanking in 1842–43. One reason for Britain's relatively hands-off policy was the persistence of the view formed by early colonial officials that the Chinese residents did not want or appreciate British lawmaking. This attitude is clear in the testimony to a mid-nineteenth-century Parliamentary committee looking into administration of the colony by Col. John Malcolm, an aide to the governor, who told the British M.P.s that "the Chinese are a peculiar people, and they do not like being interfered with. They do not understand us; they cannot understand our ways; and when they are told that they are to do first one thing and then another, they get frightened and will not come to us." Whether it was a characteristic "peculiar" to the Chinese to dislike arbitrary government or not, the avoidance of conflicting mandates and general tendency to leave people alone—policies adopted in pursuit of trade—gave the colony the benefit of the rule of law from the start.

A Natural Trading Center

What did Britain create in Hong Kong? The combination of the excellent harbor and the rule of law meant Hong Kong was a natural trading center. But it was not the best place to trade in China, and by the early twentieth century Shanghai was successfully winning trade away from Hong Kong. Shanghai offered a more educated population, a more convenient location, access to European protection under treaty concessions by the Chinese government, and relatively little Chinese-government interference due to the decline of imperial power. By the 1910s Shanghai had become a significantly more important center of trade than Hong Kong. With the British choosing the more defensible Singapore as the center of British naval power in the region, Hong Kong also lost importance for the British government. As a result, the colony languished as a backwater, becoming known as a center for prostitution and gambling rather than the economic powerhouse it is today.

One thing Britain did not create in Hong Kong was a democratic government. No local democratic institutions were permitted to develop, as were allowed in most other British colonies, because the British were unwilling to give the Chinese majority a real voice in administration. As a result, as Welsh concludes, "Hong Kong was to continue as authoritarian an administration as any Chinese government, but the final authority was to be the law, rather than individual whim."

Jimmy Lai, Chairman/CEO of Next Media, Hong Kong
Acton Institute, *The Call of The Entrepreneur*

China's imperial central government rarely favored economic freedom, and the late nineteenth and early twentieth centuries were no exceptions. As the central government's power ebbed away, regional warlords began to establish rival, but equally predatory centers of power. European, American, and Japanese power in China also expanded, focusing on access to the Chinese market for their nationals, but not creating economic freedom for the Chinese within their spheres of influence. Hong Kong's stability increasingly drew migrants from elsewhere in China. Population grew from 600,000 in 1920 to over a million in 1938. As conditions worsened in China with the Japanese invasion and fighting between regional warlords, the Kuomintang (Nationalists), and communists, 5,000 migrants a day began to pour into Hong Kong. By March 1950 the city had 2.3 million people, which brought Hong Kong both a significantly increased workforce and the human capital of Chinese entrepreneurs who escaped ahead of Mao's armies. Moreover, the communist victory on the mainland meant that Shanghai ceased to be a serious competitor.

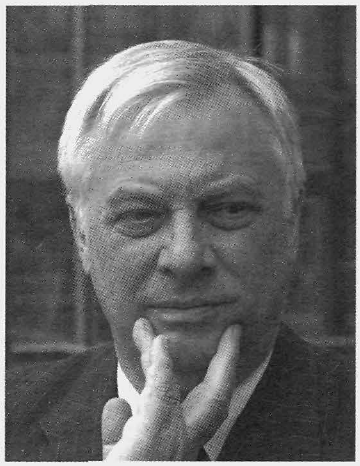
Finding Freedom in Hong Kong

Life on the edge of communist China was not easy. During the Korean War, embargoes on trade hurt the city's entrepot business, forcing many Hong Kong traders to reinvent themselves as manufacturers. The continuing influx of refugees from the mainland strained the colony's infrastructure. But the flood brought refugees like Jimmy Lai, one of the millions of penniless individuals who sought freedom in Hong Kong.

While working in the Shanghai railway station as a porter, Lai was given his first chocolate bar by a traveler. Hungry, Lai immediately ate it. Running after the man, he asked where this wonderful food came from and the answer was "Hong Kong." Determined to get to the place where such wonders were available, Lai eventually persuaded his mother to allow him to escape and was smuggled out of China in the bottom of a fishing boat. On his arrival in Hong Kong, he went to work the same night in a garment factory. Today, Lai is a billionaire, owner of one of the most successful media companies in Asia. His drive and entrepreneurial skills played a major role in his success, of course. (Lai movingly tells his story in the Acton Institute's documentary *The Call of the Entrepreneur.*) But it was the freedom available in Hong Kong that allowed him to put his talents to work. That freedom took many forms, including an absence of the currency restrictions in force at the time in the United Kingdom and much of Europe, and few laws regulating businesses. As a result, Hong Kong began to flourish.

Why? As Hong Kong's last British governor, Christopher Patten, wrote in his memoir, *East and West*, the refugees from communism who flooded into Hong Kong arrived in China's only free city; it was indeed (in the words of Chinese journalist Tsang Ki-fan) "the only Chinese society that, for a brief span of 100 years, lived through an ideal never realized at any time in the history of Chinese society—a time when no man had to live in fear of the midnight knock on the door." Hong Kong had a competent government, pursuing market economics under the rule of law. It was a government that fully met the Confucian goal—"Make the local people happy and attract migrants from afar."

The laissez-faire attitude of the Hong Kong government on economic matters was cemented by Sir John Cowperthwaite, the colony's financial secretary from 1961 to 1971, whom Welsh called a "political economist in the tradition of Gladstone or John Stuart Mill" and the personification of "unreconstructed Manchester-school free traders." Cowperthwaite had almost complete control of Hong Kong government finances and used it to implement his policy of "positive non-intervention." Friedman gave Cowperthwaite a great deal of the credit for Hong Kong's success, citing approvingly Cowperthwaite's refusal to collect most economic statistics on the grounds that "[i]f I let them compute those statistics, they'll want to use them for planning." Jimmy Lai has a bronze bust of Cowperthwaite at his company's entrance (as well as ones of Friedman and F. A. Hayek).



Christopher Patten, last governor of British Hong Kong
European Commission—Audiovisual Service

Cowperthwaite deserves the accolades he has received. During his decade as financial secretary, real wages rose by 50 percent and the portion of the population in acute poverty fell from 50 to 15 percent. What is remarkable is that Hong Kong accomplished this with no resource other than its people. The colony had no real agricultural land, no natural resources, and even the one resource it did have—people—lacked much education. Indeed, few at the time thought that the masses of refugees who reached Hong Kong during the 1950s would amount to anything other than a burden for the state.

Most remarkably, Hong Kong's transformation occurred when social democrats ruled Europe and Lyndon Johnson's Great Society dominated American politics, both reflecting the consensus among the political elites in Europe and North America that the welfare state and interventionist economic policies were the only sensible direction for advanced societies. Even in the developing world, interventionist economic policies like industrialization through import substitution, which relied on high tariff walls to protect domestic industries, were widely accepted. Tiny Hong Kong thus managed to adopt and hold to free-market and free-trade policies that ran counter to the policies of the British government and the consensus of policy analysts and development economists everywhere, and did it while perched precariously on the edge of a massive communist dictatorship in the midst of self-destructive policies like the Great Leap Forward and the Cultural Revolution.

No Libertarian Paradise

While consistently freer than most places, Hong Kong has never been a libertarian paradise. Government-subsidized housing has long dominated Hong Kong's residential market, with 60 percent of residents living in it at one time. And the government manipulated (and continues to do so) the land market to maximize sales revenues for public coffers, which plays an important role in causing the housing shortages that required the public housing "solution." Medical care has also long been socialized. Moreover, Hong Kong had serious corruption problems even during the height of the Cowperthwaite era, with the police in the 1960s and early 1970s "riddled with corruption," according to former Governor Patten.

Then there is Hong Kong's persistent "democratic deficit." Hong Kong managed to escape the post-World War II wave of democratization in the rapidly dwindling British Empire because, as one British official put it in a radio interview in 1968, "the electorate of Britain didn't care a brass farthing about Hong Kong." Indeed, Britain showed almost no interest in expanding representative government in the colony until it became clear that Hong Kong would "return" to China in 1997 when the lease on the New Territories expired.

In some sense this democratic deficit served Hong Kong well, for men like Cowperthwaite and Patten held classical-liberal ideas on economic freedom and so largely refrained from actions that might have won popular approval (and certainly would have in Britain). But the lack of representative government also allowed Britain to treat Hong Kong's residents shamefully when Britain rejected allowing Hong Kong passport holders the right of residence in Britain, fearing a flood of refugees in advance of the return to China. (The rest of Europe behaved no better.)

"One Country, Two Systems"

Hong Kong returned to China in 1997 under an agreement negotiated between Britain and the People's Republic which provided a guarantee that for at least 50 years Hong Kong and China would be "one country, two systems." (Formally, Hong Kong and the former Portuguese colony of Macau are both "Special Administrative Regions" of China.) The return itself was inevitable, as was China's willingness to preserve capitalism in its midst. Not only were Hong Kong island and Kowloon unsustainable without the leased New Territories, where much of the water supply was located, but British voters still didn't care a farthing for Hong Kong in the 1990s. China's interest in the preservation of the goose that laid the golden eggs was also clear. The People's Republic had long made use of Hong Kong—which it could have seized by force at any time—as a means of accessing foreign markets and sources of capital. At times 80 percent of China's foreign income came through Hong Kong. China also wanted to demonstrate to Taiwan that peaceful reunification was possible.

The danger was that China's leadership would not understand what Patten, in his book, termed "the relationship between Hong Kong's hardware—a capitalist economy—and its software—a pluralist society—and yet it was the latter that enabled the former to function so well." Thus far Hong Kong's new rulers have shown themselves remarkably adept at continuing the smooth functioning of both the hardware and the software. Whether that will remain true in the long run is still an open question, of course.

Chinese Emperor Tao-kuang's initial reaction to the British had been that "these barbarians are wanting in any high purposes of striving for territorial acquisition; they always look on trade as their first occupation." Frank Welsh concluded his history by noting that Hong Kong "proved the Emperor's point." It is not just the British who made Hong Kong a success. It is the people of Hong Kong, from factory workers to entrepreneurs, who turned Hong Kong from a barren island to an economic powerhouse. They were able to do so because the Hong Kong government generally left them sufficiently alone. Hong Kong is far from perfect, and far from a libertarian dream world. But it remains a dramatic example of how far human ingenuity and entrepreneurial talent can take a society.

Why has Hong Kong been so free? Partly, Hong Kong has been fortunate to be ruled by men who understood their role as quite limited. Not quite the classical-liberal ideal, even under Cowperthwaite, but nonetheless significantly closer than any other twentieth-century society. And the combination of Britain's failure to provide any real democratic institutions and its lack of interest in Hong Kong allowed those men to hold to those policies, even as Britain herself experienced economic disaster under the socialism of the 1950s–70s. Hong Kong also benefited from the example of China's disastrous 1960s economic policies. With so many residents having come as refugees from communism, demand for freedom in Hong Kong was high. Freedom made possible the success of Jimmy Lai, and that of the millions who did not become billionaires but who had a higher standard of living than most of the world through their own efforts.

Hong Kong was lucky that freedom was tried. But Hong Kong's people proved that freedom worked. FEE

The Ideas of Liberty and FEE

BY DONALD J. BOUDREAUX

The great University of Chicago economist Frank Knight wrote in 1921 that

> it makes vastly more difference practically whether we disseminate correct ideas among the people at large in the field of human relations than is the case with mechanical problems. For good or ill, we are committed to the policy of democratic control in the former case. . . . Our whole established tradition tends to the view that "Tom, Dick, and Harry" know as much about it [economics] as any "high-brow"; the ignorant will not in general defer to the opinion of the informed, and in the absence of voluntary deference it is usually impossible to give an objective demonstration. If our social science is to yield fruits in an improved quality of human life, it must for the most part be "sold" to the masses first.

Ironically, the book in which this passage appears—*Risk, Uncertainty, and Profit*—although a brilliant and classic contribution to economic theory—is virtually inaccessible to non-economists. But that's okay, for Knight labored at what we might call the "raw material" stage of the idea-production process. Knight aimed his work chiefly at academics. His hope, no doubt, was to inspire other academics to think better and more creatively about reality so that they would more readily uncover truths about it—truths that eventually would result in better public policies. Just as drilling for oil does not directly pump gasoline into a motorist's car, but is essential to that goal, so producing deep and abstract ideas does not directly inform or influence the public, but is essential to *that* goal.

The production of ideas takes place over many stages involving many producers working at different tasks and addressing different audiences.

And like the production of gasoline, the production of ideas takes place over many stages involving many producers working at different tasks and addressing different audiences—from philosophers and pure theoreticians to scholars who refine theories to those who apply them to specific cases. Also important are teachers who distill the important points of theories and make these accessible to students. At the "final" stage are popularizers—for example, op-ed writers, television pundits, and even (sometimes) politicians. These people don't produce ideas any more than your local Exxon station produces gasoline; they *retail* ideas.

But just as Exxon's oil rigs and field workers and chemists would be pointless (and profitless!) without an effective retail distribution system, so too are even the best ideas in economics pointless without effective ways to get these into the minds of ordinary men and women.

Promoting the Ideas of Liberty

What are those ways? FEE and *The Freeman*, of course, are important vehicles for inspiring nonspecialists to understand that markets are both productive and fair. A similar role is played by FEE speakers and by the publications and events of (thankfully now countless) organizations spread across the globe—organizations such as the Cato Institute, the Mercatus Center, the Institute for Humane Studies, PERC, *Reason*, the Institute of Economic Affairs, the Institute for Economic Studies–Europe, and on and on. The list really is long.

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If a society of free, peaceful, and prosperous people thrives, it will be owing to the dedicated efforts of persons operating at all stages of production and distribution of the ideas of liberty.

Even the most dedicated and skillful workers at this effort, though, can never guarantee their success. Ultimately, it is up to ordinary men and women to *choose* to embrace these ideas and ideals. Just as oil companies and gasoline retailers—no matter how skilled and dedicated—would all go belly-up if consumers chose to reject petroleum products, teams of brilliant scholars and enthusiastic popularizers of the ideas of liberty cannot force their insights and values on others.

These ideas, as Knight put it, must be sold. Perhaps such language sounds crass. But I think it is both accurate and acceptable. The goal is not to brainwash others into wanting to live as you want them to live. The goal is to help others understand liberty so that they want—that they *choose*—to be part of a free society. To achieve this goal requires skill at explaining the ideas—at showing these ideas in their best light—and at helping others to understand (to put it bluntly) what's in it for them.

> The goal is to help others understand liberty so that they want—that they *choose*—to be part of a free society.

The Only Proven Way

Economic freedom, after all, is an incredibly attractive product. It promotes peace, prosperity, dignity, and opportunity. To ask people to embrace these principles is not to ask them to be martyrs or to sacrifice the good life. It is to show them the only proven way to lasting, widespread, and secure prosperity and self-respect.

But as with all products, liberty's benefits are not fully obvious on first inspection. They must be explained, and explained in ways compelling to the hearer and not simply convenient for the messenger. Also, as with all products, the ideas of liberty have competitors, many of which are fraudulent and others of which are merely, if honestly, defective. These competing ideas—not in spite of, but often because of, their weaknesses—frequently find ready customers. The world is full of people too ready to believe that reality is optional or that this or that Great Man will save us from earthly evils.

Such crude beliefs are powerful, in part because they permit the uninformed to hope for outcomes that the informed know to be impossible. These beliefs are powerful also because they convince the uninformed that someone else—the Great Man, for example—will do the bulk of the work while all that ordinary people must do is to obey and await the imminent earthly paradise.

By themselves libraries stuffed with the finest research and scholarly advances are useless against the power of such beliefs. The distilled essence of these ideas of liberty must be part of mainstream thinking of ordinary people. Making sure that the ideas of liberty do get a fair hearing in the minds of ordinary people—and that people understand what benefits liberty holds for them and their children—requires skilled retailing.

As FEE continues its efforts on this front under its new president, Larry Reed, I ask you to be generous in your support—for it is now, as it has long been, the indispensable American institution for making the ideas of liberty widely accessible and compelling. FEE

U.S. Agricultural Programs: Who Pays?

BY E. C. PASOUR, JR.

The Economist labeled the recently enacted 2008 farm bill "A Harvest of Disgrace" (May 24, 2008). The five-year $307 billion bill, through a complicated system of government programs, lavishes cash on upper-income farm households. The major beneficiaries of U.S. agricultural programs, commercial farmers, will have an average income of some $230,000 in 2008, according to the U.S. Department of Agriculture (USDA). The main restriction on these subsidies is a means test that applies to couples making more than $1.5 million per year.

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A host of "emergency programs" was enacted as part of President Franklin Roosevelt's New Deal during the Great Depression of the 1930s. Despite huge changes over time in the particulars, the programs affecting the growing and marketing of farm crops remain largely intact.

The focus here is on who bears the cost of farm programs. In addition to a network of programs that affect commodity prices and make direct payments to farmers, there are subsidies for agricultural credit, soil and water conservation, research and education, crop insurance, exports of farm products, and nutrition programs. Consideration of the way the programs work shows that generalizations about the effects of farm subsidies often are wrong.

It is sometimes said that agricultural subsidies benefit those with above-average incomes at the expense of taxpayers and "everyone who eats." Although agricultural subsidies always hit taxpayers, this generalization about the effect of farm programs on food prices is incorrect. Some agricultural programs, and the associated subsidies, lead to increased output and lower food prices, while some lead to decreased output and higher prices.

Commodity Programs

Field Crops. The early New Deal farm-commodity programs relied mainly on product price supports coupled with production controls in the form of restrictions on land use (acreage controls). Although consumers of products using wheat, cotton, and feed grains bore the major cost of these programs, taxpayers picked up the tab for administering the programs and for funding purchases of surpluses that occurred as farmers responded to higher prices.

For several decades after the programs began, farmers were reluctant to receive government subsidies through direct government payments. They preferred a less-obvious handout in the form of higher product prices achieved through government-imposed restrictions on output!

All this changed in the early 1970s with the "target-price" method of price supports. In this approach farm-

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The complexity of the dairy cartel is of Rube Golberg proportions, involving both federal marketing orders and price supports.
USDA

ers received government-determined support prices (above free-market levels) for their crops. Farmers could either sell products on the open market or place them in a government-managed storage program. In the simplest case a farmer sold the product (the amount produced at the support price) at the market-clearing price. The government then paid the difference per unit between what the farmer received in the market and the higher support price—a so-called "deficiency payment." The target-price approach led to an increase in output and *lower* consumer prices—with taxpayers footing the bill.

These deficiency payments remained important until passage of the misnamed Freedom to Farm bill in 1996. Under this law price supports were terminated and farmers who participated in farm programs were guaranteed "transition payments" for seven years—after which farm-commodity programs supposedly were to be terminated. Alas, such was not to be. The 1996 farm bill was followed by successive farm bills in 2002 and 2008, which have shown no decrease in government largess.

Moreover, a new wrinkle for farm-commodity subsidies was added in the 1996 law and continued in the 2002 and 2008 farm bills. Most farm-commodity subsidies have been "decoupled" from current production. That is, the amount of payment a farmer receives is determined by the farmer's historical production—not his current production. Indeed, an eligible farmer can receive the payment even if no longer producing commodities! In 2007 these commodity-based direct payments totaled $6.2 billion. In short, since these payments do not restrict output or raise prices, commodity subsidies for major farm crops, including wheat, feed grains, and cotton, now are borne by taxpayers—*not consumers* of products using these commodities.

However, in two major commodity programs—sugar and milk—the programs and associated subsidies impose a burden on both taxpayers *and* consumers.

Sugar. The U.S. sugar cartel raises the domestic price of sugar in the United States above the world price—quite often twice as high. Domestic producers of sugar cane and sugar beets thus profit through import quotas on Brazil and other countries that can produce more cheaply than the United States.

The cost of the sugar program is borne largely by U.S. consumers and manufacturers of sugar products, who must pay much higher prices than if there were no program. The subsidy, in the form of higher retail sugar prices, will force consumers to pay an extra $2 billion per year, *The Economist* reports. It will also drain $1.3 billion over ten years from U.S. taxpayers. As the sugar price increases, so does the demand for, and price of, high-fructose corn syrup and other sugar substitutes. In short, U.S. citizens pay for the sugar program both as taxpayers and as consumers of products using sugar and sugar substitutes.

The dairy program imposes costs on both consumers and taxpayers.

Dairy. The complexity of the dairy cartel is of Rube Goldberg proportions, involving both federal marketing orders and price supports. A federal marketing order is an institutional arrangement that allows producers in a geographical region to use the police power of government to enforce compliance with restrictions on competition. The system is used to classify and set minimum prices according to the products in which milk is used—fluid milk, cream, cheese, and so on. Under this system, higher prices are charged for milk used for fluid consumption than for manufacturing purposes. And with restrictions on geographical shipments of milk, milk prices vary by region.

In addition to marketing orders, the price of milk is supported through government purchases of butter, cheese, and nonfat dry milk. These products are then disposed of outside conventional market channels: school lunches, military and veterans' hospitals, and other food-subsidy programs.

Cartels typically restrict sales and increase profits—at least in the short run. In most dairy marketing orders, however, there is no limit on the volume of milk a farmer can market or on the entry of new dairy farms. Therefore, as output expands and costs increase, cartel profits tend to be transformed into increased prices (and costs) of specialized resources, including dairy cows, dairy equipment, land, and managerial skills required to produce milk.

The dairy program imposes costs on both consumers and taxpayers. While the program significantly increases the price of milk sold for fluid use, taxpayer cost also is formidable. Payments to dairy farmers, over and above administration costs for the complex system of marketing orders and price supports, have drained some $2.5 billion from federal coffers since 2002.

Subsidies That Affect Supply of Farm Products

Input Subsidies. Some agricultural programs—including subsidized farm credit, subsidized crop insurance, and subsidized agricultural research and education programs—increase the supply of wheat, corn, and other farm products. An increase in supply places downward pressure on consumer prices for food products. The USDA estimates the taxpayer outlay for these input subsidies in 2008 at $7.5 billion. Since input subsidies reduce product prices, domestic taxpayers—*not* consumers—bear the cost.

Water subsidies, though funded through the Department of Interior rather than the USDA, are no less important to farmers than other input subsidies. Water subsidies in the west—especially in California—are critical to the success of agriculture in that region.

Irrigation districts use artificially low-priced electricity. The electricity is produced by federally funded dams to pump water. These water subsidies increase production of farm products and are quite substantial. It has been estimated that the capitalized value of water subsidies for a 160-acre California farm may exceed $100,000. Without some $2 billion in annual agricultural water subsidies, the huge impact of the West on the production of farm products would be greatly diminished—including the growing of cotton in the Arizona desert, according to a Cato Institute study

("Six Reasons to Kill Farm Subsidies and Trade Barriers," February 1, 2006). The costs are borne by taxpayers, *not* consumers of farm products—and by other users of water, urban and recreational.

Diversion of Cropland. The stated purpose of the Conservation Reserve Program (CRP) is to protect highly erodible cropland and other environmentally sensitive land. Initiated in the 1980s, the CRP induces farmers to take land out of production through annual rental payments for ten to 15 years. High prices for farm commodities this year have brought some 2.5 million acres from the CRP back into production. This program reduces supply and increases prices of farm commodities. The CRP is budgeted at $2.0 billion in 2008—with the cost borne by consumers *and* taxpayers.

Subsidies That Increase Demand for U.S. Farm Products

Nutrition Programs. The largest subsidy in the farm bill is the outlay for subsidized nutrition programs, including food stamps, and school lunches and breakfasts. Subsidized food programs—with an outlay of some $60 billion in 2008—account for about three-fifths of total USDA spending.

Subsidized food programs—with an outlay of some $60 billion in 2008—account for about three-fifths of total USDA spending.

The original purpose of these programs, when begun in the 1930s, was to facilitate the operation of price-support programs for farm commodities. The U.S. government had acquired large stocks of butter, cheese, and other products in operating price supports for farm products, and these products initially were used in food distribution programs to low-income consumers. The subsidized food programs provided a politically acceptable way to dispose of costly surpluses.

Food stamps grew out of dissatisfaction with earlier food-distribution programs, which reduced regular market food purchases (a concern to farmers) and afforded no choice to recipients regarding commodities received. The food-stamp program is now the major subsidized food program, accounting for about two-thirds of all food subsidies.

Food-stamp users largely substitute food stamps for money. In fact the program increases food expenditures less than 2 percent. It is taxpayers rather than grocery shoppers who bear the brunt of the cost.

It should not be surprising that the major constituency for subsidized food programs is no longer commercial agriculture. Instead, it is urban interests benefiting from and advocating "poverty programs." In congressional negotiations on the 2008 farm bill, legislators from farm districts were able to maintain conventional farm-commodity programs and related subsidies in the face of record-high farm product prices by forming an alliance with legislators from urban districts who sought and obtained increased food subsidies.

Export Subsidies. The federal government also subsidizes exports of U.S. farm products, as it has done for more than 50 years. Estimated taxpayer cost of agricultural export subsidies for 2008 is $2.2 billion. These subsidies include export credit guarantees, market-development programs, and foreign food assistance. Export subsidies increase the demand and price of affected commodities—hitting both domestic consumers and taxpayers.

The best-known export-subsidy program, Public Law 480, was first enacted in 1954. Again, the program was begun to reduce stocks of food that the government acquired through agricultural price-support programs. Some current export subsidies also are in-kind—donations of food products in response to devastation caused by floods, earthquakes, famine, and so on.

Other agricultural export subsidies—export credit guarantees and market-development funds—go to private companies and to state and regional trade groups to promote sales of U.S. farm products in foreign countries.

U.S. export subsidies lower food prices to consumers in recipient countries—at least in the short run. But subsidies work against the interests of farmers in those countries—many of whom have very low incomes. Moreover, the ostensible benevolent effect of government-sponsored food aid is undercut by the rule that requires the U.S. government to buy all foreign food aid from U.S. farmers and transport it on U.S. ships.

In short, agricultural export subsidies help to insulate U.S. farmers from world market prices and are inconsistent with free trade. Moreover, these subsidies foster retaliation and increased protectionism by producer interests in recipient countries.

Agricultural export subsidies help to insulate U.S. farmers from world market prices and are inconsistent with free trade.

Ethanol Program. Although not funded through the USDA budget, the current ethanol program is having an impact on U.S. consumers and taxpayers no less important than traditional farm programs. President Bush signed an energy bill in December 2007, which mandates an increase in ethanol use from 4.7 billion gallons in 2007 to 36 billion gallons by 2022.

Ethanol production is dependent on government mandates and subsidies. A 10 percent ethanol content mandate for every gallon of gas produced and ethanol blending subsidies—$5 billion in 2007—now divert one-third of the U.S. corn crop to ethanol. The taxpayer-financed subsidy is strengthened by a 54-cent-per-gallon tariff on ethanol from Brazil to prevent imports of ethanol from undermining the U.S. ethanol program!

U.S. corn prices increased threefold from early 2006 to May 2008, with ethanol production being an important contributing factor. Consumers are now reaping the results—increased prices for bread, milk, beef, chicken, and other food products. In short, the government-mandated ethanol program is imposing huge costs on taxpayers *and* consumers.

Agricultural subsidies transfer wealth from taxpayers, and in some cases consumers, to farmers, suppliers of farm inputs—including machinery, fertilizer, seed, and pesticides—and other businesses involved in the production and marketing of farm commodities. They obviously have no place in a free economy. FEE

A Million Terrorists?

BY BECKY AKERS

In July the federal government added the millionth name to its "Terrorism Watch List"—and it may have been yours.

Comprising just 16 names on September 11, 2001, this modern blacklist now functions as a catchall and cover for federal intelligence agencies. Since no one wants to be accused of overlooking a terrorist, bureaucrats have added names willy-nilly over the last seven years, to the tune of 20,000 a month. The ACLU maintains a website with a counter (http://tinyurl.com/2sz52g): it has now hit the magic million.

Since no one wants to be accused of overlooking a terrorist, bureaucrats have added names willy-nilly over the last seven years, to the tune of 20,000 a month.

If you're the unlucky millionaire, you'll find yourself among the rich and famous. Senator Ted Kennedy (D–Mass.) and Representative John Lewis (D–Ga.) both made the roster at one point, as they discovered when they were denied boarding at airports. This must have come as a surprise since neither man realized he was an enemy of the United States until he tried to fly commercially. In fact, that's how most victims learn they've been promoted from American citizen to terrorist so dangerous they can't board planes. Some, like Kennedy, work to prove their innocence so that the government will admit it erred and remove them from its blacklist. You might think this would be fairly easy for politicians, given their pull. But it actually took Kennedy's staff three weeks of calls to the Transportation Security Administration (TSA) and a chat with Tom Ridge, then the secretary of homeland security, to smooth his travels. It took Lewis even longer—"months," according to the *Washington Post*. Imagine what the ordinary "terrorist" endures as he tries to reestablish his air-worthiness.

Many Americans don't take well to the news that they're on the list. Edward Allen of Houston broke into tears. The four-year-old boy whimpered, "I don't want to be on the list. I want to fly and see my grandma." Screeners stopped another child, this one all of five years old, at Seattle's airport last January. They searched him as though he were al Qaeda's newest recruit while forbidding his mother to comfort him with a hug. No inanity is too heartless when national security is at stake.

Inclusion on the list does more than keep you off flights. Companies that check your financial history, such as car dealerships and mortgage brokers, may refuse to deal with you since the credit report will mention that the Office of Foreign Asset Control is monitoring you—along with other alleged terrorists and drug dealers. A place on the list can even earn you a beating. Akif Rahman is a computer consultant who was born in Springfield, Illinois. He says he was trying to return home from Canada a few months ago when "he was held for five hours, shackled to a chair and kicked by a Customs Service agent. . . . 'I was fearful for my own safety and that of my family,' said Rahman. . . . 'I simply could not believe

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that I, a born U.S. citizen, was going through this experience simply re-entering my own country.' "

Top Secret Process

How is the list compiled? Who's on it? What did they do to land there? No one knows because the list and all procedures relating to it are top secret. We wouldn't want Osama bin Laden to know we're onto him, now, would we?

It's also virtually impossible to get off the list regardless of how thoroughly you prove you aren't scheming to blow up jets. John Lewis finally outsmarted the TSA by adding his middle initial to his name when he buys airline tickets. But this doesn't always work, as any "Robert Johnson" can tell you. "60 Minutes" assembled a dozen men with that name in its studios last year and taped their horror stories—everything from strip searches at airports to interrogations that humiliate and delay them so long they miss their flights. Even the original "Robert Johnson," the one who's actually supposed to be on the list, seems unworthy of such effort: CBS reported that he's "a 62-year-old black man who was convicted of plotting to bomb a Hindu temple and a movie theatre in Toronto. After serving 12 years, he was deported to Trinidad."

A hallmark of a free society is living your life without impediment unless the state shows at an open trial, according to fair and established procedures, that you have committed a crime heinous enough to justify depriving you of your rights.

A catalog of "individuals known to pose, or suspected of posing, a risk of air piracy or terrorism or a threat to airline or passenger safety" has been around since 1990. But it did nothing to stop the 9/11 hijackers. It's done nothing since then, either, but harass innocent Americans: it hasn't enabled the Feds to capture a single terrorist.

Which doesn't keep the government from praising this anti-American abomination. "The list is very effective," says FBI spokesman Chad Kolton "In fact it's one of the most effective counterterrorism tools that our country has." And here you thought "counterterrorism tools" didn't get any "more effective" than forcing passengers to pad barefoot through airport checkpoints. To quell such cynicism, Kolton cited a report from the Government Accountability Office (GAO) that found "general agreement within the federal government that the watch list had helped to combat terrorism." It's a good bet the GAO would find general agreement among foxes that henhouses need four-legged guards, too.

Targeting Innocent Americans

Like the rest of the domestic War on Terror, the "Terrorism Watch List" supposedly targets terrorists while actually preying on innocent Americans. It penalizes people for an attribute they can't help: their names. Then it excuses the government for treating these folks as if they are guilty of terrorism without ever having proved those suspicions in a court of law. A hallmark of a free society is living your life without impediment unless the state shows at an open trial, according to fair and established procedures, that you have committed a crime heinous enough to justify depriving you of your rights. When we allow the government to abandon this standard—when it can hassle hundreds of thousands of people because their names resemble a suspected terrorist's—we empower a police state.

And that's far more dangerous than any terrorist. FEE

Historical Reputations

BY STEPHEN DAVIES

In an election year it is useful to try to remove oneself from the hubbub of daily campaign news and advertisements and to imagine how the candidates will be viewed by historians. This is not a simple exercise, and the attempt will reveal a number of widespread attitudes that affect our view of both past and present, as well as our thinking about many issues of policy.

One reason this effort is difficult is that the retrospective view we have of historical figures is not fixed. They shift with time, as increasing chronological distance brings greater perspective and as current issues and debates lead to reassessments of past figures.

One result is that people who were once thought of as prominent figures can sink into obscurity. Less commonly the reverse happens, and individuals who have languished in obscurity suddenly rise to retrospective prominence. Another well-known phenomenon is the reassessment of a person's quality and reputation as he comes to be viewed in a different light. Some, who during their lifetime and shortly afterwards enjoyed a glowing historical reputation, have the gloss come off their name and are increasingly viewed in a critical light. Others, unpopular and maligned in their own times, are presented in an ever more positive fashion and find their stock rising. This is particularly true of political figures.

The historical reputations of political figures such as former U.S. presidents have a strong ideological component.

Thus John F. Kennedy is now regarded much less highly by the majority of historians than he was in his own lifetime or the aftermath of his death. Harry Truman, one of the most unpopular presidents in U.S. history when he left office, is now given high marks by most historians. Eisenhower, seen for many years as an ineffectual and lightweight president, is another whose reputation is steadily rising.

The Present Influences Our View of the Past

The opinion you have of a past political figure tends to be influenced by the view you take of contemporary political events or of particular public-policy issues. This will lead you to regard past figures with a positive or critical perspective depending on how their career and actions can be interpreted in the light of current controversy. Thus if you favor an expansionist and interventionist foreign policy, you will tend to have a higher opinion of Theodore Roosevelt than you would if you opposed such a policy. As public opinion about policy shifts, so do the reputations of past politicians.

In other words, the historical reputations of political figures such as former U.S. presidents have a strong ideological component. The political reputations of past presidents and other politicians, then, are an important indicator of attitudes and worldviews among both the wider public and intellectuals. With this in mind, the many surveys into the historical standing of U.S. presidents have a revealing, and depressing, quality. As noted, the reputations of several have changed over time, with Eisenhower showing the most impressive gain, from 22nd position to eighth among professional historians between 1962 and 2005. Ronald Reagan is another "riser," from 16th in 1982 to sixth in 2005, while Lyndon Johnson shows a steady decline, from tenth in 1982 to 18th. There are also some notable differences between the opinions of historians and those of the general public, with the latter having a consistently higher view of Kennedy than the former does.

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However, alongside all this change there is also some notable consistency. Certain presidents are always in the top ten, and the top three or four remains impressively consistent. George Washington, Abraham Lincoln, and Franklin Roosevelt are consistently in the top four, while Theodore Roosevelt, Truman, Andrew Jackson, and Woodrow Wilson are consistent top-ten rankers. Washington's role in founding the United States partly accounts for his position, while Lincoln and FDR are both seen as leaders who confronted an existential crisis.

But the list also suggests a number of other things that reveal an underlying set of ideological presumptions. Presidents who expanded the functions of government receive high marks. Preserving or establishing the modern state is also seen as creditworthy. It helps to have been a wartime leader (unless the war is regarded as unsuccessful) and to have had an interventionist or expansionist foreign policy.

Cleveland and Coolidge

This is made even clearer by the contrast between the posthumous reputation of these individuals and that of others. There are several presidents who consistently rank low, although a different set of criteria would rank them much higher. Two of the most notable are Grover Cleveland and Calvin Coolidge, both of whom have ratings that would put them in mid-table to lower. Yet an examination of their records both suggests that they should have a higher rating by some criteria and indicates why this is not so far the case.


Grover Cleveland


Calvin Coolidge

Cleveland, a man of great personal integrity and independence, was a consistent advocate of limited government, fiscal and monetary responsibility, a laissez-faire economy and free trade, individual responsibility, a pacific foreign policy, and opposition to government corruption and political patronage. Among other things, he blocked the annexation of Hawaii and regularly vetoed bills to give public funds to special interests.

Coolidge reformed the public finances, reduced taxation, and presided over an unprecedented economic boom. He also (along with his predecessor Harding) reversed the major assault on civil liberties that had taken place under Wilson. Yet each of these presidents gets a C or B- rather than an A.

What surveys and the historiography reveal is a deep-seated set of ideas among both self-defined "liberals" and "conservatives." The core idea is that the central, most important aspect of history is the growth and maintenance of the modern, territorial state, rather than economic development, scientific and technological innovation, or the well-being of the people. These are seen as important but secondary. There is a fascination with power, and politicians who employ it are viewed as more significant or successful than those who try rather to reduce its application. From this point of view the division between "liberals" and "conservatives" is over how power should be used, rather than whether political power is a good thing.

There is, however, a different way of thinking about both dead politicians and living ones. This would apply the test not of what they managed to achieve by using power or of how they preserved or extended the state, but rather of how far they avoided the use of power or limited it and of how far they put their trust in the good sense and ingenuity of ordinary people and voluntary interactions—as well as that of how far they relied on peace and trade rather than war and armaments. If these standards were applied, Cleveland would rank as one of the greatest American presidents and Coolidge as one of the "near-greats."

That this is not the case shows how deep the worship of power runs today. However, this should not stop us from trying to escape from the consensus and look at things from a truly different angle. One cheering point is that slowly but surely Cleveland and Coolidge are rising up the league of reputation. Maybe one day they will receive their proper evaluation. If so, this will reflect a profound change in thinking more generally. FEE

Gas Prices: The Latest Excuse to Reengineer Society

BY STEVEN GREENHUT

As someone who commutes 16 miles each way to work in a gas-guzzling sports car along the LA-area freeways, I've been less-than-amused by the nearly $5 a gallon I must pay for the premium fuel that keeps my mid-life-crisis-mobile running. Yet despite the misery of high prices, I've taken a certain joy in watching the market at work.

Certainly, gas prices are high for various reasons, not the least of them being ridiculous government regulatory, environmental, and monetary policies. Nevertheless, consumers and businesses respond rapidly to changing conditions and rising prices. A few months ago, I was surrounded on the freeways by large SUVs, minivans, and those mega-pickup trucks that look like they've been plucked from a monster-truck event at Anaheim Stadium. Of course, the roads still have their share of bigger vehicles, but these days the roads are abuzz with Focuses, Priuses, and Civics. Traffic is noticeably down, as drivers have cut back on trips or have chosen carpooling, mass transit, and other alternatives, such as telecommuting.

> Gas prices are high for various reasons, not the least of them being ridiculous government regulatory, environmental, and monetary policies.

As the *Los Angeles Times* recently reported, Americans seem to have lost their "faith" in free markets in the wake of higher gas prices, the housing bust, and bank troubles. But whether or not individuals trust the market is not as important as this reality: they live by the market. They make changes—sometimes lifestyle changes—based on their own budgets, and price signals are more effective (and more in keeping with a free society) than government rules at spurring such change.

So those of us who understand a few things about free markets aren't too worried (beyond our normal pocketbook considerations) when we see the trends. As long as the government doesn't place too many barriers in the way, increasing gas prices will make it economically feasible for oil companies to find new sources of oil or more efficiently tap existing wells. Oil alternatives will spring up. It doesn't matter if my car is powered by gasoline or chicken droppings. People might be encouraged to adjust their lifestyles somewhat, but I would be shocked if the energy situation causes widespread changes in most Americans' daily lives.

Doomsayers Versus the Market

Every "crisis," however, gives voice to those who believe that current lifestyles are "unsustainable" and must be changed—for the sake of the planet! The telling point: these doomsayers never are content allowing the natural market process to cause these changes. Nope. They always are pushing for government policies to mandate the changes.

James Howard Kunstler is the author of *World Made by Hand*, described as "a novel about America's post-oil future." He is closely associated with the New Urbanist and Smart Growth movements, which seek to use government regulation to promote high-density urban living and restrict the development of traditional sub-

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urbs. In a June 8 column in the *Dallas Morning News*, Kunstler seemed almost gleeful about the high energy prices that have been annoying car-driving Americans.

"Everywhere I go these days, talking about the global energy predicament on the college lecture circuit or at environmental conferences, I hear an increasingly shrill cry for 'solutions,'" Kunstler wrote. "This is just another symptom of the delusional thinking that now grips the nation. . . . I say this because I detect in this strident plea the desperate wish to keep our 'Happy Motoring' utopia running by means other than oil and its byproducts. But the truth is that no combination of solar, wind and nuclear power, ethanol, biodiesel, tar sands and used French fry oil will allow us to power Wal-Mart, Disney World and the Interstate Highway System—or even a fraction of these things—in the future. We have to make other arrangements."

In Kunstler's view, our modern economic system doesn't create vibrant economies, healthy diets, and wonderful health care. Instead, our oil-based "utopia" is about keeping running those things most disdained by Kunstler and other environmental elites—theme parks, discount stores, highways.

Kunstler, who is a fairly typical voice among environmental/urban-planning doomsayers, sees no possibility for additional oil exploration or for meaningful alternatives. Once "global demand for oil exceeds the global supply," that's it. Our "complex systems of daily life" will be shaken to the core. Everything will change. He lists these things: food production, commerce and trade, our means of travel, urban development, our acquisition of capital, governance, health care, education, and more. "These problems are all interrelated. They all face a crisis."

Are We in Denial?

The nation is, in his view, engaged in a massive fantasy or is in a deep state of denial. Most of us are too dimwitted to understand what Kunstler sees:

So what are intelligent responses to our predicament? First, we'll have to dramatically reorganize the everyday activities of American life. We'll have to grow our food closer to home, in a manner that will require more human attention. In fact, agriculture needs to return to the center of economic life. We'll have to restore local economic networks—the very networks that the big-box stores systematically destroyed—made of fine-grained layers of wholesalers, middlemen and retailers. We'll also have to occupy the landscape differently, in traditional towns, villages and small cities. Our giant metroplexes are not going to make it, and the successful places will be ones that encourage local farming.

Most Americans tend to be unwilling to dramatically reorganize their everyday lives just because some academics don't like their suburban, car-oriented lifestyles.

Kunstler sees an end to regular airline travel, but believes that "fixing the U.S. passenger railroad system is probably the one project we could undertake right away that would have the greatest impact on the country's oil consumption." But don't worry, he explains, "We don't have to be crybabies about this." Americans simply need to understand that we can't keep "getting something for nothing" and we need to be "honest about the way the universe really works."

These are shocking suggestions, of course, and when Kunstler says "we," one can only surmise that he means "the government." Most Americans tend to be unwilling to dramatically reorganize their everyday lives just because some academics don't like their suburban, car-oriented lifestyles. But Kunstler does remind us, albeit accidentally, about one way the world works: ideologues try to gain power for their world-saving visions, and if they do, the rest of us better watch out. Kunstler's ideas seem more closely related to Pol Pot's urban-clearing experiment than anything envisioned by our founders.

There's so much silliness here to debunk. How exactly could farmers grow sufficient amounts of food close to home here in the sprawling 17-million-population, quasi-desert Los Angeles basin? If anyone tried this, wouldn't industrial techniques be needed to produce the highest possible yield on the least amount of land if it were to succeed? Yet Kunstler wants this food to have "more human attention." He wants agriculture to return to the center of our economic life. I suppose the government can tear up the existing network of freeways and plant corn and alfalfa there instead, but I can't quite see why this is such a necessity. I don't have any great desire to spend my days either harvesting food or working as a cog in one of those "fine-grained layers of wholesalers, middlemen and retailers." Then again, personal desire has no place in this dystopia. (As urban author Jane Jacobs wrote, "As in all utopias, the right to have plans of any significance belonged only to the planners in charge.") Kunstler is saying that we should give up our professions as writers, academics, doctors, entrepreneurs, and builders and instead trade foodstuffs or sell things in giant farmers' markets. No thank you. Now you see why a little *force* might be necessary to implement this vision.

As a prominent New Urbanist/ Smart Growther, Kunstler predictably prefers living in small, traditional towns. Most New Urbanists I know are content building Yuppie malls that pretend to be old *townes* (you've got to have the "e" at the end if you want to target the right demographic), railing against suburbia, and lobbying city councils to stop proposed new housing tracts. But how exactly would those of us living in suburbia come to occupy the landscape differently? I know Kunstler's proposal is post-apocalyptic. He sees the oil crisis as a shock to the current system. But, still, we can't just abandon the equity (such as it is in this declining market!) in our four-bedroom "McMansions" (the derogatory elitist term for newer suburban homes), push our $30,000 cars over the cliffs at Malibu, and try to find some village in the Sierras to move into.

Yet it's Kunstler who suggests that the rest of us are living in a fantasy world.

Not everyone in the environmental and planning "communities" is looking to such radical solutions, but there's lots of gloating about high gas prices by anti-suburban scolds.

In an article titled "Gas Prices Changing the Face of America," the website "Smart Growth America" argues: "Though struggling with near-term implications, many are starting to wonder how a future of costly energy will reshape their lives and landscape. You can already see it in the housing market, where people are unable to unload McMansions in partly finished, distant subdivisions for the same reason they can't sell their large SUVs: Potential buyers don't want the high gas bills. Americans are beginning to ask themselves the big questions: 'How did we get to a situation where the only option we have is to drive? Why can't I take a train to work? Why can't my kids walk to school like I did?'"

It would be nice for Smart Growthers to call for fewer building regulations rather than more of them, which would enable more Americans to live closer to their jobs.

Of course, it's perfectly reasonable for people to seek out such options when gas prices go up (although as a former East Coast transit rider, I can't understand the love affair with dirty buses and crammed subway cars). Farther-out suburbs are suffering the most as gas prices soar, for the obvious reason that it becomes more costly to commute from such neighborhoods. It would be nice for Smart Growthers to call for fewer building regulations rather than more of them, which would enable more Americans to live closer to their jobs. But that's expecting a bit much from activists who believe that Americans should live packed together in condos and apartments.

Increased Government Control

The Smart Growth folks have a series of proposals also detailed on the website. They almost all involve more government control over land use and other decisions. The philosophy is best summarized by this proposal: "By directing growth to communities where people already live and work, smart growth limits the amount of farmland and open space that is developed, makes existing communities more attractive—with a mix of housing, restaurants, parks, cafes, and jobs, and minimizes the need for new water, sewer and road infrastructure that increase taxpayer burdens."

This is all about coercion. All growth will be *directed* into existing communities. Farmland and open space will be "protected" from growth. This Smart Growth agenda would obliterate America's system of property rights. If cities are bad, and the countryside must be protected, then where will 300 million Americans live? Wouldn't the creation of a new village-based society cause the massive sprawl that these urban planners are so worried about? Ironically, some of Kunstler's ideas have support among paleoconservatives, who are trying to create a Norman Rockwell-esque America. Don't any of these folks have any concern about the ideas of freedom or individualism? Ignore the last question; we already know the answer.

Ideas generated by folks such as Kunstler, who was celebrated at a Congress for the New Urbanism conference I attended a couple of years ago, create the philosophical base for these Smart Growth organizations, which have successfully influenced planning groups and government organizations—so much so that we can see their footprint in every new subdivision built. One proposed near my house is typical. The city approved 16 homes on 30 acres, but all the homes must be crammed together on tiny lots, with the bulk of the land set aside as open space. That's a New Urbanist concept. I've written about local cities that subsidize downtown development and promote condo construction and "live/work lofts" even as they use regulatory takings to deprive property owners of the right to build on open space. These are the real-world outgrowths of the Kunstler philosophy. It's easy to laugh at the absurdity of what he proposes, but these doom-and-gloom scenarios lead to specific regulatory agendas. In California, state officials are using global-warming rules and water access as specific means to shut down suburban growth. At the federal level a California Democratic congresswoman and a Republican senator are pushing for a return to that old Nixon- and Carter-era "gas-saving" standby—the 55 mph national speed limit. Never mind that most Americans drive at the natural speed limit of any given road and that few savings would result. There's no end to coercive proposals by those who are hostile to freedom and the market or believe that government's role is to prod and improve individuals to help them make the "right" decisions.

If cities are bad, and the countryside must be protected, then where will 300 million Americans live?

The Survival of Suburbia

Media coverage certainly enhances the urgency of these proposals. A recent CNN.com news story was headlined, "Is America's Suburban Dream Collapsing into a Nightmare?" The article was about the subprime mess, which has certainly been nightmarish for some individuals. But suburbia, I suspect, will survive. If anything, the subprime-driven housing crisis is a needed self-correction of a government-driven problem. But that's a difficult argument to make in the face of Armageddon! Here's Kunstler again (he's so quotable) from a speech he gave in 2005 to the PetroCollapse New York Conference:

> We've become a nation of overfed clowns and crybabies, afraid of the truth, indifferent to the common good, hardly even a common culture, selfish, belligerent, narcissistic whiners seeking every means possible to live outside a reality-based community. These are the consequences of a value system that puts comfort, convenience, and leisure above all other considerations. . . . We've signed off on all other values since the end of World War II. . . . Consumers have no duties, obligations or responsibilities to anything besides their own desire to eat more Cheez Doodles and drink more beer.

Apparently, Kunstler's issues go deeper than concern about the loss of an important energy source. Keep these quotations in mind, though, given that they offer a window in the thinking of those who will use this and every other "crisis" to push for what they have always really wanted: massive, government reorganization of society. FEE

Why on Earth Do We Have a "Student Loan Crisis"?

BY GEORGE C. LEEF

Amid all our other crises, you may have missed the student loan crisis. It isn't nearly so life-threatening as global warming, nor as financially alarming as the subprime-mortgage collapse, but it does have a lot of politicians clamoring that the country needs them to prevent serious harm. That's because—for reasons I'll get to soon—many of the firms that lend American college students money are struggling. Long-faced politicians are gravely concerned that unless they do something fast, some students won't be able to borrow for the academic year.

What is going on? Student loans for college are largely a creature of federal intervention. Decades ago, politicians decided that it would be good to have more people go to college, and they created a system of grants and subsidized loans to make that possible. As we have (or should have) learned from the great economist Ludwig von Mises, government intervention nearly always has unanticipated consequences that create the apparent need for still more intervention. That is exactly what we see when it comes to higher education and its financing.

Student loans for college are largely a creature of federal intervention.

Federal Intervention in Higher Education

Before World War II the federal government had virtually nothing to do with higher education. It had no regulations that colleges and universities had to obey and it paid for no one's college attendance. Occasionally, it commissioned some scientific research from professors, but otherwise it played no role. Only a small percentage of the population pursued college studies; most people didn't think it was worth the cost.

Things changed with the passage of the GI Bill in 1944, since that law provided, among other things, that returning soldiers would be eligible for federal grants if they enrolled in college. Many took advantage of that subsidy, and the government's interventionist course was set. Almost immediately, the heads of colleges realized that this new revenue source could be tapped endlessly. Expand the student body and rake in the dollars! What had been a quiet backwater of American society would become a sizzling growth industry.

During the "Great Society" presidency of Lyndon Johnson, government intervention took several giant steps into student finance. After all, if going to college was good for those who had served in the armed forces, why not help make this good generally available? So Congress passed and LBJ signed the Higher Education Act of 1965, which established several grant and loan programs to make it easier for students to go to college. In particular, the Act created what is now called the Stafford Loan program. Stafford loans are made by private institutions. The government sets the interest rate at a level that is supposed to keep higher education "affordable"—currently 6.8 percent. And to make these fairly risky loans interesting to lenders, the government guarantees repayment. Until recently, lenders could recover 97 cents on the dollar on defaulted loans, but in

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2007 Congress cut that to only 95 cents. (More on that later.)

With subsidies now flowing for a wide swath of the college-age population, expansion really took off. Before World War II, only 10 percent of high-school graduates enrolled in some sort of higher education. By the 1990s that figure was 70 percent. Americans were getting hooked on higher education and the idea that without a college degree a person would be hopelessly mired at the bottom of the labor market. It didn't particularly matter *what* one studied or how diligently. Simply having a college degree was assumed to guarantee at least a good middle-class job.

Credential Inflation

The college mania was also fed by employers. First, with an ever-growing pool of people with college degrees to choose from, many firms adopted personnel policies that made the possession of a college degree a requirement for applicants—even for jobs that could easily be learned by anyone with a decent high school education. As James Engell and Anthony Dangerfield write in their book *Saving Higher Education in the Age of Money*, "Another reason students and parents choose as they do is that the United States has become the most rigidly credentialized society in the world. A B.A. is required for jobs that by no stretch of the imagination need two years of full-time training, let alone four."

The United States has become the most rigidly credentialized society in the world.

Presumably, college graduates are somewhat more reliable and easily trained than people with only high-school diplomas, so if there is a large enough number of applicants with college degrees, employers don't have to bother with people who don't have them.

The second reason for credential inflation is that in 1971 the U.S. Supreme Court issued a ruling (*Griggs v. Duke Power*) saying that if companies use aptitude testing to screen potential employees, they must be prepared to show that their tests are precisely calibrated to the needs of the job. Otherwise, they will be guilty of employment discrimination if their tests screen out minority workers who might have been able to do the work. Rather than face discrimination suits by the federal government, most employers started using a less precise but legally safe method of screening applicants—college degrees.

So thanks to the "generosity" of Congress and the Supreme Court's willingness to unleash the demon of litigation, college degrees became more and more sought after. Politicians could not resist the urge to buy votes from families with college students (and children who might be heading for college) by increasing the size of federal grants and loans so as to make college "more affordable." Not surprisingly, college administrators realized that when the subsidies went up, they could charge more in tuition. After a few years of tuition increases, politicians would proclaim that subsidies had to be raised to keep college "affordable" and to "increase access" for students. The subsidy dog was chasing its tuition tail. Our already bloated higher-education sector just kept happily growing, ingesting ever-increasing amounts of borrowed money.

A volcano erupted in 2007 that sent shockwaves through the student-lending industry. New York's attorney general, Andrew Cuomo, who was investigating allegations of corruption in the industry, said he had uncovered a mass of favoritism and underhanded dealing. For example, many of the lenders had established cozy relationships with college officials; the lenders bribed them to refer students to the lenders for financial aid. Some top financial-aid officials at major universities had profited through their stock ownership in firms they put on their schools' "preferred lender" list. Those practices were nothing new, but previously the lenders had managed to protect their sheltered high-profit business through their political influence.

Writing in April 2008, Peter Wood, executive director of the National Association of Scholars, summed up the situation: "The 'free market' in this case was never anything close to lean and efficient. To the contrary, it was (and still is) inefficient and frequently corrupt, dominated by players who found it easy to bribe college officials, wring favors from politicians by means of campaign contributions, bilk the Department of Education, and live off generous subsidies."

Cuomo's revelations brought swift political retribution from the Democrats who had taken control of Congress following the 2006 elections. Capitalizing on the bad odor in which the student lenders had put themselves, Congress passed the College Cost Reduction and Access Act of 2007. The bill, which President Bush signed in September 2007, was intended to score political points with angry voters by cutting the lenders' subsidies. No longer would the government cover defaults at 97 cents on the dollar; the new law reduced that to only 95 cents. (Defaults were as high as 20 percent in the early 1990s, but currently are around 5 percent.) Among other provisions, the loan-origination fees lenders pay the government were doubled, and the allowable interest rate on federally backed loans was cut from 6.8 percent to 3.4 percent. In one fell swoop, the bad lenders were spanked and college was made more affordable for students.

Remember, though, what Mises said about intervention—always expect some unexpected reactions. That's what happened in the student-lending industry.

A Fateful Coincidence

The developments in the student-lending industry happened to coincide with the cataclysm in the subprime-mortgage business. (There are strong similarities between the two. In both, government policy was responsible for the overexpansion of an industry that became dependent on cheap credit.) When the financial markets suddenly became leery of packages of mortgage loans that looked bad, causing some of the big mortgage lenders to take huge losses, the markets also became leery of packages of student loans. Big lenders that had counted on selling bonds backed by student loans found investors giving them the cold shoulder. Also, quite a few announced that they were exiting the student-loan business because Congress has taken the profit out of it.

If the government had never blundered into the student-lending business, no doubt there would be much more reliance on market mechanisms than we now have. Freedom works when people bother to try it.

Therefore, last spring the "student loan crisis" appeared—at least in the minds of politicians. Talk that some students might be unable to obtain loans was enough to cause another flurry of action. Bills named the Ensuring Continued Access to Student Loans Act were introduced in both the House and Senate in April with overwhelming bipartisan support and passed as rapidly as possible. President Bush signed the legislation on May 7 to the applause of Democrats and Republicans alike. This Christmas-tree bill does a lot of costly things to shore up the student-loan industry and further subsidize students who go to college. Most important, it authorizes the Department of Education to bail out the student lenders by buying up the portfolios of loans they couldn't sell in the market. Other provisions expand student eligibility for "need-based" aid, allows parents who have taken out federally guaranteed, low-interest PLUS loans to defer payment until six months after their children graduate, and increase the amount of direct student lending the federal government does.

In other words, the politicians used the "crisis" they created as an excuse to throw still more taxpayer money into the black hole of college subsidies.

Is there any alternative? Most people are so accustomed to thinking that government is *the* solution to every problem that they can't imagine anything else. There is at least one college—Hillsdale—that runs a successful student-aid program without taking a single dollar of government money. If the government had never blundered into the student-lending business, no doubt there would be much more reliance on market mechanisms than we now have. Freedom works when people bother to try it.

Intervention in the free market always leads to problems, and politicians invariably try to solve those problems by ratcheting up the degree of intervention. Here we have a perfect illustration. As the result of the College Cost Reduction and Access Act and the

Ensuring Continued Access to Student Loans Act, the federal government is more deeply involved than ever in the business of college subsidies. The foolish notion that the government needs to help as many people as possible get college degrees has gotten another boost. Taxpayers will be shorn of more of their money so that no student who feels like getting a degree is left behind.

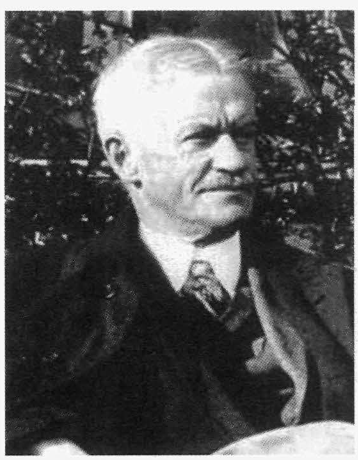
Most people now see college as an entitlement to be provided largely at "public" expense. It shouldn't be. If we hadn't made the blunder of getting government involved in college education, it would today cost much less and deliver more value. That's because it would be subject to the test of the market. Instead, it's like an overweight gorilla that has been stuffing itself on taxpayer dollars for many years.

Albert Jay Nock and Alternative History

BY JOSEPH R. STROMBERG

Albert Jay Nock (1870–1945) was a leading ideologist of the Old Right, a loose collection of individualist intellectuals, journalists, and a few politicians who opposed the growth of government in the first half of the twentieth century. Nock's writing appeared in the *Nation*, the original *Freeman* (1920–1924), which he founded with Francis Neilson, the *American Mercury*, *Harper's*, and elsewhere.

His books include *On Doing the Right Thing and Other Essays* (1928), *Jefferson* (1926), *The Theory of Education in the United States* (1931), *Our Enemy, the State* (1935), *Memoirs of a Superfluous Man* (1943), and *Cogitations* (Nockian Society, 1985).


Albert Jay Nock

Nock believed that education, properly understood, was not the same as vocational training, and he famously took a dim view of politics. Conservative political scientist George W. Carey has lately (2004) named him as one of "the great conservative thinkers of the twentieth century."

Perhaps so; but Nock was also profoundly radical. *Jefferson* and *Our Enemy, the State* are the keys to understanding Nock's system, and inquiry into them sheds light on the relationship between Nock and the Old Right to Progressives and Progressivism and other strains of non-Marxist radicalism.

Nock's *Jefferson*

Few would doubt that Nock is a pleasure to read. *Jefferson* packs interesting detail and observation into an admittedly off-center account of its subject. Thomas Jefferson is skillfully etched, foibles and all, and Nock notes favorably that he never speculated in land. Of his many inventions, Jefferson "never patented one" (being what we would now call a "freeware" inventor).

As ambassador to France, Jefferson supposed that country held 19 million paupers. He commented, "[W]herever there is in any country uncultivated lands and unemployed poor, it is clear that the laws of property have been so far extended as to violate natural rights. The earth is given as a common stock for man to labour and live on." Adding in royal monopolies, Jefferson ascribed to France's productive classes "all the oppressions which result from the nature of the general government . . . their particular tenures, and . . . the seigneurial [feudal] government to which they are subject."

In England, Nock writes, Jefferson "saw a population expropriated from the land, and existing at the mercy of industrial employers, with the enormous exactions of monopoly standing as a fixed charge upon the producer." The English state was essentially the agent of privileged orders. Jefferson commented that while Englishmen were honest, their constitution (see Paine, Shelley), "from its nature, must render their government forever dishonest"; as politically organized, England comprised "a nation of buccaneers . . . seizing to itself the maritime resources and rights of all other nations."

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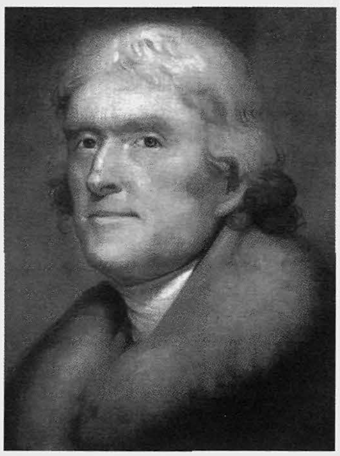
Republicanism Is Superior, But Not Ideal

Europe's monarchies bred such evils naturally. Nock writes that Jefferson saw American republicanism as obviously superior. But ours was "not the ideal system"—Native American anarchism was (Nock's summary). Leaning that direction, Jefferson sometimes theorized a radical decentralization of the states themselves into ward-republics. In decentralized wards the people could, in Jefferson's words, "crush regularly and peaceably the usurpations of their unfaithful agents." Here, Nock writes, Virginia might have "set a good example, most of all to New England, which had the system, but was aborting its fruit." Jefferson attributed Shays' Rebellion to (in Nock's words) "an unfair pressure of debt and taxation, applied by collusion. . . ."

Nock observes that the leading Federalist ideologist, Alexander Hamilton, united "certain broad classes of the 'rich and well-born' with the interests of the government," starting with public creditors. As for "the natural-resource monopolist," his position, Nock says, "was as impregnable under the Constitution as his opportunities were limitless. . . . Hence the association of capital and monopoly would come about automatically. . . ." The Revolution's ideals had masked concrete economic interests; what really divided the country was the Federalists' political means to wealth. As for the Alien and Sedition Acts, Nock writes, "Americans were never sticklers for theory; they have been always more concerned with the inconveniences of despotism than with its iniquities."


Thomas Jefferson

Jefferson thought Hamilton's national debt could be paid in 15 years, but commented: "[W]e can never get rid of his financial system." He complained to Samuel Adams of "an artificial paper phalanx overruling the agricultural mass. . . ." Nock wryly notes "unaccountable fires among the Treasury records" just before Jefferson's appointees came in.

Nock is no unreserved admirer of Jefferson. He finds Jefferson's assessment of the Federalists inexact: "[W]hat really animated and held these people together was a predatory economic interest." Jefferson suspected English influence but saw only its "external and superficial aspects." The Federalists, Nock writes, devised their fiscal system "by no means because it was British, but because *there was money in it*" as "the most effective engine of exploitation by the 'rich and well-born' " (italics added).

Jefferson was slow to see the Constitution "as an economic document of the first order. . . ." "The four great general powers" it granted were over taxes, war, commerce, and control of western lands. Mercer of Maryland, John Taylor of Caroline, and Jackson of Georgia were quicker "to assess the economic implications of Hamilton's fiscal system." They were correct, and Hamilton's funding scheme created new assets amounting to an eighth of the national "wealth" out of nothing and gave them to "a single vested interest."

In Nock's opinion, Jefferson's "legalistic" opposition to Hamilton made him seem "a doctrinaire advocate of State rights and of strict construction; whereas he was really neither." Nor was he opposed to commerce in general; he understood the difference between everyday banking and public credit. For reasons of trade, Jefferson had supported the new Constitution, provided that "the United States should be a nation abroad, and a confederacy at home."

Taylor had a superior grasp of free-trade principles and of how taxes are shifted back to productive factors. When Jefferson complains to Taylor about political patronage, Nock writes laconically, "[T]he Constitution was meant to work that way, and it did." Jefferson's plan of paying off the public debt by selling western lands served to create "unlimited private land-monopoly." As for his Louisiana Purchase, "if it was a boon to the agrarian producer, it was a godsend to the speculator." Jefferson's unconcern about land monopoly aided the interests created by the Federalists.

Worse, Jefferson had an unfortunate faith in economic warfare—retaliatory tariffs and embargoes. "He never anticipated," Nock writes, "the appalling economic consequences brought indirectly upon the country in 1807." Discussing the background of the War of 1812 (and with 1914–1917 fresh in mind), Nock writes that instead of informing American shippers that they took their own risks in sailing into the Anglo–French naval war zone, Jefferson backed an embargo "wholly subversive of the principle of liberty"—"the most arbitrary, inquisitorial and confiscatory measure formulated in American legislation up to the period of the Civil War. . . ." It made three states solidly Federalist and raised threats of New England secession.

Jefferson also failed to foresee the Federalists' permanent lock on the Federal courts. In 1800 he predicted that "a single consolidated government would become the most corrupt government on earth," exclaiming: "What an augmentation of the field for jobbing, speculating, plundering, office-building and office-hunting would be produced by the assumption of all the State powers into the hands of the General Government." Yet Jefferson was not "a doctrinaire enemy of centralization." He did not see his own constitutionally doubtful actions, as president, as comparable to things his enemies did (in Nock's words) "for the final purpose of putting the legality of economic exploitation forever beyond the reach" of electoral politics and "official responsibility."

Nock deployed and criticized Jefferson in aid of reinterpreting American history. He made his theoretical ground explicit in *Our Enemy, the State.*

In a "land of unprecedented monopolist opportunity," Nock writes, men strove "to get out of the producing class and into the exploiting class as quickly as possible." Jefferson "never seemed aware that the prospect of getting an unearned dollar is as attractive to an agrarian as it is to a banker. . . ." His Republicans kept their name while resisting "any tendency within the party to impair the system" that made extra-economic profits possible; hence, over time, "the essential identity of the parties."

Our Enemy, the State

Nock deployed and criticized Jefferson in aid of reinterpreting American history. He made his theoretical ground explicit in *Our Enemy, the State.* Nock wrote that work in the shadow of the New Deal, which he treated as part of a two-century process of American state-building.

In Nock's terminology, government serves society. But the *state* intervenes positively to divide society "into an owning and exploiting class, and a propertyless dependent class." Only "incompetent observation" from Aristotle to Paine, had obscured this distinction. Franz Oppenheimer found the state's origin in conquest, making every historical instance "a class-state"; but the state game only paid where economic exploitation could arise. For Nock, access to land was the key to preventing exploitation. Nock cites Turgot, Benjamin Franklin, John Taylor, Theodr Hertzka, and Henry George on the point.

The burden of Nock's "theorem" is simply that few people with alternative economic means would beat down factory doors for mere "employment"—and at abysmally low wages, under miserable, dangerous conditions and quasi-military "discipline," and with long, arbitrarily set working hours. The best alternative means was a plot of land and, short of that, access to traditional commons, "wastes," and so on. These access rights were not especially tragic-because-common, but were in fact *collective private rights* held by specific persons in well-defined, once-feudal jurisdictions. All England could not show up one day and dissipate these resources. These little rights, however, gave people an edge, a minimal independence useful for avoiding abject dependence on would-be employers. The latter hated these arrangements and duly enrolled the state to destroy them. Nock's insight is that conquest, land engrossment, and destruction of economic options are not a one-shot deal, done in 1066, but can be repeated as needed, in an ongoing process favoring those with the best access to the state. This is why Nock uses the inflammatory word "exploitation."

In actual (non-Whig) history, commercial interests gradually refit the state "to their own special interests, and strengthened it immeasurably." Later, republican forms allowed the individual to imagine "that State action is his action. . . ." Following Oppenheimer, Nock contrasts the economic and political means to wealth. Feudal and merchant states were "higher integrations of the primitive State"; while states as such, "primitive, feudal or merchant [were] *the organization of the political means*."

America's colonial period unfolded in the period in England when merchants and financiers "saw the attractive possibilities of production for profit, with the incidence of exploitation gradually shifting to an industrial proletariat." *This*, Nock says, was "the actual inwardness of . . . the Puritan movement. . . ." Growing individualism and social power coexisted with a "weak" state, but one strong enough to oversee "a thoroughgoing economic exploitation with relatively little apparatus of legislation or of personnel."

The "Merchant-State"

John Locke justified this new state and sought "to copper-rivet . . . a doctrine of the sacredness of property" blocking state confiscations of the private property of important persons. Under Locke's Whiggism-with-a-vengeance, the rights of property "took precedence even over those of life and liberty." Even war powers, Nock writes, were to intrude on men's lives and liberties "but *not* on their property" (italics added). Popular sovereignty provided additional leverage "for ousting . . . status to make way for the regime of contract . . . displacing the feudal State and bringing in the merchant-State." Like everyone else, merchants felt the disutility of labor and wanted a better "access to the political means." Parliament was their chosen instrument.

Feudal elites "bequeathed" the idea of the political means to the bourgeoisie. "No other view of the State was ever held in colonial America," Nock writes.

In America, colonial *states* developed from the chartered trading company as "an autonomous State." Indeed, "the merchant-State was set up complete in New England long before it was set up in Old England." As a result, "the merchant-State is the only form of State that ever existed in America"—"a purely class State," benefiting particular commercial interests. (This was also true in Virginia, despite a feudal-patriarchal overlay.)

The merchant-State's exploits were limited by the above-mentioned theorem that successful exploitation requires prior expropriation of surplus lands. In America, Nock says, the state-system of land tenure—"monopoly of the use-value of land" and "monopoly of the economic rent of land"—provided the expropriation needed. Nock seems to be saying, first, that states tend to grant more land than the title holder can actually use; second, that in such cases, the title holder realizes illegitimate profits from selling or renting the land to those who do use it. His third point would be that by encouraging the existence of large landed estates, the state and its beneficiaries take away from other potential users a livelihood they could otherwise have had. The bourgeois state let "men of all sorts . . . climb into the exploiting class," and with "a practically limitless field for speculation in rental-values," Nock writes, "land speculation may be put down as the first major industry established in colonial America." If land *use* rather than speculation had determined American settlement, "our western frontier would not yet be anywhere near the Mississippi River." Hence all theses on "over-population," beginning with Malthus, were "utterly incompetent" because deduced from "legal occupancy instead of actual occupancy."

Pro-English commercial legislation cramped American would-be wielders of the political means to wealth, as did the King's attempt in 1763 to curb colonial land grabs. Such interference irritated American elites no end. Political *independence* would provide them with full access *to* (and control of) state power.

Feudal elites "bequeathed" the idea of the political means to the bourgeoisie. "No other view of the State was ever held in colonial America," Nock writes. He observes that since English policy limited colonial use of "*both* the political and economic means" (italics added), the language of natural rights and popular sovereignty had great appeal. The Declaration of Independence spoke to those who wished to combine "unlimited economic pseudo-individualism on the part of the State's beneficiaries, and a judiciously managed exercise of political self-expression by the electorate."

After American independence in 1783, Nock writes, "administration of the political means was not centralized in the federation, but in the several units. . . ." The federal level "had no taxing power, and no coercive power," while each state had its own "bounties, concessions, subsidies," and more. All 13 states continued the monopolistic state-system of land tenure defined above.

The struggle over a new constitution pitted "speculating, industrial, commercial and creditor interests" against "farmers and artisans and the debtor class generally." The new plan widened the field of the political means, or of a *specific mix* of economic and political means. The outcome was free trade inside a bigger tariff zone: "the closer the centralization, the larger the exploitable area." (This is Nock's reading, in effect, of Federalist 10.) The classes behind the Constitution wanted "the British system . . . on a nation-wide scale"; they prevailed because mercantile interests were compact and agrarians dispersed—an early Public Choice insight. The Constitution provided republican forms with little democratic content. Under it, "the rights of life and liberty were recognized by a mere constitutional formality left open to eviscerating interpretations," and sometimes "to simple executive disregard." The point was to serve large property, however gotten, indiscriminately.

Nock was not optimistic about the future. Characterless "mass-men" were helping the state absorb society. Alongside ideological factors, he remarks on the state's "overweening physical strength."

The 1789 Judiciary Act tied up the bundle, and with John Marshall's able help the Supreme Court became "the highest law-making body." Nock comments on the later "fetiches" of the party system and such "constitutional principles" as "strict construction," always abandoned in practice. Jefferson's dubiously constitutional Louisiana Purchase aimed at strengthening "agrarian control of the political means"—an achievement reversed after 1861. Nock scorns the embedded dishonesty of the system, even when defended with slogans involving "states rights" and "rugged individualism." Over the long haul, business had "most eagerly urged on the State to take . . . the successive single steps that lead directly to collectivism." Similarly, he says, modern farmers were not family farmers, but manufacturers and speculators typically clamoring for state intervention.

Nock was not optimistic about the future. Characterless "mass-men" were helping the state absorb society. Alongside ideological factors, he remarks on the state's "overweening physical strength." In any case, "reforming and revolutionary movements" showed an "incorrigible superficiality," especially when "the only modification . . . necessary is that the smallest unit should reserve the taxing power strictly to itself." History's usual logic went as follows: "Conquest, confiscation, the erection of the State," and ending, after a regular series of internal developments, with the victory of state power over social power. Social dissolution came last. A few "alien spirits" would record the tale.

Three Strands of Nockian Thought

It will be useful here to note key elements of Nock's thought. (Unless noted, quotations are from *Our Enemy, the State*.)

Jeffersonianism. In 1787–1788, Americans chose between 13 predatory organizations and a large one at the center. Nock sided with the defeated parties. Echoing John Taylor, he writes that Federalists "aimed at bringing in *the British system of economics*, politics and judicial control, on a nation-wide scale."

Progressive History. Nock dedicated *Jefferson* to Justice Louis Brandeis and wrote, too, that as "an old friend" of historian Charles Beard, he followed Beard's interpretation of the politics of the early Republic. To this "economic interpretation," Nock brought a breadth and resilience sometimes under- or unemployed by his successors (if any). When Nock says that ideological lags sustain institutions, or that the American Whigs of

1776 did not care deeply about popular sovereignty and natural rights, he adopts Progressive views containing considerable truth.

Georgism. Nock did not take Progressive history uncritically, but creatively modified it. His grounding in Henry George gave systematic character to his work. This should not astonish us. Edmund Opitz, long-time FEE staffer and member of the Nockian Society, thought George's followers were "among the best libertarians we have," and Murray Rothbard commended Georgists for seeing *there is* a land question. Georgism gave Nock somewhere to stand outside the existing order. The central claim about primal state allocation of resources gave Nock great theoretical leverage (but does not require belief in George's single tax).

In Nock's hands, these three strands afford the basis for startlingly radical historical conclusions. Thus individualism and laissez faire had not produced the "horrors" of English industrialization, "for no such regime ever existed in England." The horrors arose instead from "the State's primary intervention," which expropriated peasant producers and kept land from competing "with industry for labour," while Adam Smith preached the gospel of "landowners and mill-owners."

Henry George

Like Oppenheimer, Nock posits "an original allotment of the political means," or "original intervention," in place of Marx's "primitive accumulation." So armed, he calls American railroads "speculative enterprises enabled by State intervention." Transportation was "purely incidental"; the railroads were really about "land-jobbing and subsidy-hunting." Nock follows the trail of plunder. The French aristocracy, he notes, was "a closed corporation"; but a republic, "by an indefinite expansion of the cohesive power of public plunder, admits a steady accession of outsiders." This made Britain a predatory republic rather than traditional monarchy (*Jefferson*).

Seeing the "cohesive power of public plunder" as a near-law of history, Nock anticipates the "mode of predation" analysis pursued by Pierre Bourdieu, Sir Ernest Gellner, Joan Dyste Lind, Rothbard, and others. Here the state becomes "an anti-social institution," establishing injustice through law, "which the State itself manufactures for the service of its own primary ends."

Nock also attended to ideology, noting that "certain arrangements of words" kept Americans ("the most unphilosophical of beings") from seeing "how far the conversion of social power into State power has actually gone." Americans cared nothing for "the theory of things."

"State" and "Government"

To bare such mysteries, Nock distinguished "state" from "government." This language probably owes something to late nineteenth-century Hegelian–American political science, but Nock repositions the absolute, totalizing state as a great evil, and takes government as a mere, limited mechanism of local self-rule. The state-concept becomes a critical tool, whose Hegelian content withers under Nock's surgery. From within Nock's radicalism, we see the need to understand the system as a whole, where the test of any public measure is, "*What effect has this upon the sum-total of State power?*" This sets a critical standard of sorts, to say the least.

In the end, our interest lies not merely in the task Nock undertook, but in what we could learn by following his lead.

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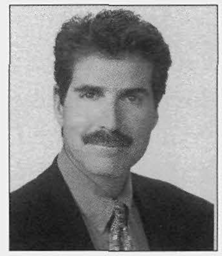
Bless the Speculators



BY JOHN STOSSEL

"I believe there needs to be a thorough and complete investigation of speculators to find out whether speculation has been going on and, if so, how much it has affected the price of a barrel of oil. There's a lot of things out there that need a lot more transparency and, consequently, oversight."

Those are the words of presidential candidate John McCain. This man is the Republican?

There's more.

"I am very angry, frankly, at the oil companies not only because of the obscene profits they've made but at their failure to invest in alternate energy to help us eliminate our dependence on foreign oil. They're making huge profits and that happens, but not to say, 'We're in this so we can over time eliminate America's dependence on foreign oil,' I think is an abrogation of their responsibilities as citizens."

The hated speculator is a good guy because his buying and selling reduce volatility and uncertainty in an unpredictable world. He may only be out for his own profit, but that doesn't matter.

Let me get this straight. A potential president of a putatively free country scolds companies for "obscene profits," failure to invest in competing products, and therefore irresponsible citizenship. Why? Is McCain running for national economic commissar?

This is not the first time McCain has displayed what I would call an anti-capitalist mentality. In an early presidential debate he countered former businessman Mitt Romney's claim to superior executive experience by saying, "I led the largest squadron in the U.S. Navy, not for profit but for patriotism."

Why the put-down of profit?

It's clear McCain does not understand how markets work or why they are good. He certainly doesn't understand the role of speculators and other middlemen. He's not alone. Speculators are among the most reviled people in history. When they were members of ethnic minorities, they were easy targets for economically illiterate people who were jealous of their success.

McCain wonders "whether speculation has been going on." He needn't wonder. Speculation always goes on. Speculation means to take a risk on what the future holds in hopes of making a profit. The world's stock and commodities markets are based on this principle. Senator McCain must have meant it when he said, "I know a lot less about economics than I do about military and foreign policy issues."

I doubt that speculators are responsible for much of the run-up of oil prices. Why didn't they run them up sooner? Besides, there are too many other explanations: increased demand from China and India, the declining dollar, and Middle East tensions.

Misunderstood Speculators

Even if speculators did play a role, what McCain apparently doesn't understand is that speculators perform a valuable service. Most people don't realize this because on the surface speculators don't seem productive. They buy what already exists and resell it. How does that help society?

In fact, the hated speculator is a good guy because his buying and selling reduce volatility and uncertainty in an unpredictable world. He may only be out for his own profit, but that doesn't matter. As Adam Smith

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wrote, "It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest."

The prices of commodities often change unexpectedly, making business risky. The speculator brings a degree of certainty to otherwise risky ventures. When supplies of a commodity are plentiful and prices low—but speculators expect the price to rise later—they buy—cushioning the collapse of prices. When supplies become scarcer and prices rise, they sell—easing the shortage and lowering the price. Also, speculators may agree to buy a commodity in the future for a price locked in today. This reduces the risk for an oil producer or farmer who fears investing because he doesn't know what price his product will sell for next year.

As a result of these activities, volatile supplies and prices are evened out over time. Occasionally, speculators increase volatility. Markets are never perfect. (Although they are better than government regulation.) But in general, speculators increase liquidity and keep the market on a more even keel. This makes long-term planning easier for everyone.

It would be nice if McCain would finally learn some economics.

Capital Letters

What Do We Do About the Subsidy of History?

I concurred on one point with "The Subsidy of History" by Kevin Carson (June 2008). It is not sound to view the historical development of capitalism as though it evolved strictly by fairness, without including the vices of mankind. Surely history is better stated by Burton Folsom in *The Myth of the Robber Barons* that there were "political entrepreneurs" and "market entrepreneurs" (even though Mr. Carson might criticize the latter as well).

However the view that emphasizes the reestablishment of justice, by confiscating much that is owned by the wealthy, leaves out much of reality. Today, we are beset by those who advocate taking from the oil companies, solely because they make "exorbitant profits." Then there are those who seek to restore to Mexico the American states that were once Mexican territory. Similarly, there are those who seek reparations for descendants of slaves. These approaches take the view (which Mr. Carson might share) that the issue is solely a matter of justice, rather than adherence to the rule of law.

Hence let us assume, arguendo, that everything written in "The Subsidy of History" is completely correct (which I take as viewing capitalism in its worst light). There remain other factors to be addressed. For example, much of what industry has produced has been earned. Moreover, much of the earnings of the wealthy has been redistributed through taxation (and other mechanisms) to others. So it is not simply a matter of taking from the thieves to return to their victims, but also of considering that which industry has developed and that which our government has stolen from them. Moreover, it is overreaching for a country to attempt to correct that which was done prior to a man's life. Thus, while there was loss to a man whose father was enslaved, it is beyond the capability of society to compensate for that loss. It is more than challenging for society to adequately deal with the injustices where those involved are living and the facts obtainable. . . .

There is also something distressing about finding the economic system throughout American history [treated] as though it were essentially immoral. It is true that *every* social system of man is an admixture of virtue and vice, yet not equally so. The American economic system has been head and shoulders above all others, so one can only criticize it by an ideal standard that views all as guilty. Yet by that standard the same would hold for *any* corrective mechanism and *any* replacement. Unless one recognizes the virtues of the compromised capitalism that we have had, he is bereft of balance. . . . If the American system has been better than any other, then there is much to be preserved, even as reform is imperative.

Consequently, to deal with the issues of our day, I would begin with the presumption that possession is evidence of ownership. Then, given a case brought by an injured party (to the extent that he has been harmed), full compensation should be made. Finally, each guilty party requires due punishment. To operate instead by conflicting visions of justice would require a nation not of laws but of men.

—ALLEN WEINGARTEN
Monroe Township, N.J.

Kevin Carson replies:

I agree with Mr. Weingarten that there are good elements in American capitalism. Every society in history has been a mixture of the political and economic means to wealth. But even in American capitalism, I believe the overall structure is largely defined by the political means and that genuine markets operate mainly in the interstices of the state-corporate system. A purely market system, in my estimation, would have a lot more Ralph Borsodi and Lewis Mumford, and a lot less Alfred Chandler.

I also agree that there are serious practical difficulties involved in any rectification of past injustice. But inaction carries its own cost in ongoing injustice. The only fair comparison is between the net levels of justice involved in action and inaction, respectively. I've already made it clear where I believe the advantage lies in such a comparison. FEE

Book Reviews

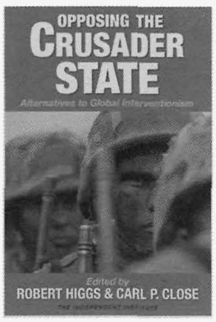
Opposing the Crusader State: Alternatives to Global Intervention

Edited by Robert Higgs and Carl P. Close

Independent Institute • 2007 • 291 pages

$15.95 papeerback

Reviewed by Doug Bandow



It doesn't seem to matter how badly America's foreign policy of global intervention has failed. The governing elite advocate more and more extensive intervention.

Virtually every leading national political figure insists that the United States must prevent Iran from developing nuclear weapons. The left wants to intervene in Sudan to save lives. Some on the right continue to mutter darkly about the need to confront North Korea if the nuclear negotiations stall. The Pentagon complains of excessive Chinese military spending, lest Beijing create a force sufficient to deter the U.S. from intervening in the Taiwan Strait.

It is a policy of war everywhere, all the time.

Robert Higgs and Carl P. Close, both of the Independent Institute, observe: "Before 1898, however, an opposite approach to foreign policy was widely considered to be more desirable and more consistent with the principles of the American Revolution. This approach—whether called neutrality, noninterventionism, or isolationism (the latter a smear word used by its critics)—boiled down to refraining from the use of military forces except to defend the nation against attack." In *Opposing the Crusader State* Higgs and Close marshal a range of essays debunking the prevailing interventionist consensus.

Noninterventionism was the logical policy for America. Contributor Joseph Stromberg writes: "Reinforced by geographical isolation from the rest of the world, the traditions of British insularity, and public preoccupation with expansion into contiguous land areas, nonintervention became the seldom-questioned premise of U.S. relations with established European powers and their empires."

Over time, America's interventionist episodes grew more frequent, but generated strong opposition. The Spanish-American War brought the United States its first overseas colonies. World War I took America back into the European quarrels that George Washington urged America to avoid. This conflict led, in Stromberg's words, to "a general revulsion against war and grand crusades that was to last for two decades" and was overcome only with great difficulty—and with the help of the Japanese military—by Franklin Delano Roosevelt. Since then intervention has dominated U.S. policy, but opposition has flared against the hot wars, particularly in Vietnam and Iraq.

FEE's own Sheldon Richman writes about the "Old Right Jeffersonians" who opposed the New Deal. Obviously, they failed to prevent intervention in the economy or in World War II, but they organized groups like FEE. Richman writes: "This fledgling and underfunded network nourished young scholars, supported the work of older ones, and planted the seeds of the classical liberal, or libertarian, movement that would begin to flourish in the mid-1970s."

One of the great historical what-ifs is what if Senator Robert Taft had been elected president? Professor Michael Hayes of Colgate University attempts to answer that question. Taft believed the purpose of U.S. foreign policy was to protect the liberty of Americans and preserve the peace. Taft, writes Hayes, "abhorred war and consistently sought to avoid U.S. involvement in war if possible." Needless to say, Taft was a very different Republican than those who dominate the GOP today.

Opposing the Crusader State also includes an interesting exchange between Ted Galen Carpenter of the Cato Institute and R.J. Rummel, professor emeritus at the University of Hawaii, over the so-called "democratic peace" thesis. Does democracy itself encourage peace? Rummel argues so, while Carpenter disagrees. Carpenter has the better case, particularly when he points out that during the Cold War the democratic United States cheerfully initiated regime change against a number of democracies. Nevertheless, whether the recent peacefulness of Europe most reflects the growing weariness of destructive war, democratic polities, increasing wealth, or merely the short time most of the continent has been democratic is impossible to say for certain.

The volume closes with a section on the impact of free trade and globalization. Edward Stringham of Trinity College dismisses the canard that wars are fought for trade: "Contrary to widely prevailing views, markets and war do not go hand in hand. The market promotes peace." Erich Weede of the University of Bonn goes even further, arguing for a "capitalist peace" and dismissing the claim that globalization destabilizes societies and creates conflict. The beneficial impact of markets helps explain the superficial success of the democratic-peace thesis, since democratic countries tend to be more capitalist.

Most Americans want peace. Most American politicians want war, or at least the sort of interventionist foreign policy that leads to war. How to help the former to rein in the latter? Higgs and Close provide a mix of history, theory, and experience that should aid development of a new, noninterventionist foreign policy.

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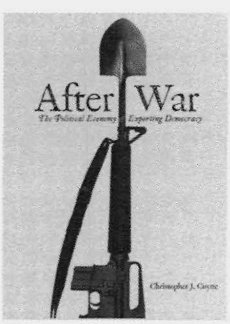
After War: The Political Economy of Exporting Democracy

by Christopher J. Coyne
Stanford Economics and Finance • 2007 • 248 pages
$65.00 hardcover; $24.95 paperback

Reviewed by Ivan Eland



In an important new book, *After War: The Political Economy of Exporting Democracy*, Christopher Coyne, an economics professor at West Virginia University, cogently argues that since the late 1800s, American attempts to export democracy at gunpoint have been mostly unsuccessful. He convincingly demonstrates all military options to be flawed and advocates a noninterventionist, free-trade approach.

Coyne analyzed 25 U.S. occupations and concluded that ten years after American forces departed, only seven of the countries had achieved stable liberal polities (with results in four countries, including Iraq and Afghanistan, too early to assess). Thus the success rate of "nation-building" is only 28 percent.

Coyne's results closely agree with a study done in 2003 by Minxin Pei and Sara Kaspar for the Carnegie Endowment of Peace. Their study found that only four of 15 episodes of U.S. nation-building resulted in democracies lasting ten years or more (with the results from the two current episodes of Iraq and Afghanistan still out). That is a similarly abysmal 27 percent.

The author is vague about how he selected the episodes to put on his list of armed democracy-building adventures. As an economist working on a noneconomic issue, he naïvely seems to have taken the rhetoric of U.S. administrations at face value. However, a seasoned international-relations expert might have realized that despite the perpetual hype on installing democracy, some of these U.S. interventions—in fact, many of them—were not primarily done to bring democracy to the particular country. In reality, since the beginning of the last century, the United States, when overthrowing foreign governments, has often preferred friendly governments to democratic ones. The United States has even overthrown democratic governments and installed dictators—for example, in Iran in 1953, Guatemala in 1954, and Chile in 1973.

Coyne seems to accept that the Clinton administration's motivation for occupying Haiti in 1994 and for intervening in the former Yugoslavia in 1996 (Bosnia) and in 1999 (Kosovo) was merely to install democracies. In actuality, Haitian refugees washing up in the key electoral state of Florida and giving the NATO alliance a new mission to justify keeping U.S. forces in Europe after the Cold War, respectively, may have been the primary reasons for those military actions. Similarly, Coyne also seems to buy the Bush administration's "democratization" rationale on Afghanistan and Iraq. These realities do not affect Coyne's principal effort to show that attempts at armed democracy-building usually fail whether or not installing democracy is mere rhetoric or the real purpose of the military interventions. But he does appear somewhat gullible in failing to acknowledge that building democracy might not have been the primary purpose of the interventions he examines.

The author also accepts the argument that failed states are dangerous to U.S. security and that something must be done about them. Laudably, to gradually push those states toward democracy, Coyne advocates a "hands-off" approach of nonintervention and unilateral U.S. free trade with them. Yet one should not assume that failed states half way across the world are automatically a threat to the United States. The threat of blowback anti-U.S. terrorism only occurs when the U.S. enmeshes itself in such civil wars and tries to "fix" the countries involved. Overstating the threat from failed states only adds to the hysteria that interventionists regularly exploit.

After demonstrating that most armed nation-building attempts haven't been successful, Coyne tries to use game theory and other economic analyses to examine why. His conclusions are sound, but using game theory and its arcane terminology to reach the same result that could have been arrived at by logical reasoning and common sense detracts from the book's impact. In the social sciences, such attempts at faux rigor do not add much analytical value and merely make it difficult for the lay reader to understand the valid points made.

Finally, Coyne doesn't apply economic analysis to his own proposed solution. If he did, he would discover that his ideal solution of nonintervention and unilateral free trade with failed states would be undermined by Public Choice factors. Powerful lobbies for foreign intervention exist within the Pentagon and State and Treasury departments, and in a corporate world looking for hidden subsidies. Also, influential protectionist lobbies will deem unilateral free trade unfair. Coyne chooses the right approach, but he should have acknowledged the challenges of changing government policy in this fashion.

Despite these minor drawbacks, *After War* confirms that attempts at democracy-building at gunpoint rarely work. If President Bush had read this book before invading and occupying Afghanistan and Iraq, it might have given him pause. At least it should have.

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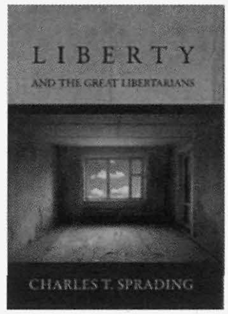
Liberty and the Great Libertarians

Edited by Charles T. Sprading
Ludwig von Mises Institute • 2007 • 540 pages • $36

Reviewed by George C. Leef



This book was originally published nearly a century ago—in 1913 to be precise—and the Ludwig von Mises Institute has done the world a service by reprinting it. The collection is a welcome reminder of the great historical lineage of libertarian thought. It's also a treasure trove of sterling insights and pithy quotations that are every bit as applicable now as they were one, or two, or three centuries ago.

Sprading was a libertarian writer and activist. The book tells the reader nothing about him, but a bit of Internet searching reveals that he was interested in many libertarian causes. Among other things, he adamantly opposed "blue laws" and American participation in the United Nations.

The book begins with an essay by Sprading on the essence of libertarianism. He equates human progress with the gradual acceptance of liberty. The first victory was for freedom of thought. Libertarians advocated freedom for all people to think, but, Sprading writes, "Authoritarians protested that freedom of thought would be dangerous; that people would think wrong; that a few were divinely appointed to think for the people. . . ." The battle for freedom of thought was followed by battles for freedom of speech, press, assembly, and religion.

Among Sprading's many insights is that government officials usually stand to gain personally from the state's expansion. "The more laws, the more ignorance of them; the more ignorance of the law, the more the laws are broken; the more the laws are broken, the more criminals there are; and the more criminals, the more policemen, detectives, lawyers, judges, and other officials that go to make up a strong and expensive government. All of this is good for government officials, but bad for the citizens who carry the load." One sees an early grasp of Public Choice theory there.

He also anticipated Murray Rothbard's analysis that the true class division in society is between producers, who are compelled to pay taxes, and the militant class of parasites who consume taxes and dominate the producers.

The bulk of the volume consists of readings from libertarian writers going back to the eighteenth century (Edmund Burke, Thomas Paine, Thomas Jefferson) and continuing up until the early twentieth century. There is a lot of great material, as well as some that is a little dubious.

Here, as an example of the former, is Edmund Burke's trenchant view of the state: "Let us take a review of the dungeons, whips, chains, racks, gibbets, with which every society is abundantly stored, by which hundreds of victims are annually offered to support a dozen or two in pride and madness, and millions in an abject servitude and dependence."

Thomas Paine was an early advocate of free trade and opponent of the destructive policies of trade wars: "War can never be in the interest of a trading nation any more than quarreling can be profitable to a man in business."

Ralph Waldo Emerson on the waste of taxes: "Of all debts, men are least willing to pay the taxes. What a satire is this on Government! Everywhere they think they get their money's worth, except for these."

Henry David Thoreau understood the preposterous folly of government "economic stimulus" in 1854: "Yet this government never of itself furthered any enterprise, but by the alacrity with which it got out of its way."

Herbert Spencer saw government as a "necessary evil" that mankind might eventually no longer need if it were to advance morally: "Were there no thieves and murderers, prisons would be unnecessary. It is only because tyranny is yet rife in the world that we have armies. Barristers, judges, juries, all the instruments of law, exist simply because knavery exists."

Benjamin Tucker foresaw that there would be no stopping point once government starts to give in to egalitarianism: "The moment we invade liberty to secure equality we enter upon a road which knows no stopping-place short of the annihilation of all that is best in the human race."

Auberon Herbert perceptively saw the illegitimacy of majority rule: "Majority rule is not founded—any more than emperor's rule—on reason or justice. There is no reason or justice in making two men subject to three men."

As I mentioned earlier, some of the people Sprading chose to include seem to fit the "libertarian" description poorly. For example, there is a selection from Wendell Phillips, who demands "the overthrow of the whole profit-making system." He and a few others just didn't understand that profits result from voluntary commercial interactions. Get rid of the profit system and you get rid of a lot of freedom. Overall, though, this is an excellent volume.

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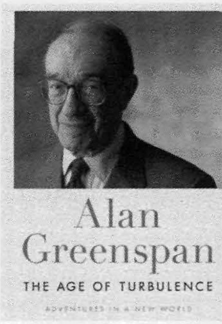
The Age of Turbulence

by Alan Greenspan
Penguin Press • 2007 • 531 pages • $35.00

Reviewed by Gene Callahan



I will do my utmost to be fair to Alan Greenspan in this review, but I must warn my readers that I have my doubts that I will fully succeed in doing so because, frankly, I am annoyed with the author for having made me wade through this piffle. It is not that there is nothing of interest in this book, but rather that those rare passages are mere jetsam floating in a sea of name-dropping (Did you know that British Prime Minister Gordon Brown is Greenspan's "friend," or that the author, "Bob" Rubin, and "Larry" Summers were "economic foxhole buddies"?), self-justification for the historical record, and commonplace economic homilies.

Greenspan is of course best known to the general public for chairing the Federal Reserve Board from 1987 to 2006, the second-longest tenure in that office. The focus of the first half of this book is on the series of crises he faced during his chairmanship: the "Black Monday" stock crash of 1987, financial meltdowns in Mexico, East Asia, and Russia in the '90s, and the Internet boom and bust spanning the turn of the millennium. He depicts his role in those episodes as valiantly "groping through a fog" to find the best ad hoc response to each crisis.

Unfortunately, Greenspan never asks whether the Fed's policies might have caused the difficulties it subsequently sought to fix. For instance, I did not find the concept of "moral hazard" appearing anywhere in this book. What that term means is that a government program intended to ameliorate the plight of investors facing large losses may prompt even greater risk-taking later in the expectation of another bailout should the situation turn sour. Rather than perpetuating a series of crises and costly bailouts, say those who warn against moral hazard, it's better to bite the bullet once, accept the costs of a few big banks failing, and thereby motivate investors to be more cautious in the future.

Greenspan also skirts the question of the Fed's role in the Internet stock boom. Some observers at that time contended that the board's easy-money policy during the 1990s fueled an unsustainable rise in equity prices. I agree. Still, I would listen to a counterargument by Greenspan, but none is forthcoming; he only says that he believed "we'd never be able to identify irrational exuberance with certainty, much less act on it, until after the fact."

What's more, our author never considers whether it even is sensible to have an agency assigned to the Fed's task. He admits that when he first was asked to chair that institution, he worried that "setting interest rates for an entire economy . . . involve[d] so much more than I knew." But he never asks if performing that job inherently involves much more than *any* individual or committee can know, ignoring the arguments of Mises and Hayek that central planners *always* lack the information necessary to succeed in their appointed task.

But perhaps the most significant flaw in Greenspan's discussion is his acceptance of the popular image of the economy as a machine, amenable to "fine-tuning," and buffeted by quasi-mechanical forces like "inflationary pressures" and "over-heating." That model provides the primary support for macroeconomic interventionism, but it is highly inaccurate. The course of an economy is not determined by impersonal, blind forces, analogous to gravity or electromagnetism in physics, but by conscious individuals choosing the best action they can envision. It is crucial to the cause of freedom to emphasize that "managing the economy" is nothing like "managing an industrial plant"—the latter involves adjusting the settings of various machines, while the former means restricting the options available to individuals for coping with their own lives.

The second half of this book consists of Greenspan's take on a number of issues he sees as having global import, such as the rise of China, European social democracy, Latin American populism, "peak oil," and international financial regulation. While his opinions in this section are often unobjectionable—China ought to embrace democracy, Latin American governments should protect property rights, Europe should deregulate its labor market—few of them are novel and most are expressed more cogently elsewhere.

Despite my criticisms, Greenspan is a bright fellow and there are interesting insights contained in the book. For instance, he recognizes the role of culture in enabling and supporting a market economy, something that was ignored by many Western economists, focused as they were on abstract economic models, in advising the ex-communist nations on how to transition smoothly to life under capitalism.

Even so, *The Age of Turbulence* is a work of little substance, and its composition appears to have been driven by vanity and a doubtlessly alluring advance from the publisher. I was paid to endure it, but I see no reason for readers of *The Freeman* to suffer as I did. FEE

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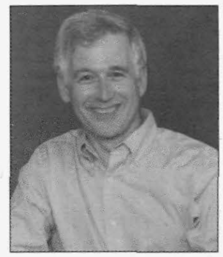
Are You Being Served?

BY DAVID R. HENDERSON



"In the animal kingdom," said psychiatrist Thomas Szasz, "the rule is, eat or be eaten; in the human kingdom, define or be defined." It is important to use words carefully, to use words that have as exact a meaning as you can achieve. Those who manage to persuade others to use the words they wish used have enormous power; they define the debate. They can almost determine the outcome of a discussion before it begins. This is fine, as long as the words are used exactly and honestly. But often people use this power to smuggle in meanings and thus stack the debating deck.

Take the word "generous." When I think of someone being generous, I think of the dictionary definition: magnanimous, kindly. But the term is often used to describe government programs that forcibly take money from some people and give it to others. Where is the generosity? Certainly not in the government's treatment of those whose wealth it takes. Perhaps, then, the government is being generous in the size of these forcible transfers. But that's not really generosity either. How can a government official be magnanimous with money that's not his own?

Consider a debate between a proponent of forced transfers and an opponent. If the proponent can define the issue as one of whether the government should be generous to people, the opponent will likely lose before the debate begins. But if the opponent insists that the issue be stated without words that bias the discussion, as one of whether the government should forcibly transfer wealth from some to others, the opponent has a fighting chance. One reason I have hope for rolling back the massive power of government is that the proponents of power seem to use misleading terms at key points in their argument. If they were so confident of preserving that power, they would not need to.

One reason I have hope for rolling back the massive power of government is that the proponents of power seem to use misleading terms at key points in their argument. If they were so confident of preserving that power, they would not need to.

Another term that is often abused in discussion is the term "serve" and its derivative "service." There are some straightforward uses. For example, you go to a restaurant and a waitress asks if she can serve you. In that context, the term means the same thing to both of you. But I take issue with another use, which has become common: "government service." The use of this term has corrupted and confused much of the discussion of what government does, in both domestic and foreign policy.

Often when someone introduces me to an audience, he will say I served as a senior economist with Ronald Reagan's Council of Economic Advisers. But how does he know I served? All he knows is that I *worked* in the Reagan administration. I *think* I served. On almost a daily basis I tried to fight off bad ideas for further restricting Americans' freedom and reducing their wealth. Most of these ideas came from other people within the executive branch, but occasionally I had time to fight off bad ideas from Congress. Like McGruff the crime dog, I tried to take a bite out of

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government. But the reason I don't say that I served in the Reagan administration is that I don't want to promote the idea that simply by working for the government, one serves the people.

In fact, the typical case is the opposite. The majority of government workers serve themselves and, unlike in the free market, there is no Adam Smithian invisible hand that causes them, by doing so, to serve others. Incentives in the political system are typically distorted, so that by serving themselves, most government officials work against the interests of those they claim to serve. Someone in government who wants to help the public often comes to think of "the public" as those who make the most noise. Thus, for example, when I worked in the Reagan administration's Department of Labor, most long-time government employees there referred to labor unions and unionized corporations as the public. What about non-union laborers and consumers? They never heard from these people and so in these government employees' minds they were not the public. In fact, they didn't seem to count at all.

Calling taxpayers customers of the IRS is like calling chickens customers of the egg farmer.

Public Choice economists have pointed out that in the political system, the people with a disproportionate influence are members of concentrated interest groups that have a lot at stake in an existing or proposed government program. Take the U.S. government's quotas on sugar imports. Please. Because U.S. sugar producers have so much at stake per person, they have a large voice in the process; sugar consumers (virtually all of us), though we lose only a little each, lose more in total from the restriction than sugar producers gain. Multiply the sugar-quota program by about 1,000 and you have just accounted for a huge part of what the U.S. government does. The administrators of this program and the majority of congressmen who vote for it are not serving us.

The late Aaron Director, a law professor at the University of Chicago who helped create the field of law and economics, said it well in talking about Franklin Roosevelt's New Deal: "These young men who come to Washington to serve the public interest find, as if by an invisible hand, that they end up serving their own." Indeed, incentives in government make the invisible hand into an invisible fist.

Whom does the IRS serve? One could make a case that it serves Congress, the president, and the federal bureaucracy because they take the money the IRS collects and spend it on causes they or their constituents want. In that sense, the IRS is a service. But what are we to make of the congressmen of both major parties who, when it was revealed in the late 1990s that the IRS had been treating some taxpayers badly, called on the agency to treat its "customers" better. By "customers" they meant taxpayers. When I ship a package with UPS, I'm a customer buying a service. How do we know? Because I do it voluntarily. But the only reason I pay taxes, as is true of most people, is that I'm forced to. If I refuse, I'll lose my assets and might go to prison. As I wrote in *The Joy of Freedom: An Economist's Odyssey*, calling taxpayers customers of the IRS is like calling chickens customers of the egg farmer.

It's possible that government workers serve us by doing something we value, delivering our mail, for example. But what the government produces is typically given away or forced on us, and we who pay for it through taxes have no choice in the matter. This means that even though, by our standards, government workers sometimes serve us, they often don't. Which makes it ironic that the term "service" is used so commonly to describe what government workers do and so rarely to describe what workers in the private (voluntary) sector do. The reality is the exact opposite. FEE

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