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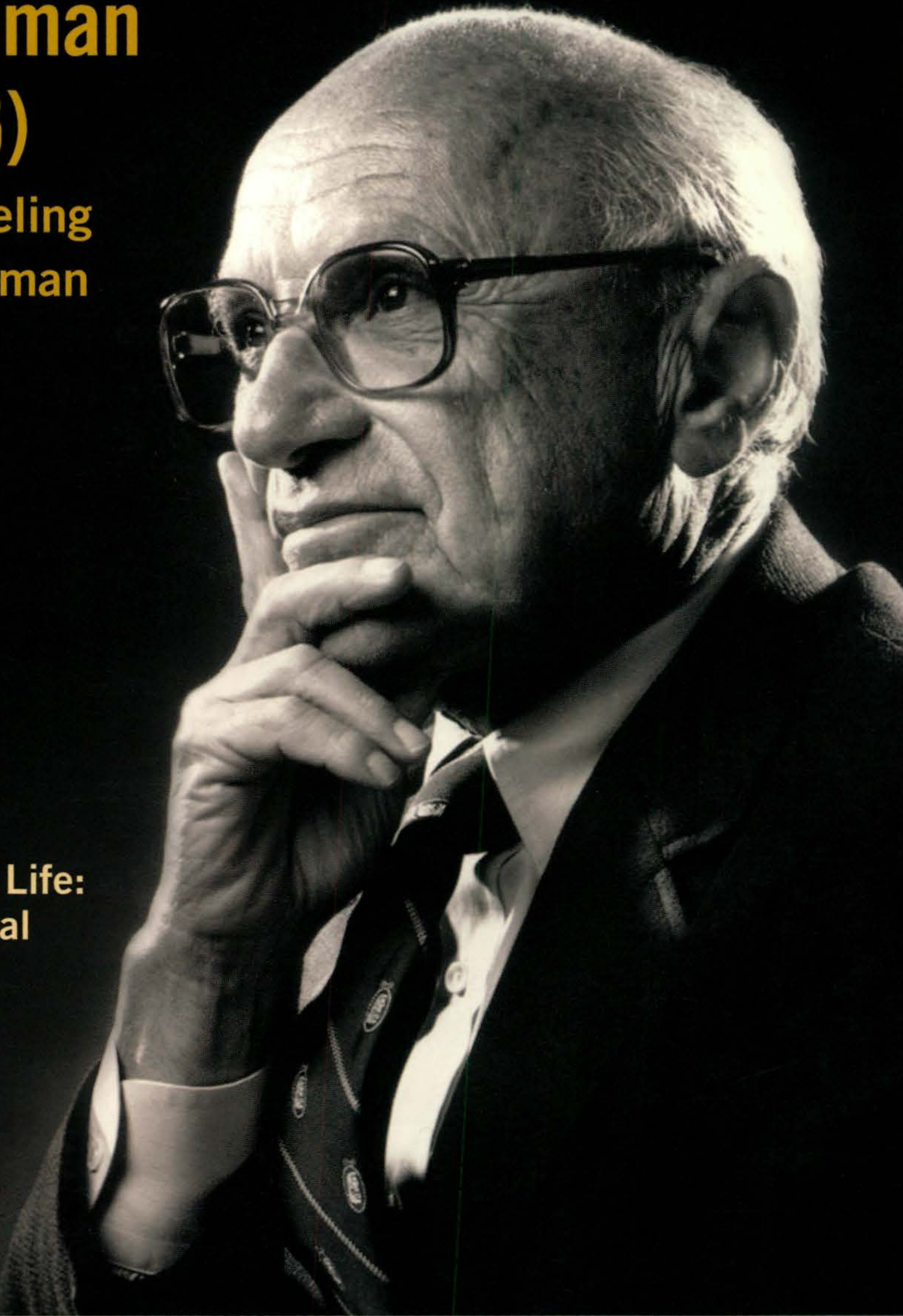
THE FREEMAN

IDEAS ON LIBERTY

Milton Friedman (1912–2006)

by Richard M. Ebeling and Sheldon Richman



Your Money *and* Your Life: The Price of "Universal Health Care"
by Jane M. Orient

Was Dickens *Really* a Socialist?
by William E. Pike

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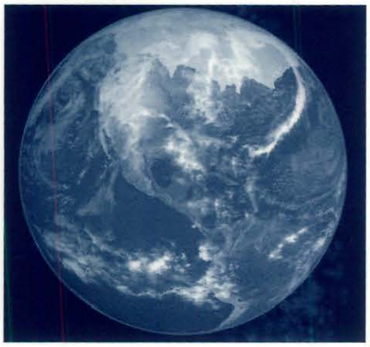

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THE FREEMAN

IDEAS ON LIBERTY

VOLUME 56, NO 10 DECEMBER 2006

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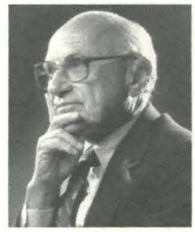

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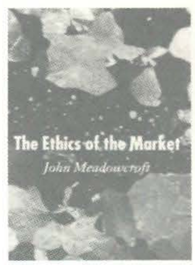

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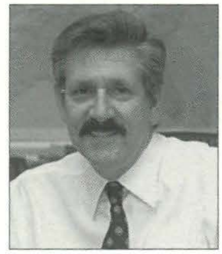
Milton Friedman and the Chicago School of Economics



BY RICHARD M. EBELING

Milton Friedman, who passed away on November 16 at age 94, once commented that there is no such thing as different schools of economics; there is only good economics and bad economics. While he may have sincerely believed this, Friedman was nonetheless the twentieth century's most outstanding contributor to what has become known as the Chicago school of economics.

The University of Chicago's economics department was founded in 1892 with the appointment of J. Laurence Laughlin as the head professor. An uncompromising advocate of laissez faire and free trade, Laughlin may be said to have set the tone for much of the department for the next hundred years.

In the period between the two world wars the market-oriented approach of the department continued with the writings and teaching of such leading scholars as Frank H. Knight, Jacob Viner, and Henry Simons. While they cannot be said to have been as staunchly free market as Laughlin or many of the Chicago economists who followed them, they forcefully emphasized the superiority of competitive markets and the price system, and the inherent problems that arise from intrusive and discretionary governmental power.

The Chicago school blossomed into one of the most influential schools of thought after Friedman joined the economics faculty in 1946 and then was joined by his long-time friend George J. Stigler in 1958.

Friedman revolutionized macroeconomics, while Stigler helped to do the same in microeconomics. Friedman challenged the dominance of Keynesian economics in the postwar period, and Stigler's writings undermined many of the rationales for government regulation of business.

Their common method of analysis, which became a near hallmark of the Chicago school, was rigorous mathematical modeling combined with statistical research to demonstrate the empirical validity or falsity of an economic theory or policy prescription. They, their students, and a growing number of followers in the profession exposed as erroneous the Keynesian presumption that markets are inherently unstable and prone to monopoly.

Friedman and many of his Chicago colleagues shared a deep and determined allegiance to human liberty. Free markets, they explained, are the institutional guarantor of choice, opportunity, and limits on government control over people's lives. In *Capitalism and Freedom* (1962), for example, Friedman pointed out that when Hollywood actors, writers, and directors were blacklisted in the 1950s after being accused of communist affiliations, they were not doomed to starvation or imprisonment in the Gulag. Whether or not the blacklist was proper, those individuals could find alternative jobs in the marketplace because the government did not control or dominate the economy.

"The fundamental protection was the existence of a private-market economy in which they could earn a living," Friedman pointed out. Government denunciation did not mean literal destruction, as it did under the communism with which some of the blacklisted actually sympathized.

Friedman more generally expressed this idea in his widely acclaimed *Free to Choose* (1980):

> Economic freedom is an essential requisite for political freedom. By enabling people to cooperate with one another without coercion or central direction, it reduces the area over which political power is exercised. In addition, by dispersing power, the free market provides an offset to whatever concentration of political power may arise. The combination of economic and political power in the same hands is a sure recipe for tyranny.

Throughout the twentieth century the Chicago school's rival in the defense of the market order and the

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free society has been the Austrian school, led by Ludwig von Mises and F. A. Hayek. The Austrians have also forcefully demonstrated the superiority of the free market and the hazards from all forms of socialist planning and government intervention. And they too have emphasized the uniqueness of the individual and the value of liberty.

But their starting points have been radically different in reaching their pro-market conclusions. In his famous essay on "The Methodology of Positive Economics" (1953), Friedman argued that the goal of science was successful quantitative prediction and that any hypothesis, no matter how unrealistic its assumptions, was good if it resulted in better predictions. Thus, as one critic pointed out, if a strong correlation was found between the anchovy catch off the coast of Peru and business-cycle fluctuations in the United States, this would be considered a good predictive theory, regardless of any real causality between these two measured events.

Causal Relationships

Austrians also believe that science should try to "predict," if by prediction we mean understanding the causal relationships in society and the market. But Austrians emphasize that the unique characteristic of social and market phenomena is man's purposefulness (an approach, by the way, that was also strongly defended by one of the older Chicago economists, Frank Knight).

Making sense of the market requires looking beneath statistical relationships. What is a consumer good or a capital good? When is a transaction "voluntary" and when is it "coerced"? What is a "competitive" market situation and when is a situation "monopolistic"? When is a "profit" earned and when is a "loss" suffered? What is it that entrepreneurs do and how do they and others in the market form expectations about the future?

These concepts and relationships are dependent on how individuals assign meanings to their own actions and to the objects and actions of other human beings around them. They are not reducible to measurable categories to which statistical methods of correlation may be applied.

In addition, the future is not as quantitatively predictable as too many Chicago economists have liked to believe. Indeed, one hypothesis for which Friedman was most famous in the 1960s and 1970s, that there is a relatively high correlation between some measurement of the money supply and national income, has become a hotly debated issue in macroeconomics again, as the definition of the money supply has become more uncertain and the correlations have become more unstable.

Furthermore, by insisting on a primarily statistical analysis of macroeconomic events, the data available have tended to be highly aggregated, with the focus on such things as output and employment as a whole and the general price level. This means the supply-and-demand details and the interconnections between various prices, which represent the actual causal relationships in the economy, are lost beneath the macro-aggregate surface.

Yet these microeconomic relationships, and how changes in the money supply influence and potentially distort them, have been the very essence of the alternative Austrian approach to understanding inflationary processes that end in recessions and depressions. Thus, for example, when Friedman looked at Federal Reserve policy in the 1920s and saw that the general price level had remained relatively stable, he concluded that Fed policy had done nothing wrong. The only error by the Fed was in the early 1930s, when it did not print more money to counteract the price deflation that was occurring at that time.

The Austrians, on the other hand, looking below the stable price level, concluded that Fed monetary policy had actually been highly "activist" and had generated imbalances between available savings and investment that finally resulted in the economic downturn of the 1930s. Whereas the Chicago economists of that time, and Friedman later, believed that the Fed should have "reflated" the price level through monetary expansion in these years, the Austrians reasoned that the distortions caused by the earlier inflation would only be made worse through any new round of inflation. Once the relative price and production relationships had been distorted by the earlier inflation, the only way to return to stability was through an adjustment of prices, wages, and production reflecting the new post-boom reality.

Nevertheless, in the face of Keynesian domination after 1945, Milton Friedman, with courage, determination, and intellectual integrity, went against the tide and, along with only a few others, succeeded in stopping the advance toward ever-increasing government control of society.

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IDEAS ON LIBERTY

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Perspective

Economists Against Economics

Five economists who either won the Nobel Prize in economics or who served as president of the American Economic Association—and three who did both—recently joined over 600 other economists in urging the federal government to increase the minimum wage. The signatures were gathered by the union-backed Economic Policy Institute (EPI), which unsurprisingly supports substantial government intervention in the economy.

I guess this is supposed to make us think more of the minimum wage. Instead, it makes me think less of the Nobel Prize in economics and the American Economic Association.

The economists claim the minimum wage "is based on the principle of valuing work by establishing an hourly wage floor beneath which employers cannot pay their workers."

That's gibberish. Legislating a wage floor is not a principle of valuing work. We value work according to the utility it produces. No law can change that. All the minimum wage does is decree: *If* you are going to buy labor services (a big *if*), you can't pay less than the law mandates.

In a free market a wage is agreed on through bargaining between an employer, who wants to pay as little as he must to obtain the labor's expected value, and a potential employee, who wants to be paid as much as he can get for his services. What they are willing to offer and accept depends on their expectations and other options. An unskilled worker's options can be expanded through the acquisition of skills, but also through competition for his present services.

Ultimately, an employer's ability to pay the wage depends on consumers' willingness to buy the good that emerges from the production process at a price that covers the (opportunity) costs of making it. If the market price of the good doesn't cover all the costs, no wages will be paid for long.

A wage, then, is the result of a transaction. If competition is free of political impediments, wages tend to reveal the discounted marginal value of particular labor services in the market. Indeed, competitive bidding is the only way to discover that value, which has meaning only through the market process. There is no external standard against which a market-set wage can be judged. Moreover, if the parties are (politically) free—that is, the system is void of physical force—the outcome satisfies the criteria of justice and fairness.

True, we don't have a fully free market, but the proper response should be to repeal the subsidies, taxes, regulations, and other privileges that suppress competition, capital investment, and hence the demand for labor. Replacing the rotten school system with a competitive education market would also help. Tinkering with the minimum wage distracts us from the real task at hand.

The economists also say "the minimum wage helps to equalize the imbalance in bargaining power that low-wage workers face in the labor market."

But it doesn't do that for workers who are dismissed because their productivity is perceived to be below the mandated wage. For the same reason, the minimum wage cannot be, as the statement claims, "an important tool in fighting poverty." Economic theory demonstrates—and endless studies illustrate—that if you raise the price of something, other things equal, less of it will be bought. When anti-smoking advocates want people to buy fewer cigarettes, they call for higher taxes so tobacco will cost more. How can demand curves slope downward for everything but unskilled labor?

The economists go on to state, "We believe that a modest increase in the minimum wage would improve the well-being of low-wage workers and would not have the adverse effects that critics have claimed."

The adverse effects referred to are job losses by unskilled workers and less entry-level job creation. Other adverse effects are possible. A firm may cut other costs in order to pay the higher minimum, but that cost-cutting may make things less pleasant for workers. For example, hours may be cut back or on-the-job-training could be canceled. The 650 economists might think the costs are worth the benefits, but should they be making that decision? What will they do personally to help those who actually bear the costs?

The economists' statement illustrates a problem identified by F. A. Hayek. At the banquet held the night before he was presented the 1974 Nobel Prize in economics, Hayek said: "I must confess that if I had been consulted whether to establish a Nobel Prize in economics, I should have decidedly advised against it. . . . [T]he Nobel Prize confers on an individual an authority which in economics no man ought to possess. . . . There is no reason why a man who has made a distinctive contribution to economic science should be omnicompetent on all problems of society—as the press tends to treat him till in the end he may himself be persuaded to believe."

* * *

Universal health care is all the rage, but could it mean that only the healthy will get care? Jane Orient takes a close look.

A Christmas Carol is routinely held up to illustrate Charles Dickens's animosity to business. Not so fast, says William Pike.

So much good could be done at such a small cost per person if only government would put the money in the right place. Paul Cwik has a modest proposal.

One of the best-known public economists, John Kenneth Galbraith, died this year. No friend of the free market, Galbraith, yet David Henderson finds some things worth saying about him.

Many people have peace on their minds this time of year, and for Jim Peron the freedom philosophy is ultimately about peace.

Milton Friedman died in November, a great loss to the freedom movement. Richard Ebeling and I pay tribute.

Here's what's in the column department: Richard Ebeling assesses Milton Friedman's work. Lawrence Reed describes some heroes. Thomas Szasz discusses psychiatry as a branch of law. Robert Higgs retraces the journey from Armistice to Depression. Charles Baird looks at F. A. Hayek's views on unions. And Donald Boudreaux, hearing for the umpteenth time that the trade deficit is debt, responds, "It Just Ain't So!"

Our book reviewers consider works on the moral basis of freedom, economics during the New Deal, capitalist philosophers, and race.

Being December, the issue wraps up with the 2006 index, prepared by managing editor Beth Hoffman.

—*Sheldon Richman*
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The Trade Deficit Is Debt? It Just Ain't So!

BY DONALD J. BOUDREAUX

Writing in the October 4 *New York Times*, Nobel laureate economist Joseph Stiglitz worries about "global imbalances." Stiglitz's concerns are revealed in his opening paragraph: "The International Monetary Fund meeting in Singapore last month came at a time of increasing worry about the sustainability of global financial imbalances: For how long can the global economy endure America's enormous trade deficits—the United States borrows close to $3 billion a day—or China's growing trade surplus of almost $500 million a day?"

Borrowing $3 billion each day means that the United States would annually accumulate debt of approximately $1.1 trillion.

While Stiglitz gives no source for his figure, it's likely an estimate of the sum of Uncle Sam's projected budget deficit for this fiscal year ($290 billion) and the projected 2006 U.S. current-account ("trade") deficit ($864 billion). If so, Stiglitz's claim is misleading on two counts.

First, he double-counts. Whenever a foreigner sells a product to an American and then invests the dollars he earns from this sale in newly issued U.S. Treasury securities, the U.S. current-account deficit increases as does Uncle Sam's indebtedness. But it's not two debts; it's one.

To see why, we first need a brief primer on the meaning of the current account. This account measures the dollar value of goods and services exported and imported during some period (say, a year), along with international flows of interest, dividends, and unilateral transfer payments (such as foreign aid).

We can simplify by ignoring all but exports and imports. If the dollar value of exports during the year exceeds the dollar value of imports, that country runs a current-account surplus. If the dollar value of imports exceeds that of exports, the result is a current-account deficit.

Suppose Americans this year spend $900 billion on imports and sell $200 billion in exports. That means we run a $700 billion current-account deficit; we imported $700 billion more than we exported. But why? Why would foreigners ship us $900 billion worth of things they sweated to produce and demand in return only $200 billion worth of things from us? The answer is that they want to spend the $700 billion on things other than American-made goods and services: American assets. They want to invest it in America.

Like Americans, foreigners can invest their dollars in American corporations or in American real estate, or they can simply hold dollars as cash. They can also *lend* the dollars to Americans. A typical way of doing so is to buy U.S. Treasury Notes from Uncle Sam. These Notes are IOUs the government issues to get money that allows it to spend more than it receives in taxes.

> If we applaud when citizens of Wisconsin save and invest in software firms in California or orange groves in Florida, why should we not be equally pleased when citizens of Shanghai save and invest in these same American firms?

Donald Boudreaux (dboudrea@gmu.edu) is chairman of the department of economics at George Mason University.

Now we can see Stiglitz's double-counting.

Suppose that all $290 billion of the debt that Uncle Sam accumulates this year is bought by foreigners. Insofar as they purchase this debt with new earnings from the sale of goods and services to Americans, these purchases increase the U.S. current-account deficit.

But does the additional debt that Americans accumulate this year equal $580 billion—the sum of the $290 billion of additional debt that U.S. taxpayers owe to Uncle Sam's creditors *and* the $290 billion addition to the U.S. current-account deficit? No. Americans are in debt by only (!) an additional $290 billion.

American taxpayers owe an additional $290 billion to Uncle Sam's creditors who, in this example, happen this year all to be foreigners. The fact that this purchase of Uncle Sam's debt by foreigners also is counted as an increase in the U.S. current-account deficit doesn't mean that any debt in addition to Uncle Sam's budget deficit is created.

To add the $290 billion current-account deficit to the $290 billion borrowed is to double-count.

There's a second and more fundamental error—one that exists even if Stiglitz's figure of "close to $3 billion a day" refers only to the projected U.S. current-account deficit for 2006. *The current-account deficit is not synonymous with debt.* If Mr. Sony uses the $2,000 he receives from selling computers to Americans to buy $2,000 worth of equity in Exxon, the U.S. current-account deficit rises by $2,000, but no real indebtedness is created. No American owes Mr. Sony anything.

Confusion is caused by calling "debt" that significant portion of the U.S. current-account deficit that does not entail obligations by Americans to repay money to foreigners. And no such obligations exist for foreign holdings of dollar balances, of American real-estate, or of equity in American corporations. It just ain't so that the so-called trade deficit is debt!

Alas, though, problems with Stiglitz's analysis go further. Also unwarranted is his concern with China's trade surplus.

Balance of Payments

Understanding why this concern is misplaced takes us to the heart of problems with the so-called "balance of payments." To the extent that people trade across political borders, national economies lose much of their relevance. The relevant economy becomes larger than that of any one country. This development is beneficial, for it means (among other things) that failure to save and invest can be made up by foreigners doing so. Likewise, failure of any one country to provide ample enough investment opportunities for domestic savers can be made up by access to investment opportunities in other countries.

China's average daily trade surplus of $500 million means that the Chinese now annually save about $182.5 billion that they then invest outside of China. Why is that a problem for the United States? If we applaud when citizens of Wisconsin save and invest in software firms in California or orange groves in Florida, why should we not be equally pleased when citizens of Shanghai save and invest in these same American firms?

One response—the only one with any merit—is that much of China's savings is done by the Chinese government, which then invests these savings abroad. Unlike private citizens, governments' motives for saving and investing are influenced heavily by political rather than purely economic considerations. This situation does pose a potential threat, for the Chinese government might for political reasons suddenly dump its holdings of foreign assets and severely disrupt credit markets. But this threat comes from an economically harmful decision the Chinese state might make, not from the mere fact that China now runs a significant trade surplus. It's carelessness, at best, for a Nobel economist to suggest in the *New York Times* that a country's trade surplus is itself a problem for the global economy.

And even the threat posed by large Chinese government holdings of foreign assets isn't great. No credible argument suggests that Beijing is hoarding such assets simply to dump them all at once. Indeed, if a sudden disgorging of assets by Beijing were likely, asset traders would respond today by selling dollars and other non-Chinese assets "short." Such short-selling, however, isn't occurring. Of course, asset traders might be myopic or ill-informed. But for my money, I trust the expressed judgments of private market participants far more than I do those of an academic economist whose reputation is based on his ability to describe all sorts of market failures that, while possible, are rarely plausible.

Your Money *and* Your Life: The Price of "Universal Health Care"

JANE M. ORIENT

Although often recognized as sacred, human life has not been considered the top priority in the hierarchy of values. Human beings have willingly sacrificed life to preserve honor or virtue, to defend the faith or the nation, or to protect family or the family's livelihood (property). Civilized nations have, however, generally recognized the right to life—meaning the right not to be unjustly killed and to defend one's life by force.

Today many clamor to place an additional value above life itself. "Without your health, who are you?" is a popular question. "Without your health, you really have nothing," Internet sites tell us. "Without your health, the rest is pointless. . . . Nothing else matters."

Surely something so important as health should be a right, especially in such an affluent nation, shouldn't it?

American medicine is often criticized for placing too much emphasis on curing disease and not enough on maintaining health. All we need to do is to prevent people from getting sick, or treat them when they are only slightly ill, to prevent costly hospitalizations later—or so it is claimed. "Health care" supposedly heads off "sickness care," saving enormous "resources" and making all of society better and happier. Presumably it also increases life expectancy—overall. (There is little evidence for these assertions, and substantial evidence to contradict them, but that's the subject of another article.)

Still more important, health is the very "cornerstone of a democratic society," according to the crusading reformer John Kitzhaber, M.D., the former governor of Oregon who once practiced emergency medicine. In what he dubs the Archimedes Movement, he plans to use health as the lever to move the earth and "reboot democracy." The overarching (stated) goal is to "maximize the health of the population."

What could be wrong with the popular, noble-sounding goals of maximum health or universal health?

There's ample evidence that Americans don't care very much about their health. They grouse about copayments at the doctor's office or pharmacy and may leave an office in high dudgeon if expected to pay a reasonable bill not "covered" by their insurance. They often refuse to buy medical insurance even if they can afford it. Aside from a subpopulation of health fanatics, many Americans constantly defy the grandmotherly advice that is the proven basis for effective health maintenance. They smoke, drink, take drugs, engage in casual sex, and/or overeat. They do not exercise, eat their vegetables, or conscientiously wash their hands. They may be willing to take lots of pills, but appear to be allergic to anything that interferes with instant gratification or requires self-discipline.

Fortunately, Americans still have the right to practice good health habits—according to their own views, not necessarily the American Medical Association's. They also have the right to liberty or to refuse to take care of their health, and many exercise it. Kitzhaber and his fellow reformers plan to do something about that. Being healthy is not just a right but a duty!

However recalcitrant they may be about unhealthy lifestyles, Americans do care about life when facing a real and present danger of death as opposed to a hypothetical future health problem. At that point they usually want to spare no expense—especially if it is somebody

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else's expense. And here's where human instincts will collide head on with health reformers' abstractions. People naturally tend to place life above health; after all, without life, health is meaningless. As long as there's life, there's hope for improvement. For reformers like Kitzhaber, however, the priority is reversed. *Collective* health is more important than *individual* lives. The implications are profound.

It ought to be obvious that there is an unbridgeable chasm between life and death. Nevertheless, the discontinuity apparently escapes those who set up relative value scales based on "quality-adjusted life-years" (QALYs). The unstated assumption is that at some point on the QALY scale, visible to experts, the value of a life becomes negative—even less than the value of death. While the old-fashioned meaning of "a fate worse than death" has been mostly forgotten, the concept has taken on a whole new and very broad definition.

How can this be?

We don't like to use the term *lebensunwertes Leben* (life unworthy of life) because of its historical association with the embodiment of evil (National Socialism). Instead, the emphasis is placed on optimizing the use of resources. As the Vision Statement of the Archimedes Movement explains, the goal of maximal population health is to be achieved by "creating a sustainable system which reallocates the public resources spent on health care that ensures universal access to a defined set of effective health services"; that is, "care that is effective in producing health." Care that simply relieves pain, reduces disability, or postpones death might not qualify (and, unlike "health care," is certainly not a right, as is operationally demonstrated wherever nationalized medicine has been tried).

Kitzhaber is the architect of the Oregon Health Plan, which prioritizes services and cuts off public funding for all those that fall below a line set by the legislature. It is probably not coincidental that Oregon is the first state to permit physician-assisted suicide. The health plan was supposed to increase access to "basic health care" without increasing costs. Although by 2003, costs were four times as high as at the plan's inception, Kitzhaber's enthusiasm is not dampened: Expenditures are not the only concern.

Spending can always be ratcheted down once a program is entrenched and accepted. Thus while cost containment is important, it can wait. First there's the Vision of how reformers can use the perceived health-care crisis to "heal [sic] the divisions within our society"—as it is "the great leveler." The budget should be used not to "cheat death" but to put bioethics into practice and to "distribute shortfalls equitably." There will, undoubtedly, be shortfalls.

Clearly, in Kitzhaber's view, "health" trumps life. And "health" is not mere physical health but the well-being of society—as manifested by social justice, egalitarian distribution of goods and services, and proper ethics.

Choice Constrained

Proponents of "universal health coverage" are generally dedicated to bioethics—which seems largely concerned with choosing death for oneself or others purportedly because an unhealthy life or severe disability is unendurable. But most other choices are to be constrained.

A "living will is actually a dying will," explains James Pendleton, M.D., a Pennsylvania psychiatrist and a past president of the Association of American Physicians and Surgeons. The British government holds the view that a living will may *not* insist that an incapacitated person be kept alive; this view was recently confirmed by the European Court of Appeals. In the United States hospitals are generally not required to continue care that they consider "futile." Families who disagree with a hospital's decision may be given ten days to try to find another source of care for a patient. "Futile" care is Newspeak for care that is actually effective at keeping the patient alive, although not at restoring mental capacity or health—otherwise, death of the patient would moot the questions.

If the taxpayers are involved, then there is a question of whether it is justifiable to seize money from one person to pay for benefits to another, whatever the efficacy of the treatment. But what if private funds are to be used?

The question of whether a Canadian has the right to use his own money to purchase medical care that is supposed to be covered under the national health plan, but is unavailable, was recently taken to the Canadian Supreme Court by Jacques Chaoulli, M.D. Chaoulli had been forced to abandon his emergency house-call practice because of the mounting government penalties for accepting private payment. The case was brought, at Chaoulli's personal expense of around $600,000 (and risk of having to pay the government's legal costs if he lost) on behalf of a patient who had to wait a year for a hip replacement.

In a decision that some fear could destroy the government's system, the Court ruled that "access to a waiting list is not access to health care." The decision was stayed for a year to permit the system to adjust to the threat of competition. While it applies only to Quebec, the effects are expected to reverberate across Canada.

"How can you imagine that Quebeckers may live," asks Chaoulli, "and the English Canadian has to die?"

Would Americans be allowed to buy private care if compulsory public insurance becomes law? Advocates of universal coverage usually don't address this question. But Kitzhaber says he would permit people to purchase extra medical care, using "discretionary income"—that which is left after taxes.

Taxes are also a great leveler. For the same miserable public "health insurance" Canadians pay from $305 to $27,000 in taxes each year, depending on income bracket. "The end game is that people with money no longer want to pay the taxes required to provide quality health care to everybody," states Michael McBane, national coordinator of the Canadian Health Coalition, which opposes privatization.

Assumed Right

Americans tend to assume that they have the constitutional right to spend their own money to extend or enhance their own lives. How to get around that obstacle to universal rationing was addressed by the Clinton Task Force on Health Care Reform. The public-private partnership is a promising method, as the Constitution does not apply to private entities. In fact, most Americans have already lost the ability to buy private medical care in this way.

Medicare patients who are enrolled in Part B may not use their money to buy "covered" services outside the system, unless they see one of the relatively few physicians who have opted out completely, because physicians are forbidden to accept the payment. Shockingly, patients enrolled in managed-care plans have also forfeited their rights, but are generally unaware of it because severe rationing is not yet in effect.

The key is the "hold harmless" clause that forbids physicians contracted with a managed-care plan to charge subscribers privately or to "balance bill" (charge more than the plan allows, even if the payment is a dollar or less). The only thing subscribers have the right to purchase for themselves from a contracted provider is cosmetic or experimental treatments. The Lobb family discovered this when Sandra Lobb was refused admission to an alcohol-rehabilitation program, although her physician recommended it and her family was willing to pay. By contract the physician was not allowed to circumvent the plan's utilization-review program. Mrs. Lobb died.

Insurance companies do not make their subscribers aware of this limitation. Only by remarkable persistence was one small business owner, of Cameron's Hardware & Supply in Oxford, Pennsylvania, able to get the insurance carrier to admit to the implications of the "hold harmless" clause, which is probably required by state law.

A Collision of Rights

Rights are enforceable. The only way to enforce a right to an economic good such as medical treatment is through taxation: in other words, to give some a license to steal resources from productive persons to pay for benefits to others. Because of taxation a person has no right to use his earnings to support his own life until he has first "contributed" to societal health. As demands inevitably mount, rationing becomes increasingly stringent. Only those with sufficient means to pay twice for medical care have a way to escape. If legally prohibited from purchasing extra care in their own country, they may be forced to go abroad, as many affluent Canadians do.

Despite the professed benevolent intentions of "universal health care" advocates, they are turning a license to steal into a license to kill those who are not sufficiently healthy by depriving them first of medical care and then of the sustenance that all living things require. The term "health care" is well chosen: it cares for health, and discriminates against the sick.

There are great campaigns underway to coerce people into being fully vaccinated and aggressively monitored and treated for diabetes, mild hypertension, nonoptimal blood lipids, and signs of incipient "mental illness." At the same time, people are urged to accept nontreatment plus terminal sedation and dehydration for conditions such as stroke or degenerative neurologic diseases.

There are many stakeholders to be placated in the political process. There are those with crushing liabilities, including governments and business enterprises with underfunded pension plans, as well as family members who don't want their inheritances to be consumed. There are those with the potential to profit from administering small-claims payments, churning well patients through a clinic while diverting the sick ones, providing blockbuster drugs and vaccines to a large proportion of the population, garnering votes for reelection, or writing the guidelines and protocols for approved treatments.

Exploiting human fears of sickness and death is a favorite tactic for politicians and rent-seekers. Promising health while being fully aware of the dark side—premature death, the ultimate leveler—is the supreme hypocrisy.

Persons who want to be in charge of their own life-and-death decisions need to be aware of the price tag on compulsory insurance. Endlessly escalating demands on your money are guaranteed. But worse, you must trade your right to life—and to the liberty and property required to sustain it—for an obligation to measure up to the official standard for health. Or else. Having assumed responsibility for your treatment, the government must assure your worthiness.

It is worthwhile to remember that the world's premier health nuts were members of the National Socialist party. And while the talk is about health, that's merely a lever. The unstated overarching goal is totalitarian control.

Two Who Made a Difference

BY LAWRENCE W. REED

In 20 years of traveling to 67 countries I've come across some pretty nasty governments and some darn good people. To be fair I should acknowledge that I've also encountered some rotten people and a half-decent government or two. The ghastliest of all worlds is when you have rotten people running nasty governments, a combination that is not by any means in short supply.

Indeed, as Nobel laureate and Austrian economist F.A. Hayek famously explained in *The Road to Serfdom*, the worst tend to rise to the top of all regimes—yet another reason to keep government small in the first place, as if we needed another reason. "The unscrupulous and uninhibited," wrote Hayek, "are likely to be more successful" in any society in which government dominates life and the economy. That's precisely the kind of circumstance that elevates power over persuasion, force over cooperation, arrogance over humility.

Sir Nicholas Winton in July 2006

Credit: Lawrence Reed

So I take special note when I encounter instances of good people working around, in spite of, in opposition to, or simply without a helping hand from government of any kind. Some might say this betrays an unwarranted bias. But in today's dominant culture as represented by media elites, university bon vivants, and public-school mandarins, it is not government that gets shortchanged. By their thinking, the capacity of government to meet our needs is virtually limitless. It's private initiative that gets the shaft. It's the nonpolitician that is deemed unreliably compassionate, incorrigibly greedy, or hopelessly unorganized.

I offer here two stories of very good people I've met on opposite corners of the earth. If either story kindles anyone's faith in what private initiative can accomplish, it'll make my day as well as my point.

A man named Nicholas Winton is the centerpiece of the first story. He was a young London stockbroker as war clouds gathered across Europe in 1938-39. A friend convinced him to forgo a Christmas vacation in Switzerland and come to Czechoslovakia instead. Near Prague in December 1938 he was shocked to see Jewish refugees freezing in makeshift camps. Most had been driven from their homes by Nazi occupation of the Sudetenland, the part of Czechoslovakia handed over to Hitler at Munich the previous September.

Winton could have resumed his Swiss vacation, stepping back into the comfortable life he left behind. What could a lone foreigner do to assist so many trapped families? Despite the talk of "peace in our time," Winton knew that Europe was sliding toward war and time was running out for these desperate people. The next steps he took ultimately saved 669 children from death in Nazi camps.

Victims of a socialist government's persecution being helped by a stockbroker. Sort of makes mincemeat of Marx's "class consciousness," doesn't it?

The parents were anxious to get their children to safety, even though it would mean sending them off alone. Getting the children to a country that would accept them seemed an impossible challenge. Nicholas Winton didn't waste a minute. He wrote to governments around the world, pleading for an open door, only to be rejected by every one but two: Sweden and Great Britain. He assembled a small group of volunteers to assist with the effort. Even his mother pitched in.

With 5,000 children on his list, Winton searched for foster homes across Britain. British newspapers published his advertisements to highlight the urgent need for foster parents. When enough homes could be found

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for a group of children, he submitted the necessary paperwork to the Home Office and assisted his team of volunteers in organizing the rail and ship transportation needed to get the children to Britain. He took the lead in raising the funds to pay for the operation.

The first 20 of "Winton's children" left Prague on March 14, 1939. Hitler's troops devoured all of Czechoslovakia the very next day, but Winton's team kept working, sometimes forging documents to slip the children past the Germans. By the time World War II broke out on September 1 the rescue effort had taken 669 children out of the country in eight separate groups by rail. The last batch of 250 would have been the largest of all, but war prompted the Nazis to stop all departures. Sadly, none of those children lived to see the Allied victory less than six years later. Pitifully few of the parents did either.

Why did Nicholas Winton take on a challenge ignored by almost everyone else? My colleague Ben Stafford and I asked him that very question at his home in Maidenhead, England, this past July. He's now 97, but looks and speaks with the vigor of someone years younger. "Because it was the thing to do and I thought I could help," he told us. Today, the "Winton children" plus their children and grandchildren number about 5,000 people. You can learn more about Winton at www.mackinac.org/7872.

Good Samaritan

I do not have a name for the person who figures at the center of my second story. I met him in war-ravaged Cambodia in August 1989.

In advance of my trip to southeast Asia, considerable local press attention focused on area doctors who donated medical supplies for me to take to a hospital in the Cambodian capital, Phnom Penh. A woman from a local church who saw the news stories called and explained that a few years before, her church had helped Cambodian families who had escaped from the Khmer Rouge communists and resettled in my town of Midland, Michigan. The families had moved on to other locations in the United States but stayed in touch with the woman who called me and other friends they had made in Midland.

The caller said she had told her Cambodian friends about my pending visit. Each family asked if I would take letters with cash enclosed to their desperately poor relatives in Cambodia. I said yes. Three of the families were in Phnom Penh and easy to find, but one was many miles away in Battambang. That would involve a train ride, some personal risk, and a lot of time it turned out I didn't have. If I couldn't locate any of the families, I was to give the cash to any needy Cambodian I could find.

When I realized I wasn't going to make it to Battambang, I approached a man in tattered clothes in the hotel lobby. I had seen him there a few times before. He always smiled and said hello, and spoke enough English to carry on some short conversations. I told him I had an envelope with a letter and $200 in it, intended for a family in Battambang. I asked him if he could get it to them. "Keep $50 of it if you find them," I instructed. We said goodbye. I assumed I would never hear anything of what had become of either him or the money.

Several months later I got an excited call from the woman who had originally called me about taking those letters. She said she had just received a letter from the Cambodians in Virginia whose family in Battambang that envelope was intended for. A line in the letter read, "Thank you for the *two hundred dollars*!"

That poor man found his way to Battambang all right. And he not only didn't keep the $50 I offered, he somehow found a way to pay for the $10 train ride himself. I doubt that he applied for a federal grant.

The next time somebody tells me we can put our faith in politicians who spend other people's money, I will tell them about what these two people did with their own.

Was Dickens *Really* a Socialist?

BY WILLIAM E. PIKE

I have been an avid fan of Charles Dickens's works since before entering high school. I have also adhered to the freedom philosophy for about as long.

Therefore, as the years passed and I read more and more commentators lauding Dickens as a catalyst for collectivist economics and state-centered social programs, I grew discouraged and disquieted. I have come to find, however, that by and large these commentators were not interpreting Dickens at face value, but were in effect putting words into his mouth.

Did Dickens stand up for the poor? Yes. Did Dickens speak out on the conditions in his time? Yes. Was he anti-capitalist? Were his views socialist? Did he advocate for government welfare programs? No.

Compared to most great novelists, Dickens has inspired an inordinate mass of biographies, and interest in his life, apart from his works, has been unceasingly strong. One reason for this is simply that Dickens lived life fully. He traveled abroad often and made many public appearances. He was an oft-seen figure (though many times anonymous) in the streets of London, exploring the city and meeting people of all backgrounds and walks of life. He was comfortable among England's highest society and among its lowest classes. His understanding of the human condition, therefore, was comprehensive.

Charles Dickens

It is no surprise, then, that in both his fiction and his nonfiction Dickens went to great lengths to present his readers with the full range of English society, including many of its most downtrodden. We should not draw political conclusions from the fact that Dickens had a heart—that he painted vivid pictures of those suffering poverty, disability, abuse, and homelessness. That he would try to win his readers' hearts to the likes of these says nothing about his views on *how* they should be helped. Such inferences are made today by self-serving ideologues eager to enlist an ever-popular writer into their ranks.

Dickens presented his readers with some of literature's most touching characters: Tiny Tim, whose handicap would doom him to a youthful death without costly treatment; Oliver Twist, the orphan forced to endure hunger, cruelty, and childhood labor; Mr. Micawber, the genial debtor tragically forced into prison; Little Nell and Jo, who would die well before their time. In presenting such characters Dickens meant to force us to face the plight of society's least members, but he did not prescribe a collectivist solution to ending their miseries.

Nor does he blame their plight on the still-evolving capitalist economy of his day.

We are used to thinking of Dickens as an enemy of capitalism largely because of his timeless lampooning of certain men of business. What he was really doing, however, was attacking the vice of greed. In *Our Mutual*

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Friend he blasts the Lammles, who marry each other solely for money (only to find out that neither has any). In the same novel he forced the "mercenary" Bella Wilfer to undergo a transformation before finding happiness. In *Martin Chuzzlewit* relatives of the title character are ridiculed for their scheming at inheritance.

And then there is the prototype of the heartless capitalist—Ebenezer Scrooge. But as with other characters, Dickens does not attack Scrooge as a capitalist but as a *miser*. As Daniel T. Oliver put it in *The Freeman* (December 1999):

> Scrooge's character defect is not so much greed as miserliness. He hoards his money *even at the expense of personal comfort*. While many remember the single lump of coal that burns in the cold office of his assistant Bob Cratchit, the fire in Scrooge's own office is described as "very small.". . . Dickens gives us no reason to believe that Scrooge has ever been dishonest in his business dealings. He is thrifty, disciplined, and hard-working. What Dickens makes clear is that these virtues are not enough.

Mr. Fezziwig's Ball

Though the protagonist throughout *A Christmas Carol* might be Bob Cratchit, there are sympathetic characters who are in fact capitalists. Fezziwig, a man of business, nevertheless treats his employees like family. And then there are the easily overlooked "portly gentlemen, pleasant to behold," collecting money to "buy the Poor some meat and drink, and means of warmth."

Indeed, Scrooge himself, on that transformative Christmas morning, does not renounce capitalism. Instead he promises to be a better man. He will live a fuller life and share his good fortune with those close to him.

Many libertarians and other supporters of the free market will interject that Scrooge is already benefiting society as an effective businessman. The argument is also made that in lampooning Scrooge's personality, Dickens also distorts the realities of the labor market. Michael Levin has written:

> Let's look without preconceptions at Scrooge's allegedly underpaid clerk, Bob Cratchit. The fact is, if Cratchit's skills were worth more to anyone than the fifteen shillings Scrooge pays him weekly, there would be someone glad to offer it to him. Since no one has, and since Cratchit's profit-maximizing boss is hardly a man to pay for nothing, Cratchit must be worth exactly his present wages.

Both arguments have merit—Scrooge, like your local banker or financier, benefits society through his business. And yes, Dickens does not express, and most likely did not fully comprehend, the realities of the labor market. But the tale of Scrooge is of personal redemption. It is not particularly realistic nor well-versed in economics. Dickens is not attempting to argue against capitalism, nor is he arguing against a free market for labor. He is arguing against personal callousness and against misanthropy.

In chapter 33 of *Socialism* Ludwig von Mises lamented Dickens's characterizations of utilitarianism and of true liberalism. However, if Dickens's words were later co-opted to promote a socialist agenda, that is hardly his fault. Utilitarianism can be the basis of a solid capitalist economy. It can also be mutated into a communist state. Dickens might not have understood that, but he did know that utilitarianism without reasonable judgment can turn society—and the state—into something monstrous.

Private Philanthropy, Not Public Welfare

A Christmas Carol exemplifies, on a personal level, what Dickens was really arguing for. He was not calling for state intervention, nor for economic regulations. Instead, he argued on behalf of personal philanthropy. In the end, Scrooge helps Tiny Tim not because of socialist ideals, but because his humanity is reawakened, causing him to care for this child. Quite frankly, he does the right thing.

In fact, a survey of Dickens's novels shows that his protagonists and his happy endings often have something in common—a person with means helps persons of limited or no means out of the goodness of his heart. Oliver Twist is adopted by Mr. Brownlow. In *Our Mutual Friend* the Boffins relinquish their fortune to the rightful heir. Martin Chuzzlewit provides for his long-neglected grandchild and his true love. Mr. Pickwick forgives dishonest friends and helps them to establish a new life. And Sydney Carton gives up his very life for a pair of lovers in *A Tale of Two Cities*.

One can search in vain through Dickens's works for calls for government control of the economy or social-welfare structures. As Lauren M. E. Goodland writes in *Victorian Literature and the Victorian State* regarding Dickens's treatment of sanitation in *Bleak House*:

> Here sanitary reform becomes fundamentally necessary to the nation's moral and physical well-being. Yet it would be a mistake to infer from such remarks that Dickens had become a staunch proponent of the state's duty to intervene in the lives of individuals and communities. *Bleak House* memorably dramatizes the need for pastorship in a society of allegedly self-reliant individuals. But it by no means clearly endorses state tutelage, nor, indeed, any other form of institutionalized authority.

In reality Dickens often criticized state-sponsored institutions. The Ghost of Christmas Present, for instance, chastises Scrooge for relying on such institutions rather than being philanthropic himself. Using Scrooge's own words he mocks him: "Are there no prisons? Are there no workhouses?"

Among Dickens's most moving writings is a nonfiction article called "A Walk in a Workhouse." In a few short pages he describes the pathetic scene of a state-sponsored parish workhouse, Victorian England's solution to almost every social burden—orphans, abandoned children, the sick, the aged, the infirm, the insane. The problem of course was that the workhouse took away both a person's liberty and dignity—not to mention his future.

> In all these Long Walks of aged and infirm, some old people were bedridden, and had been for a long time; some were sitting on their beds half-naked; some dying in their beds; some out of bed, and sitting at a table near the fire. A sullen or lethargic indifference to what was asked, a blunted sensibility to everything but warmth and food, a moody absence of complaint as being of no use, a dogged silence and resentful desire to be left alone again, I thought were generally apparent.

Such was how Dickens viewed the state's involvement in society's welfare. He took great pains to laud the nurses of the workhouse, who cared deeply about their wards. But the place itself—the institution—was an abomination.

So don't believe the English professors and the literary theorists. Charles Dickens was not a socialist at heart. Far from being an early proponent of the welfare state, he was sounding alarms for all of us. Let us finally heed his warning.

A Government Program for All

BY PAUL CWIK

My economics students often ask why, if the economic theory I present is correct, there is so much intervention in the economy. It reminds me of an observation made by Henry Hazlitt in *Economics in One Lesson*:

> It is often sadly remarked that the bad economists present their errors to the public better than the good economists present their truths. The reason is that the demagogues and bad economists are presenting half-truths. The answer consists in supplementing and correcting the half-truth with the other half. But to consider all the chief effects of a proposed course on everybody often requires a long, complicated, and dull chain of reasoning. Most of the audience finds the chain of reasoning difficult to follow and soon becomes bored and inattentive.

Frédéric Bastiat has shown that an effective weapon against boredom and bad economics is humor and satire. It is in this spirit that I present my own letter to a congressman full of half-truths and partially correct analyses. I invite the reader to try to catch them all.

My Dearest Congressman,

I, a humble economics professor, congratulate you on becoming our newest and youngest member of Congress. There are many important problems that need to be addressed, and it is your idealism to which I wish to appeal. I submit to you a proposal that should benefit us both and develop our society to heights not yet imagined. It is a proposal for a government program that will allow us to achieve those goals that have eluded us. For too long we have been laboring for only ourselves. There simply isn't enough good in the world. That is why I am proposing that we create a new program called the PCGDF. The PCGDF is, of course, the Paul Cwik Good Deeds Fund. Before you dismiss this out of hand, please hear me out.

The PCGDF would collect one dollar from each person in the United States each year. That would be approximately $300 million. No one would protest the loss of a measly dollar over the course of a year. What would they do? Travel to Washington, D.C.; get a hotel room; create signs; and march in protest all over a single dollar per year? Not even the students who don't like my classes would ever do that! Would they organize against you and support your political opponents? Hardly! The loss of a dollar wouldn't motivate anyone to do anything.

On the other hand (a phrase we economists are very fond of), think of all the benefits that could be created with $300 million. I would start slowly by simply committing random acts of kindness and then build up to doing great works. Since the expense of the PCGDF would be spread out over a large group of people, no one (at least no one worth worrying about) would notice or get upset. Since the goodies would be bestowed on a small but highly visible group, they would capture the headlines and please the recipients.

We economists call this dispersed costs and concentrated benefits.

When we concentrate these benefits we will improve the economy in ways that we are not normally able to. Let me explain it this way: if there is a light, diffused rain,

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it's nice, especially during the hot summer months. However, if a heavy rain is concentrated in a central location we can see its power. The same is true with money and good deeds. When money is diffused nice things may arise, but it is only when it is concentrated that great things can be achieved. Do you think that the pyramids were created by small-mindedness? By pooling $300 million, great works can be done. Shelters can be built. Large-scale construction projects can be undertaken. Many jobs can be created, and poverty can be dramatically reduced. Only by concentrating wealth and resources can we build things to last the ages.

An additional benefit must be considered: the impact this concentration of spending will have on the national income through the multiplier. When a person spends a dollar in a shop it becomes someone's income. The shopkeeper will spend that money, which will become someone else's income. The spending is multiplied throughout the economy. It is better for organizations such as the PCGDF to spend tax money, because the fund will not set any of it aside. In contrast to the PCGDF, most people don't spend all their money—they save some of it. This precautionary act is reasonable from the individual's point of view, however from a macroeconomic point of view this unspent money is a brake on our ability to grow. Spending money is why we see GDP increase after a hurricane and why Germany and Japan grew so quickly after the devastation of World War II. Imagine if money were spent as if there were an emergency but without all the destruction. Imagine how much better off we could become from only a dollar a year.

As you know, economics is a value-free science. It does not tell people how to behave. It can only serve as a guide to good policies. Economic science clearly shows us the power of multiplying spending. It would be silly to ignore this potential. Furthermore, do you really want the random chaos of the market to guide progress or would it not be better instead to have sensible and rational planning?

As the PCGDF begins its mission of good deeds, it will of course have to recognize the generosity of its creators and benefactors. In addition to all the direct benefits the PCGDF would bestow on the needy, I would definitely use a (large) portion of the funds to support the supporters of the PCGDF. That means I could fund your PACs, reelection campaign, and the think tanks and the "527" committees that support your interests.

Majority Rule?

Some may argue that only those programs that the majority supports should be adopted—that politicians are public servants and should follow the will of the people. Naturally, I fully agree and would never advocate against this principle. Yet think of all the public good you could do if you are able to be reelected. Your seniority would increase; your status as a statesman would flourish; and your committee assignments will be closer to the center of power. In fact, I could use a portion of the PCGDF to spread the word that you're such an effective congressman.

Perhaps you are worried that others may attempt to form their own Good Deeds Funds. But not all good deeds are noble, kind, or generous enough to be associated with your name and reputation. You of course should carefully consider each request. Determine whether the deeds to be done are meritorious. Thus the applicants would have to explain the details to you and your colleagues. However, one can only listen to so many proposals in a committee hearing room before becoming numb to the whole process. Perhaps the applicants could explain the details in more comfortable settings—like over dinner or maybe, if the proposal is large enough, at a fashionable resort over the weekend. Since your time is limited (and there are only so many weekends that you can get away) they would have to compete for your attention. They would have to send you gifts. Who could refuse to talk to those who donate such generous gifts to you and your charitable causes?

Please consider this proposal carefully. The cost is only a single dollar per taxpayer per year, yet the good deeds that could be achieved are enormous! The PCGDF is only the beginning of a glorious future.

Yours truly,
Paul Cwik
A humble economics professor

Psychiatry: A Branch of the Law

BY THOMAS SZASZ

Medicine and law are independent but intimately interacting social institutions. Medicine guards its autonomy jealously and relates to the legal system as an equal partner. Psychiatry, in contrast, submits slavishly to being dominated by the law and obediently meets its demands. Herewith some examples.

On July 3, 2006, Orin Guidry, M.D., president of the American Society of Anesthesiologists, appealed to his colleagues to refuse to assist the states in carrying out a death sentence by means of lethal injection. "Lethal injection," Guidry reminded anesthesiologists, "was not anesthesiology's idea. American society decided to have capital punishment as part of our legal system and to carry it out with lethal injection. The fact that problems are surfacing is not our dilemma. The legal system has painted itself into this corner and it is not our obligation to get it out."

The American Medical Association's code of ethics, Guidry continued, declares: "A physician, as a member of a profession dedicated to preserving life when there is hope of doing so, should not be a participant in a legally authorized execution." Guidry urged the Association's 37,000 members "not to attend executions of death sentences by lethal injection, even if called to do so by a court. The court cannot modify physicians' ethical principles to meet its needs" (www.asahq.org/news/asanews063006.htm).

Evidently many, perhaps most, American anesthesiologists reject rescuing the criminal justice system from the consequences of its decision to deprive certain persons of life. Depriving persons of liberty is only one rung down the ladder of harms that the state may legally inflict on certain individuals. Nevertheless, most American psychiatrists feel it is their professional privilege to assist the justice system in depriving certain individuals of liberty; indeed, they insist that loss of liberty under psychiatric auspices constitutes a form of medical treatment for the imprisoned individuals. In fact, the assertion of this claim—as medical "fact"—was the very first resolution enacted in 1844 by the newly formed American Psychiatric Association (APA; then more descriptively named the Association of Medical Superintendents of American Institutions for the Insane): "Resolved, that it is the unanimous sense of this convention that the attempt to abandon entirely the use of all means of personal restraint is not sanctioned by the true interests of the insane."

Ever since, psychiatrists have clung to their privilege to imprison innocent persons like drowning men cling to life-preservers.

Indeed, psychiatrists never tire of asserting and reasserting their right to deprive people of liberty. In 2005 Steven S. Sharfstein, president of the APA, reiterated his and his profession's commitment to coercion: "We must balance individual rights and freedom with policies aimed at caring coercion." The term "caring coercion" would have fit perfectly into the Nazi lexicon, along with *Arbeit macht frei* ("labor liberates") and *Gnadetot* ("mercy death").

Because the ideas about psychiatry I have been presenting in these columns differ radically from what people read in the newspapers or see on television, I always present the evidence for my view. The reader is free to judge the information and come to his own conclusion. In support of my contention that psychiatrists have an unappeasable appetite for assisting the legal system in imprisoning individuals who irritate and upset society, I offer the following evidence.

The history of mental-health laws and of standard psychiatric practices illustrates that psychiatric confinement has nothing to do with psychiatric treatment.

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In 1851 an Illinois statute specified that "married women . . . may be received and detained at the hospital on the request of the husband of the woman . . . without the evidence of insanity or distraction required in other cases."

Today the desire to psychiatrically incarcerate persons who are not committable by the lawyers' and psychiatrists' own criteria looms large in connection with the popular pressure and political need to keep so-called sex offenders confined *after they have served their sentences*. In 1997 the U.S. Supreme Court declared this practice to be constitutional. In *Kansas v. Leroy Hendricks* the Court declared: "States have a right to use psychiatric hospitals to confine certain sex offenders once they have completed their prison terms, even if those offenders do not meet mental illness commitment criteria."

In November 2005 New York Governor George Pataki made the headlines when he initiated "an administrative program to commit sexual predators to public psychiatric hospitals indefinitely." Pataki's order pulls back the curtain. The state's mental-health system is like an army. The governor is the general. The foot soldiers, the psychiatrists, are expected to follow the orders of their superiors. "As citizens, most of us would be comfortable seeing people properly incarcerated if these are considered crimes," said Barry Perlman, M.D., president of the New York State Psychiatric Association (NYSPA). "What we are concerned about is using the mental health system to solve a problem that seems to spill over to it because the criminal justice system cannot adequately handle it."

Perlman acts as if he had just discovered that the mental-health system is an arm of the criminal justice system. But even after discovering it, he does not suggest that psychiatrists, individually or as a group, defy the governor's orders.

Politicians have no illusions about psychiatry; they know that it is an extension of the state's law-enforcement apparatus and use it as such. According to one report, "The governor [Pataki] directed the Office of Mental Health and the Department of Correctional Services to push the envelope of the state's existing involuntary commitment law because he couldn't wait any longer for the Assembly leadership to bring his legislation to the floor for a vote. . . . The state has begun to identify 'appropriate models for treatment' and to hire staff to treat these patients. . . . To date, 16 states and the District of Columbia have enacted laws to allow authorities to confine violent sexual offenders in psychiatric hospitals after their prison terms."

Mental Hospitals as Prisons

It is important to note here that as far back as in 1988 the APA's Council of Psychiatry and Law explicitly approved the use of mental hospitals as prisons. In a document dated November 11–13, 1988, the Council declared: "*Psychiatric patients who no longer require active psychiatric treatment or who are untreatable can still be best managed in a psychiatric setting. . . . Acquittees who are unable to be discharged to outpatient status should remain under psychiatric care in a hospital environment.*" Note that the psychiatric prisoner longing for freedom is treated as if he has power over his own discharge but is "unable" to exercise it: he is termed "unable to be discharged." Not surprisingly, psychiatrists resent being considered jailers. Confronted with the reality that the mental hospital is a prison and that the psychiatrist who works there is a jailer, they deceive themselves, no less than they deceive the public, with a rhetoric of "care."

It is obvious that as long as law, psychiatry, and society define destructive and self-destructive behaviors as mental diseases and assign the duty to control persons who display such behaviors to psychiatrists, who eagerly embrace that responsibility, "seclusion and restraint" —in plain English, psychiatric coercion—will remain a characteristic feature of psychiatric practice.

The definition of psychiatry as a medical specialty concerned with the diagnosis and treatment of mental diseases is a monumental falsehood. Psychiatry is a branch of the law, combining features of criminal, civil, and family law: its primary function is to promote and ensure domestic tranquility.

John Kenneth Galbraith: A Criticism—and an Appreciation

BY DAVID R. HENDERSON

Last April John Kenneth Galbraith died at the age of 97. Galbraith was one of America's most famous economists and a self-proclaimed liberal (in the American sense of "statist" rather than in the European sense of "believer in freedom"). His fame came not from his technical accomplishments in academic economics but from his awesome writing ability, evidenced in 33 books and many more articles. He wrote almost all his books—certainly the ones that made him famous—for a general audience. He honed his writing skills while on the board of editors of *Fortune* magazine from 1943 to 1948. After that, he never stopped.

Most free-market economists, including me, have had little use for the vast bulk of Galbraith's writing and thinking. This is understandable, given that the main work by which he was judged, and by which he appeared to *want* to be judged, was weak, both theoretically and empirically. But a more-complete assessment of Galbraith's writing leads me to conclude that we free marketers have been somewhat uncharitable to Galbraith. He had remarkable insights, especially about government bureaucracy and war, insights that would not have surprised a Ludwig von Mises, an F.A. Hayek, or a Robert Higgs. Moreover, in his opposition to war and his attempts to stop it, Galbraith showed some real courage.

Galbraith competes with Milton Friedman as the most famous American twentieth-century economist, but with two major differences. One was ideological. Galbraith strongly believed in government power to offset the role of corporations in the economy and to subsidize various activities, such as the arts, that he favored. Indeed, in his 1973 book, *Economics and the Public Purpose*, Galbraith claimed that "a new socialism" had become "urgent" in major sectors of the economy. Friedman, by contrast, was a strong believer in economic freedom. The second major difference between the two was with respect to influence. Whereas Friedman affected not only popular thinking but also the thinking of economists, Galbraith affected only the former.

> Galbraith recognized his lack of influence on economists and often claimed it was due to his having challenged the "conventional wisdom" (a phrase he coined).

Galbraith recognized his lack of influence on economists and often claimed it was due to his having challenged the "conventional wisdom" (a phrase he coined). He once remarked, "In the choice between changing one's mind and proving there's no need to do so, most people get busy on the proof." In recalling critical comments that David McCord Wright and George Stigler had made on a paper he presented at the American Economic Association (AEA) meetings, Galbraith wrote, "Neither approved new thought, however plausible." But Wright's and Stigler's views on new thought are irrelevant. By dismissing Wright and Stigler that way, Galbraith avoided dealing with their criticisms.

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Other mainstream economists, such as Scott Gordon and Robert Solow, also pointed out fundamental problems with his conclusions—problems Galbraith never seriously grappled with. Instead he focused on the witty epigram. As one critic pointed out, Galbraith's main form of argument for key assumptions in his model of the economy was "vigorous assertion." It's not hard to see why. In his autobiography, *A Life in Our Times*, Galbraith wrote that he learned a deep skepticism about statistics from a Harvard colleague, statistician William L. Crum. Galbraith wrote: "In my adult life I have occasionally been criticized for inadequacy in statistical or econometric method. Crum is responsible; from him I early formed the impression that no figure and no calculation was really valid and that it was foolish to expose one's self by citing one."

What an incredible overconclusion. No figure or calculation was really valid? How would he know, except by presenting contrary figures or corrections in calculations? And if he judged the invalidity based on these contrary figures or calculations, wouldn't he be accepting *their* validity? Indeed, Galbraith backed up his skepticism with a follow-up example: an incorrect data-based prediction of an Alf Landon landslide over Roosevelt in the 1936 presidential election. Of course, Roosevelt won, a fact that Galbraith acknowledges—which means that Galbraith must have trusted, within a certain margin, the actual data on presidential voting.

Galbraith's three most important books, measured by sales and influence on popular thinking, were *American Capitalism: The Concept of Countervailing Power* (1952), *The Affluent Society* (1958), and *The New Industrial State* (1967). In *American Capitalism* Galbraith argued that giant firms had replaced small ones to the point where the "perfectly competitive" model no longer applied to much of the American economy. But not to worry, he argued. The power of large firms was offset by the countervailing power of large unions, so that competing centers of power protected consumers. The late Nobel laureate George Stigler gave a pointed empirical and theoretical criticism at the aforementioned AEA meetings. Stigler noted that before Franklin Roosevelt's cartel-forming National Recovery Administration gave monopoly power to large businesses, in five of the six industries with the most powerful unions—building trades, coal mining, printing, clothing, and musicians—there were many small firms rather than, as Galbraith's theory would have predicted, a few large ones. Moreover, noted Stigler, even if large firms did have monopoly power and even if powerful labor unions did have countervailing power, how would this assure that consumers would be helped? Wasn't it more plausible that not only the firms but also the unions would have a desire to limit output and keep prices high and would simply be fighting over the monopoly rents?

Certainly, there are many examples of that having happened in industries that the U.S. government did cartelize. Between 1938, when the Civil Aeronautics Board began to regulate the U.S. airline industry, and 1978, when it began to deregulate, the CAB allowed no new airlines. Not surprisingly, fares were kept high and the main beneficiaries of this cartel pricing were unions of airline employees, not airline stockholders. "Countervailing power" by the unions did no favors for American travelers.

Starved Public Sector

In *The Affluent Society* Galbraith contrasted the affluence of the private sector with the "squalor" of the public sector, writing, "our houses are generally clean and our streets generally filthy." Galbraith attributed this to our failure to give the government enough of our resources to do its job. In none of his books and articles could one find the more-straightforward explanation for dirty streets—one that is based on incentives. Government streets are an example of "the tragedy of the commons": No one owns them and, therefore, no one has an incentive to take care of them. By contrast the privately owned streets at Disneyland are amazingly clean.

Many people liked *The Affluent Society* because of their view that Galbraith, like Thorstein Veblen before him, attacked production that was geared to "conspicuous consumption." But Galbraith himself was adamant that that was not his argument. Galbraith conceded that "an admirable case can still be made" for satisfying even consumer wants that "have bizarre, frivolous or even immoral origins." His argument against satisfying all consumer demands was more subtle than Veblen's. Galbraith wrote: "If the individual's wants are to be urgent, they must be original with himself. They cannot be urgent if they must be contrived for him. And above all, they must not be contrived by the process of production by which they are satisfied. . . . One cannot defend production as satisfying wants if that production creates the wants."

Really? Hayek, co-winner of the 1974 Nobel Prize in economics, delivered the most fundamental critique of Galbraith's thesis. Hayek conceded that most wants do not originate with the individual; our innate wants, he wrote, "are probably confined to food, shelter and sex." All other wants we learn from what we see around us. Probably all our aesthetic feelings—our enjoyment of music and literature, for example—are learned. So, wrote Hayek, "to say that a desire is not important because it is not innate is to say that the whole cultural achievement of man is not important." Hayek could have taken the point further. Few of us, for example, have an innate desire for penicillin. It had to be first produced and then advertised before doctors could know about it. And it's safe to say that we've found it very valuable.

Interestingly, when it came time to outline proposals for government policy, Galbraith didn't adhere to his own argument. He advocated that money be taken from the private sector—that is, taxed away by force from individuals—and put into government programs, especially programs like education. Why is education so valuable? Because it creates desires. Galbraith wrote: "[T]here can be little doubt that education has a marked influence in widening the span of the individual's wants. . . . [M]ore esoteric desires—music and fine arts, literary and scientific interests, and to some extent travel—can normally be synthesized, if at all, only on the basis of a good deal of prior education."

In other words, Galbraith used the same argument for government spending on education that he attacked as a poor argument for private expenditure on "unnecessary items." Thus having accepted that wants acquired through education are legitimate, he should have rejected his earlier statement that wants which do not originate with the individual are illegitimate.

Galbraith used the same argument for government spending on education that he attacked as a poor argument for private expenditure on "unnecessary items."

What is left of Galbraith's argument? Only the tired paternalist-authoritarian argument for government spending that was always lurking between the lines: people don't want what's good for them; the government knows what's good for them (never mind that the government was elected by these same ignorant people). Therefore, the government should decide what people are to have.

Galbraith's magnum opus was *The New Industrial State*, in which he argued that large firms dominate the American economy. "The mature corporation," he wrote, "had readily at hand the means for controlling the prices at which it sells as well as those at which it buys. . . . Since General Motors produces some half of all the automobiles, its designs do not reflect the current mode, but are the current mode. The proper shape of an automobile, for most people, will be what the automobile makers decree the current shape to be."

Well, not quite. Although GM would have loved to "decree" the shape of automobiles in the 1980s, it seems consumers had different ideas. That is one reason why GM, which did produce about half of all U.S.-bought autos in the 1960s, sells only a quarter of all U.S.-bought autos today.

Interestingly, in his autobiography Galbraith presented the very evidence that should have talked him out of his conclusion in *The New Industrial State*. In 1954 Galbraith was on a consulting team hired by Canadian Pacific Railway (CPR), Canada's dominant railway at the time. He saw quickly that CPR's most promising assets were its forests and land, not its railway. Yet CPR basically ignored the team's advice. He wrote, "The railway men did not look with favor on such passing fads as airplanes." This should have clued him in to the idea that large firms like CPR could "decree" virtually nothing.

To his credit, Galbraith ultimately admitted, with a 15-year lag, the major problem with his thesis. In July 1982 the steel and auto companies he had claimed were immune from competition and recessions were laying off workers in response to both foreign competition and recession. Asked on "Meet the Press" whether he had underestimated the extent of risk that even large corporations face, Galbraith paused and replied, "Yeah, I think I did."

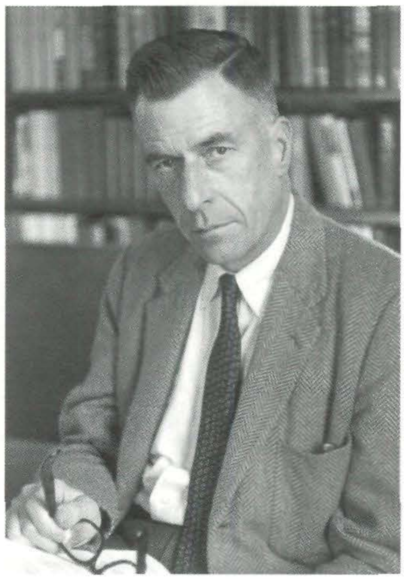
Ambassador to India

Galbraith was also President Kennedy's U.S. ambassador to India in the early 1960s. While there, Galbraith gave a series of speeches on economic development in which he hailed the role of government planning as opposed to economic freedom. In one speech, Galbraith stated, "[T]he market cannot reach forward to take great strides when these are called for. . . . To trust to the market is to take an unacceptable risk that nothing, or too little, will happen." The Indian government took his advice. It did not take the "risk" of relying on the market but instead stuck with its system of detailed controls over every industry. The result: "nothing, or too little" happened. India was mired in poverty, which began to lift only after some decontrol started in 1991.

Galbraith was also one of the chief price controllers during World War II, as head of the Price Section of the U.S. government's Office of Price Administration. Unlike other economists involved with price controls, such as George Shultz during the Nixon administration and Frank Taussig during the Wilson administration, Galbraith emerged as an advocate of permanent price controls, an unpopular position among economists. In his autobiography Galbraith wrote about his experience as a price controller in a way that recalls Ludwig von Mises's insights about how one intervention leads to another, but with a very different tone and bottom line:

> Since one firm's prices could be another's costs, the uncontrolled or later-controlled prices were beginning to unhinge those under earlier control. And the profits of the later-controlled producers were a point of comparison for those we had attended to earlier. Also very often we found ourselves moving decisively on less important prices while more important ones awaited action—vigorously on pepper, not at all on bread. Finally we began to realize for the first time what an unreasonably large number of products and prices there were in the American economy.

Such are the woes of a central planner. Unfortunately Galbraith didn't much talk about the even-greater woes that the poor victims of his planning faced: frequent shortages of gasoline, tires, nylon stockings, sugar, eggs, and meat. The vast majority of the American population were the victims, and the beneficiaries were a privileged few who happened, like Galbraith, to be high in government or to have government connections.



John Kenneth Galbraith, 1961

Photograph from the papers of John Kenneth Galbraith in the John F. Kennedy Presidential Library and Museum, Boston

Finally, in evaluating Galbraith's work on economics, we shouldn't forget his disastrous 1977 PBS series, "The Age of Uncertainty." It was full of economic error and absurd subjectivity, truly Galbraith at his worst. The reader who wants to know more details should check two articles by David Kelley: "Distorted Picture: A Hard Look at Galbraith's 'Age of Uncertainty,'" *Barron's*, July 18, 1977, and " 'Age of Uncertainty': The Taxpayer Should Ask for His Money Back," *Barron's*, August 1, 1977, along with the revealing response and rejoinder by Galbraith and Kelley, respectively, in *Barron's*, October 3, 1977.

So what's to like about Galbraith's thinking and about his contributions to society? A number of things. First, Galbraith was a strong opponent of military conscription. Writing in his autobiography about the debate over renewing the draft before the attack on Pearl Harbor, Galbraith used his rapier wit to score a point against advocates of the draft: "[T]he draft involved only the life and liberty of the subject. Price control involved money and property and thus had to be taken more seriously." Later, in the 1960s, he wrote, "[T]he draft survives principally as a device by which we use compulsion to get young men to serve at less than the market rate of pay." In the interest of full disclosure, though, I should point out that when I asked him in 1980 to sign "The Economists' Statement Against the Draft," which I had written and got almost 300 economists, including Milton Friedman and Alan Greenspan, to sign, he had his secretary tell me, "Professor Galbraith will not be signing."

Independent Mind

What else is impressive about Galbraith? He brought an independent mind to some of the biggest issues of the twentieth century, those involving war and peace. For all his refusal to look at evidence, Galbraith did some of his most important work on the effect of Allied bombing of Germany during World War II. As a director of the U.S. Strategic Bombing Survey he went to Germany immediately after the European war and headed a team to do an overall economic assessment of the German mobilization and the effect of the bombing on that mobilization. Galbraith's team included economists Burton H. Klein, who made his reputation with his work on that team, Nicholas (later Lord) Kaldor, E.F. Schumacher (later author of *Small Is Beautiful*), Tibor Scitovsky, and Edward Dennison.

What they found was devastating. Galbraith wrote wittily, "Nothing in World War II air operations was subject to such assault as open agricultural land." Successful attacks on war-production plants were much rarer. Whereas in 1940, 1941, and 1942, average monthly production of Panzer vehicles was 136, 316, and 516, respectively, in 1943 (when the bombing had begun in earnest) and 1944, monthly Panzer production was up to 1,005 and 1,583, respectively. They found similar results for airplane production. Galbraith's boss, George Ball (later undersecretary of state under Presidents Kennedy and Johnson), found something equally disturbing about the firebombing of cities. The RAF's bombing of central Hamburg, for example, destroyed many lives and many businesses in the central city—restaurants, cabarets, department stores, banks, and more. What were the newly unemployed waiters, bank clerks, and entertainers to do? That's right: seek jobs in the war plants on the edge of the cities "to get the ration cards that the Nazis thoughtfully distributed to workers there."

Moreover, the effect of the bombing was to shift control of production from the incompetent Hermann Goering and the Luftwaffe to the far-more-competent evil genius Albert Speer. In other words, the incredible destruction that the British and U.S. air forces wreaked on Germany, with the high loss of human life, didn't even have the intended effect of slowing Germany's war-production machine. Galbraith had to fight hard to have his report published without it being rewritten to hide the essential points. "I defended it," he wrote, "with a maximum of arrogance and a minimum of tact."

In my experience as a senior economist with President Reagan's Council of Economic Advisers, I found tact to be strongly overrated. To prevail, Galbraith probably needed about as little tact as he used.

Galbraith also visited Japan, where he analyzed the effect of the use of the atom bomb. He wrote:

> Nor were the atomic bombs decisive. It has long been held in justification that they made unnecessary an invasion of the Japanese mainland and thus saved the resulting fighting and thousands, possibly hundreds of thousands, of casualties on both sides. On few matters is the adverse evidence so strong. The bombs fell after the decision had been taken by the Japanese government to surrender. That the war had to be ended was agreed at a meeting of key members of the Supreme War Direction Council with the Emperor on June 20, 1945, a full six weeks before the devastation of Hiroshima. The next steps took time. The Japanese government had the usual bureaucratic lags as between decision and action.

Not to be missed in a listing of Galbraith's criticisms of war are three later activities or writings. First, despite the fact that he was close to Kennedy, Galbraith pulled no punches in his evaluation of Kennedy's decisions during the 1962 Cuban missile crisis. In his autobiography, Galbraith pointed out that Kennedy's actions almost destroyed the world and that he took the risk so as not to appear "insufficiently stalwart." "Domestic American political considerations," wrote Galbraith, "intruded far too deeply on an issue that threatened the end for all time of the civilized world."

Second was Galbraith's early thoughtful and analytic opposition to the Vietnam War. Even though Galbraith was an insider with Johnson's administration, he criticized the war as early as 1966. After trying personally to persuade LBJ, Galbraith went public and made opposition to the war one of his causes.

Finally, Galbraith learned early in his dealings with the military not to have any special respect for their opinions just because they wore a uniform and had risked their lives. His short 1969 book, *How to Control the Military*, is still well worth reading today. Indeed, in my opinion it and his autobiography rank as his two best books. Here is one of its best paragraphs:

> The problem of military power is not unique; it is merely a rather formidable example of the tendency of an organization, in an age of organization, to develop a life and purpose and truth of its own. This tendency holds for all great bureaucracies, both public and private. And their action is not what serves a larger public interest, their belief does not reflect the reality of life. What is done and what is believed are, first and naturally, what serve the goals of the bureaucracy itself. Action in the organization interest, or in response to the bureaucratic truth, can thus be a formula for public disservice or even public disaster.

Many of my fellow free-market economists would do well to understand this insight fully, to understand that the bureaucracy known as the Department of Defense promotes defense about as much as the Department of Health and Human Services promotes health and human services. Whatever his other failings, Galbraith got this right.

Finally, I confess some sadness. In November 1981 I was the warm-up speaker for Galbraith at an event held by the Chicago Council on Foreign Relations. We had a short, friendly interaction, but I went into it knowing virtually nothing about Galbraith's keen observations on war and peace. How much different our conversation and my speech might have been had I paid Galbraith the respect that was his due.

From the Armistice to the Great Depression

BY ROBERT HIGGS

When the Armistice took effect on November 11, 1918, bringing World War I to a close, the belligerent nations of Europe were economically almost prostrate—their labor forces and capital stocks depleted greatly, their domestic economic structures distorted grotesquely, and their old arrangements for international trade and investment shattered.

To make matters worse, the Versailles Treaty, signed on June 28, 1919, required that Germany make huge reparations payments to France, Great Britain, Italy, and Belgium. To earn the wherewithal to make these annual transfers for the next several decades, Germany needed to sell great amounts of its goods abroad, but doing so was nearly impossible, given the country's economic devastation and its loss of important territories and other resources to the victorious powers—not to mention the barriers other countries erected to protect their own producers from foreign competition. It soon became clear that the reparations would be paid only if Germany borrowed large amounts from other countries, and the only lenders capable of providing sufficient funds were the Americans.

In effect the Germans borrowed from the Americans and then handed over much of the proceeds to the French and the British, who in turn sent some of the money back to the United States to repay loans received during the war.

Therefore, in effect the Germans borrowed from the Americans and then handed over much of the proceeds to the French and the British, who in turn sent some of the money back to the United States to repay loans received during the war. This scheme held so little charm for the Germans, who got nothing out of it but more debt, that they resorted to engineering a hyperinflation of the German currency in 1922–23 to ease the government's fiscal woes. Unfortunately for the German people, especially for middle-class people, who held monetary assets such as bonds, insurance policies, and bank accounts, this inflationary eruption proved devastating not only to the economy but, in the longer run, to the moral fortitude of the bourgeoisie, which felt that the rug had been pulled out from under frugal, respectable people. By creating disaffection with the Weimar Republic, the hyperinflation helped to prepare fertile ground for the growth and eventual triumph of Hitler's party.

After the hyperinflation was stopped, new international lending arrangements were hastily concocted, but each such band-aid served only as a temporary means of stanching the bleeding. The reparations regime was simply not viable in the long run; the only question was precisely how it would break down and what would replace it. From the start, according to economic historian Peter Temin's *Lessons from the Great Depression*, the German government "struggled ceaselessly for the reduction and elimination of its reparations obligations." After the Germans defaulted in 1923 and the French army occupied the Ruhr district in response, the payments were rescheduled in 1924, scaled down in 1929, then delayed, and ultimately, after Hitler came to power in 1933, repudiated along with every other German obligation under the Versailles Treaty.

At the same time that the economically advanced countries were dealing with the reparations problem, they were striving to reconstruct the international financial

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regime they had wrecked during the war by suspending the gold standard and issuing vast quantities of fiat money. The general assumption was that the European nations ought to return to the gold standard, and one by one they did so during the latter half of the 1920s. The monetary system to which they "returned," however, was not the old prewar gold standard, but a "gold-exchange" standard that lacked essential attributes of the old system, such as circulating gold coins and domestic convertibility. Murray Rothbard called it "a bowdlerized and essentially sham version of that venerable standard." Unlike the classical system, it was subject to constant "management" by central bankers who sought to achieve new goals, such as price stability or a low rate of unemployment.

When Great Britain finally resumed international convertibility of the pound sterling into gold in 1925, it made a serious mistake by setting the official value of the pound at the old, prewar parity. Because of the rise in prices that had occurred in Britain during the war, however, the pound in free exchange was no longer worth as much relative to the U.S. dollar as it had been worth before the war. By officially overvaluing the pound (at £1 = $4.86, when the prevailing free-market rate was approximately $4.40), the British made their exports—goods priced in terms of the pound sterling—relatively expensive and hence difficult to sell overseas. British export industries, such as coal, steel, textiles, and shipbuilding, suffered accordingly, and workers in those industries, traditionally reluctant to go far afield in search of jobs, endured high rates of unemployment. Many workers subsisted on the infamous "dole." The British economy languished, and investment funds tended to flow out of the country, especially to the United States, putting even more pressure on the overvalued pound.

To help the British succeed in their resumption of gold convertibility, central bankers in the United States, led by Benjamin Strong, who headed the Federal Reserve Bank of New York, pursued monetary policies that would reduce interest rates in the United States, thereby diminishing the relative attractiveness of U.S. investments for British investors and causing them to reduce the pressure they would otherwise put on the pound's exchange value by trading pounds for dollars.

These U.S. policies, however, also had effects on the American economy. The "momentous decision of forcing a regime of cheap money," as Lionel Robbins described it, caused the U.S. money stock to grow faster than it otherwise would have grown, kept interest rates lower than they otherwise would have been, and thereby encouraged domestic investors to make certain investments—in new structures and other long-lived producer goods—that they otherwise would not have made. In short, U.S. monetary policies, aimed at assisting the British monetary authorities, had the effect of bringing about "malinvestments" in the United States, distorting the structure of the U.S. capital stock in an unsustainable fashion (because investments in structures and other long-lived capital goods will ultimately prove economically unwarranted when they have been made in response to artificially low interest rates, and such projects will go bankrupt).

A Feeding Frenzy

U.S. central bankers also began to worry in the late 1920s that by keeping interest rates artificially low, their policies were feeding a frenzy to buy corporate shares and creating a stock-market bubble destined to pop with destructive effects on the real economy. Accordingly, in 1928 and especially in 1929 they moved away from their "cheap money" policies, adopting policies of higher interest rates and exerting direct pressure on commercial banks to stem what they saw as "speculative excesses" and diversions of bank loans from economically sound purposes. Most economists now believe that this change of monetary policy triggered the U.S. economic downturn that occurred in mid-1929 and the stock-market crash that followed later in the year. Others believe that the prior ("cheap money") policies themselves presaged the downturn, because the malinvestments that those policies had fostered would have to be liquidated sooner or later by means of bankruptcies and reallocations of resources to more sustainable uses, a process marked by economic disruptions and transitional unemployment.

After the initial downturn in 1929, owing to a succession of extraordinarily detrimental government actions, the recession mushroomed into the Great Depression, a catastrophe that contributed greatly to the rise of Hitler and ultimately, in 1939, to the onset of a second, even more horrendous phase of the fighting that the Armistice had ended in 1918.

The Peace Principle

BY JIM PERON

The key principle of liberalism is peace. Some would say peaceful cooperation is the key. But in a free society one is also free peacefully *not* to cooperate.

Many would say the core principle of liberalism is freedom. And since the word liberalism is derived from the Latin *liber*, which means free, that is a reasonable conclusion. But underneath this is the principle of peace. Or perhaps it is better to say nonviolence.

If I wish to gain a value I can do it peacefully or violently. Liberalism eschews the use of violence in gaining values. Only peaceful methods are permissible.

The violent methods are often obvious. We can simply knock someone over the head and take what we want. If the value we seek is not material, but some other form of satisfaction that depends on others acting in ways we prefer, we can pull out a whip or a rifle and force them to do as we wish.

Throughout history many have sought to gain values by such means. And for a few it worked, or worked well for a time. It does not work when such violence is practiced wholesale, nor does it work well for the vast majority of people.

Violence fails over time because it is inherently destructive. It produces nothing. At best it merely rearranges the existing pool of goods to satisfy those who hold the whip. Worse yet, violence destroys existing wealth.

Wealth, broadly construed to include nonmaterial values, tends to be consumed and destroyed when violence is exercised. Imagine the theft of a television. The criminal may break down a door of a home or smash a window. He may terrorize the owner, before successfully walking off with the television.

He has redistributed the existing pool of goods more to his favor. But in the process he has also destroyed. The owner is not only out a television but a window or door as well. And even if the criminal has managed to steal the television without destroying a material aspect of life, he has destroyed something valuable to human beings: their peace of mind, their sense of security, their ability to feel at home in the place where they live.

While it may redistribute some material wealth, violence usually does so at the expense of other material wealth and almost always at the expense of immaterial wealth.

The more violent a society is the poorer it tends to be. That's because violence or the threat of it discourages the production of wealth. When productive people realize that the fruit of their efforts is for naught, they tend to make less, or no, effort. The man who tills the field diligently only to have harvest after harvest confiscated for the use of others ceases to till. In this sense random violence is far less harmful than systematic violence.

And that brings us to the state. Unconstrained government engages in the threat of violence and does so systematically. This is an efficient way to keep people frightened enough to comply "voluntarily" with the state's requirements. It conserves the resources of those making the threats, while effectively confiscating wealth.

But such systematic and pervasive threats have negative consequences as well. Taxation is an obvious example. It rests on the threat of force, but it is not the violence of the petty criminal who says: "Your money or your life." His violence is random and often fleeting.

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He may confiscate what money his victim is carrying. He may make his victim fearful and angry, but the victim won't have to endure the experience again the next day, the day after, and for as long as he can anticipate.

I have been mugged and I have been taxed. The mugger took far less, showed up only once, and didn't try to persuade me he was doing it for my own good.

The tax man is entirely different. His threat of violence is imposed on everyone. Some people do not regard this as violence, but all they need do to see their error is watch what happens if someone refuses to comply. It is well documented that taxation leads to the results mentioned above. It redistributes existing wealth, making some people worse off; consumes wealth, making the entire society poorer; and discourages the production of future wealth.

A great liberal author, Felix Morley, wrote, "The state, in short, subjects people, whereas society associates them voluntarily. . . . State and society . . . are naturally and continuously in opposition."

As Morley pointed out, the moralist who wants vice—behavior which, though perhaps morally objectionable, does not violate the rights of others—prevented violently may argue that such violence "may be utilized to forward morality, and to oppose immorality." But "since the State has no conscience, and is primarily a mechanism of material power, the human welfare side of State activity should blind no thoughtful person to its underlying menace. And the potential of the State for 'The Abolition of Man'—to use the telling phrase employed by C.S. Lewis—is the greater because Man himself has created and directs this juggernaut that rolls over him."

Morley argued that the advocates of coercive methods "exaggerate the potential of the state for good [and] underestimate its capacity for evil." When one understands that government produces nothing, but merely rearranges existing wealth while consuming vast amounts of it in the process, you understand that such power is almost always destructive. Morley, like Albert Jay Nock before him, noted an increase in state power comes at the expense of society. This is why attempts to promote civil society through the violence of law, as in the suppression of vice, does not enhance civil society but ultimately undermines it.

"[T]he State, in the last analysis, has absolutely nothing to offer that it has not already expropriated from its subjects," Morley said. "So, in worship of the State, men sacrifice their souls to a false god that can give them in return only what has already been placed by the worshippers themselves on this sacrilegious altar."

Health of the State

What is true domestically is also true internationally. War is the ultimate expression of force. The World War I critic Randolph Bourne said, "War is the health of the state." That is because government power expands during war. In 1949, with World War II fresh in mind, Morley reminded his readers that "the strength by a victorious State through war is in large part taken not from the enemy but from its own people. All the private elements in Society—the family, the church, the press, the school, the corporation, the union, and other cooperatives—are subject to special discipline by the State in wartime. . . . And it is scarcely necessary to emphasize that once an emergency control has been established by the State, all sorts of arguments for making it permanent are forthcoming."

It is well known that in collectives individuals can lose moral restraint. A lynch mob will kill, although as an individual each member would be horrified at the thought. Likewise, state power is a collective power in which the individuals who participate in decision-making lose their normal sense of responsibility for their actions. In fact the law often explicitly denies individual culpability in those who wield power.

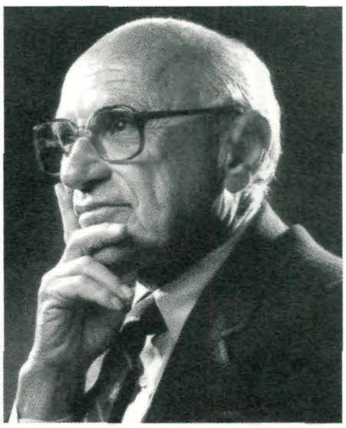
None of this implies pacifism. To reject violence as a means of gaining values does not require the renunciation of self-defense to protect one's values.

In the end it matters not the intentions behind the accumulation of power, for good intentions do not determine results. The nature of state power is such that whether it is expanded in the name of welfare, state security, or morality, the results ultimately are the same. Social power is diminished, and the restraints of common morality are reduced.

Milton Friedman (1912-2006)

BY RICHARD M. EBELING AND SHELDON RICHMAN

Milton Friedman, who died last month at age 94, was one of the twentieth century's most influential champions of individual liberty and free markets. The 1976 winner of the Nobel Prize in economics and an early associate of FEE, Friedman did more than any single person in our time to teach the public the merits of deregulation, privatization, low taxes, and free trade. His work inspired the economic agendas of President Ronald Reagan and British Prime Minister Margaret Thatcher, as well as the liberalization of economies in eastern Europe and the former Soviet Union.


Milton Friedman (1912–2006)

Born in New York City in 1912 to Jewish immigrants, Friedman went on to become a major force in theoretical economics in the second half of the century and the leading figure of the Chicago, or monetarist, school. As a professor of economics at the prestigious University of Chicago, he is widely credited with overturning the dominant Keynesian paradigm regarding the tradeoff between unemployment and inflation. He made monumental (if controversial) contributions to monetary theory, policy, and history in such books as *Studies in the Quantity Theory of Money* (1956) and *A Monetary History of the United States, 1867–1960* (co-written with Anna Schwartz, 1963).

Slayer of Keynesianism

In the post-World War II era, when Keynesianism dominated the economics profession, Friedman undertook a series of studies to undermine some of Keynes's leading assumptions. In the late 1940s he challenged the Keynesian position that discretionary government policy was essential to assure full employment. Friedman was able to show that the macroeconomic policymakers would never have sufficient knowledge about changing market conditions to successfully manipulate the fiscal and monetary policy tools in a timely manner. Instead, he argued, the wisest long-run policy was for government to follow a small number of predictable policy rules.

Beginning in the 1950s Friedman presented a restatement of the quantity theory of money, arguing that all prolonged and sustained general rises in prices were caused by an increase in the supply of money. "Inflation," he said, "is always and everywhere a monetary phenomenon." His *Monetary History of the United States* demonstrated that government manipulation of the money supply was the primary factor behind the boom-and-bust cycles experienced in the twentieth century. In addition he argued that it was misguided Federal Reserve policy in the early 1930s that generated the severity of the Great Depression—and not any inherent failures in the market economy.

This led Friedman to make the case for a "monetary rule," under which the monetary authority would be denied any discretionary powers over the money supply. Instead, the Federal Reserve would be limited to increasing the supply of money at a fixed annual rate of

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around 3 percent. This would create a high degree of predictability about monetary policy and generate a relatively stable price level in a growing economy.

In making the case for a monetary rule, Friedman advocated a paper-money standard rather than the gold standard, arguing that this would save on the resource costs of digging the metal out of the ground just to store it away in bank vaults. But in the years after he received the Nobel Prize he had second thoughts about his monetary rule and the gold standard. In a series of articles in the 1980s Friedman stated that Public Choice theory had convinced him it will never be in the long-run interest of governments or their monetary authorities to follow the type of rule he proposed, since the temptation to abuse the printing press for political reasons would always be too strong. He therefore concluded that, given the actual history of Federal Reserve policy in the twentieth century, remaining on the gold standard would have been far less costly for America than the Fed-created inflations and recessions.

One final and lasting contribution of Friedman's was his formulation of the "natural rate" of unemployment. The Keynesians of the 1950s and 1960s believed that it was possible to permanently lower the rate of unemployment through manipulation of the rate of inflation. In his presidential address before the American Economic Association in 1967, Friedman argued that, at most, monetary policy could temporarily lower the level of unemployment. But in the long run it would return to its "natural rate."

He said that the amount of unemployment at any time was determined by changing supply-and-demand conditions in the market and people's expectations about the future rate of inflation, which influenced their resource-price and wage demands. The monetary authority could fool people by increasing the inflation rate above people's expectations, resulting in prices rising faster than wages, and the resulting larger profit margins would create an incentive for employers to increase output and hire more workers. But over time, as people discovered the truth about the rate of inflation, they would demand higher wages and resource prices to compensate for lost purchasing power. That would reduce profit margins and return unemployment to its "natural" level.

Unless the monetary authority was willing to continuously increase the rate of price inflation above people's adjusted expectations, the lesson had to be accepted that in the long run, monetary policy cannot influence levels of employment and output. These are ultimately determined by market conditions and not by government manipulation.

Through these contributions, Friedman permanently transformed the debate in macroeconomics and in the process undermined many of the most cherished assumptions of Keynesian economics.

At a time when popular writing that went against the collectivist grain had few mass outlets, Friedman managed to reach a wide audience with his clear and good-natured style.

Public Intellectual

As influential as Friedman's academic work was among professional economists, he had as profound an impact on non-economists' thinking about the virtues of free markets and limited government. At a time when popular writing that went against the collectivist grain had few mass outlets, Friedman managed to reach a wide audience with his clear and good-natured style. He accomplished this through many books, a long-running *Newsweek* column, and his 1980 television series, "Free to Choose," based on his bestselling book of the same title.

His 1962 book *Capitalism and Freedom* was an accessible volume that presented bold free-market thinking on such issues as medical licensing, the volunteer army, and antitrust laws. It was also the book in which Friedman unveiled controversial proposals for school vouchers and the negative income tax as transitions from the welfare state. The book undoubtedly inspired many youthful readers to pursue careers in economics.

Friedman started addressing a large popular audience in 1966, when he inaugurated a regular column in *Newsweek*, succeeding Henry Hazlitt. Friedman's column, which rotated with those of the Keynesian Paul Samuelson and Henry Wallich, presented the case for free-market policies across a wide range of issues—such as wage and price controls (imposed by President Nixon in 1971) and the minimum wage—and did much to inject the libertarian perspective into the public debate. The column ran until 1983. (A compilation of columns was published as *Bright Promises, Dismal Performance.*)

Meanwhile, on December 19, 1969, Friedman's picture made the cover of *Time* under the title "Will There Be a Recession?" It was a rare distinction for an academic economist, but by then, Friedman was more than that: he was a public intellectual.

Friedman achieved bona fide star status in 1980 with release of his book *Free to Choose*, written with his wife Rose Friedman, also an economist. In *Free to Choose* Friedman explained the unparalleled contributions to human well-being of the division of labor and free exchange, the tyranny of government regulation, the dangers of inflation and the welfare state, and the problems intrinsic to the government school monopoly. His chapters on how the competitive marketplace protects consumers and workers were eye-openers for an audience that until then had been led to believe that only coercive government could do those things.

Free to Choose, according to the *Fortune Encyclopedia of Economics,* became the best-selling nonfiction book of 1980. Sales were boosted by the ten-part companion television series on PBS. Each week viewers saw the congenial Friedman clearly explain why free markets serve individuals and society best, and why government creates chaos and poverty—all well illustrated with beautiful location footage, including scenes of Hong Kong's success.

Four years later Friedman again combined a book with a television series in *The Tyranny of the Status Quo*, also co-written with Rose Friedman.

Friedman was fearless in the face of controversy, vigorously opposing the military draft during the Vietnam War and drug prohibition. But he was no idle author. In 1969-70 he participated in the President's Commission on an All-Volunteer Armed Force. His pro-freedom credentials made his a powerful voice in the effort to end the involuntary servitude of conscription.

Friedman was fearless in the face of controversy, vigorously opposing the military draft during the Vietnam War and drug prohibition.

Friedman won many honors for his work. Besides the Nobel Prize he also won the Presidential Medal of Freedom and the National Medal of Science, both in 1988. He served as president of the American Economic Association.

In 1947 Friedman was one of a select group of some 40 economists and writers invited by F. A. Hayek to attend the founding meeting of the Mont Pelerin Society in Switzerland. Leonard Read, FEE's founding president, Henry Hazlitt, and Ludwig von Mises also participated in that meeting to establish a worldwide network of classical-liberal scholars.

Friedman co-wrote (with George Stigler, who also later won the Nobel Prize) one of the first publications FEE released, the 1946 pamphlet "Roofs or Ceilings? The Current Housing Problem," a critique of rent control (www.fee.org/library/books/Roofs_or_Ceilings.asp).

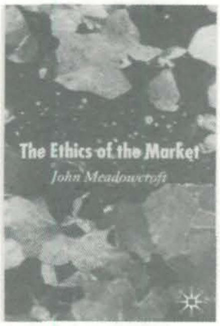
Sadly, Milton Friedman is gone from us now. But his legacy and devotion to liberty will inspire freedom lovers for many generations.

Book Reviews

The Ethics of the Market

by John Meadowcroft
Palgrave Macmillan • 2006 • 173 pages • $80.00

Reviewed by Richard M. Ebeling



To the extent that countries around the world have turned their backs on socialism and heavy-handed government regulation of the economy, it has been for pragmatic reasons. Governments have reduced regulation, denationalized industries, and opened their economies to degrees of global competition due to the pressures of international market forces and domestic fiscal problems.

Neither those governments nor many of their own citizens have supported market-oriented reforms out of philosophical conviction concerning the value of economic liberty. Most often they have grudgingly accepted these changes as "concessions" to a reality they wish they could deny.

Thus such market-based institutional changes as have been introduced have occurred in a political environment still dominated by thinking that rejects classical liberalism. So it is absolutely essential for friends of freedom to make the positive case for liberty and the free-market economy. This is what makes John Meadowcroft's *The Ethics of the Market* a very useful contribution.

His defense of the market and its related social outcomes is based on the philosophical and political-economic writings of Robert Nozick and F. A. Hayek. Meadowcroft's starting point is the Lockean idea of "self-ownership," that every individual has a property right to his own person and, by extension, to the objects he makes by mixing his mental and physical labor with previously unclaimed resources.

It follows logically that an owner of such justly acquired goods may peacefully exchange them for other goods he prefers more. The goods he receives in exchange are now rightfully his property. Meadowcroft uses an example from Nozick's *Anarchy, State, and Utopia* to argue that any distribution of income and wealth that arises out of voluntary transactions each of which is individually just must also be considered just. For example, suppose that a hundred people each start out with an income of $100. And further suppose that 99 of them each voluntarily and happily offers $10 to the hundredth to perform in a sports tournament. After these acts of free exchange this one individual would have $1,090, while the others would each have only $90.

But, Meadowcroft points out, this distribution has "naturally" arisen out of the individual acts of trade between this one person and the others and is one of the unintended but inseparable results of individuals being free to act on their own preferences. In addition, if we keep in mind that individuals will never demonstrate the same willingness to save, work, and invest, then it is inevitable that people's wealth and income will be unequal. Any interference with these outcomes on a free market must have perverse effects on productive incentives.

The results of free transactions should be considered fair and just—unless the critic presumes to know what others in society should have wanted and what prices should be placed on goods—and then presumes to redistribute income according to his own preferred order of things. But on what objective basis can he claim to preempt the choices and outcomes of the market participants themselves?

Meadowcroft does not bring out as clearly as he might have that what the social critic really desires is to tyrannically impose his own wishes on the other members of society, using the power of the state to achieve his ends. If individuals A and B have more wealth than the critic thinks they should have, then he may want the government to use its coercive authority to take some of their wealth and redistribute it to individuals C, D, and E. Now suppose that A and B, having honestly acquired their wealth, resist this forced taking of their property. Is the critic willing to kill them to carry out his plan? On what moral ground can the critic say that their lives are to be forfeited so some others may have a greater degree of material comfort and convenience? I wish that Meadowcroft had stated the argument in this more direct fashion, since he does ground his own theory of individual rights on self-ownership, which surely precludes the state liquidating human lives in the cause of "redistributive justice."

The second task that Meadowcroft undertakes is the defense of the market process as a social system for human betterment. Here he takes his lead from Hayek in emphasizing that a complex division of labor has as its complement an inescapable division of knowledge. If we are to take advantage of all the dispersed knowledge and abilities that only reside in the separate individuals of society, then we must use the competitive price system. Because of the natural limits of the human mind, central planning and government regulation can never solve the problem of coordinating the actions of billions of people in the global economy.

Meadowcroft argues that by using the price system in this manner, each of us can succeed in assisting far more people around the world than can ever be effectively reached through government. As Hayek explained many decades ago, it is not necessary for each of us to know the unique circumstances and wants of multitudes of others to successfully orient our own activities toward them. By simply following the pricing signals that encourage the pursuit of profit and the avoidance of loss, we can apply ourselves in ways that serve our fellow men while advancing our own interests. This is a profound insight that has been understood since the time of Adam Smith, but has to be restated over and over again in the face of critics who never seem to grasp the argument.

Meadowcroft also responds to those who say that the market undermines the diversity of human culture and reduces it to the lowest common denominator. Drawing on a number of recent works, including Tyler Cowen's *In Praise of Commercial Culture* and *Creative Destruction*, Meadowcroft shows that the market economy has supplied the means for maintaining and enhancing a wide variety of cultural contributions and has made them available for people in other societies to enjoy as well. To the extent that Western culture (including music, movies, and methods of doing business) has spread to other societies, it has been freely chosen, and should be respected as the result of voluntary exchange, just as aspects of non-Western culture have been absorbed into everyday life in America and Europe.

While his book is not without flaws, John Meadowcroft has effectively summarized and applied many of the best arguments for the free society.

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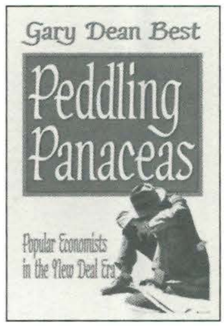
Peddling Panaceas: Popular Economists in the New Deal Era

by Gary Dean Best
Transaction Publishers • 2005 • 273 pages • $49.95

Reviewed by Burton Folsom, Jr.



The Great Depression of the 1930s marked a sharp turn in American economic thought. Orthodox economists, who argued for free markets and limited government, seemed to be discredited—even though most of their solutions remained untried under President Hoover. Instead, Americans were readier than ever to listen to new ideas about how government could be used to restore economic growth. Stuart Chase, in the last line of his 1932 book *A New Deal* asked: "Why should the Russians have all the fun of remaking a world?"

In *Peddling Panaceas* Gary Dean Best ably describes the thinking of three popular and influential economists during the 1930s—Chase, Edward Rumely, and David Cushman Coyle. Not one of these three men had advanced degrees and formal training in economics, but each one latched onto and popularized various ideas for government planning in the 1930s.

Rumely was an inflationist; he promoted his views as executive secretary of the Committee for the Nation to Rebuild Prices and Purchasing Power. He and his Committee argued that economic recovery would occur if the United States went off the gold standard and artificially raised the price of gold. If the price of gold went up, Rumely said, the price of commodities would do so as well. That price hike, in Rumely's calculations, would break the deflationary spiral and lift American farmers and businessmen out of the economic doldrums.

The problem was that Roosevelt took the United States off the gold standard and raised the price of gold, but the prices of commodities did not rise as well. By 1934 Rumely was discredited and the President turned to other advisers.

Chase, trained as an engineer and an accountant, had his own recipe for prosperity: "[P]ut at least five billion dollars in ultimate consumers' hands during the next few months. Such an amount in such a place has an excellent chance of definitely ending deflation." But where was the $5 billion to come from? Sharply raise the progressivity of the income tax, Chase said, and ask the recipients of the $5 billion to spend it as quickly as they can.

Chase wrote an average of one book a year from 1929 to 1936, and his ideas—which also included a plea for collectivizing much of American industry—clearly influenced President Roosevelt's public-works programs, especially the Works Projects Administration (WPA). Roosevelt even named his grand scheme for restoring the nation to economic health "the New Deal," borrowing the title from Chase's book.

However, as Chase finally admitted after a massive $4.8 billion WPA spending binge in 1935, "If recovery is to be measured in employment, there is none."

Finally, Coyle was an engineer turned economist who promoted his theory of "underconsumptionism," the idea that wages were too low and that consumption needed to be boosted by massive government programs for low-wage earners. Also needed were "free education, free public health services . . . and, above all, a generous old-age pension system."

Coyle endorsed "soak the rich" tax policies to pay for these programs and also to teach the rich a lesson. "The taxes on mammoth incomes are not so much for revenue as for police purposes," Coyle said, "to control those floods of money, and to direct them into harmless paths."

He elaborated: "The higher the income tax, the larger will be the middle class incomes. Business is like a farm where more fertilizer gives more yield. Income taxation fertilizes business." Led by Thomas Corcoran, Roosevelt's chief adviser, the New Dealers bought and distributed hundreds of thousands of Coyle's pamphlets and books in the 1930s. The President even invited Coyle to dine with him and discuss ideas. When Roosevelt raised the income tax on top rates to 79 percent in 1935, that decision in part reflected Coyle's influence.

Professor Best, a diligent and perceptive historian, has done an excellent job in describing the sincere but deluded thinking of these three self-described economists. In doing so his book highlights this truth: He who wins the battle of ideas wins the battle of policy.

One year after Roosevelt died Henry Hazlitt wrote *Economics in One Lesson* for a general audience to join this battle of ideas and refute many of the failed policies promoted by Chase and Coyle in particular. The statist ideas of the 1930s led to economic chaos throughout the twentieth century. Gary Dean Best pinpoints the origins of several of the most destructive ideas and helps us to understand why such nonsense could reach all the way to the White House.

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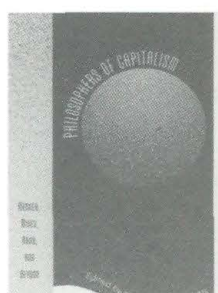
Philosophers of Capitalism: Menger, Mises, Rand, and Beyond

edited by Edward W. Younkins

Lexington Books • 2005 • 374 pages • $28.95

Reviewed by Aeon J. Skoble



Edward Younkins is a man with an idea. His idea is that there is an underlying theme linking Austrian economics, neo-Aristotelian moral theory, and Ayn Rand's Objectivism. His ultimate goal is an integrated, comprehensive philosophy that coordinates the insights of Menger, Mises, Rothbard, Aristotle, and Rand. It is an ambitious project and a challenging idea, and Younkins does a good job here of demonstrating these thematic connections. Such connections will not be obvious to some. For instance, Austrian economics holds that values are subjective, while Rand would argue that values are objective, but Younkins shows how those are not incompatible claims—partly because they're not really claims about the same things.

Younkins, a professor in the department of business at Wheeling Jesuit University, notes that both Menger and Rand would agree that "the ultimate standard of value is the life of the valuer." Furthermore, while Menger's primary focus is on economic values and Rand's is on moral values, their "shared biocentric concept of value contends that every value serves biological needs," and thus value in both senses "has its roots in the conditional nature of life." So, according to Younkins's argument, the value-subjectivity of the Austrians is not only not incompatible with a Randian sense of objectivity, but indeed complements it. Younkins has an ambitious (and plausible) schematic that links Aristotelian theories of human flourishing and Objectivist arguments about the nature of reality and "man's distinctive attributes of reason and free will" with Austrian praxeological conceptions of valuation, decision-making, and cooperation.

It's no secret that Rand was influenced by Aristotle, and one way Younkins ties Objectivism to Austrianism is to document the Aristotelian influence on Menger. As Younkins puts it, "Menger's Aristotelian inclinations can be observed in his desire to uncover the essence of economic phenomena. . . . Like Aristotle, Menger thought that the laws governing phenomena of thought processes and the natural and social world were all related as parts of the natural order." This means that our volitional end-seeking is connected to our natures as human beings—a theme that appears in both Rand and later Austrians, notably Mises and Rothbard.

Younkins explains those areas where Mises and Rothbard differ, but shows that those differences do not supersede the fundamental agreement about a praxeological conception of economic choice. Younkins says that according to Mises, men are "rational beings with free will who have the ability to form their own purposes and aims." But this is surely something Rand would agree with, and it is indeed rooted in an Aristotelian worldview. This is the binding tie, according to Younkins, that ultimately links Objectivism with Austrianism. (Younkins isn't claiming, of course, that Austrians are "really" Objectivists or the Objectivists are "really" Austrians. He's claiming that the two schools of thought can be incorporated into the integrated worldview he is defining and defending here.)

Part of Younkins's big idea, which will surely seem correct to supporters of a foundation devoted to economic education, is that those of us who support free enterprise and the political systems that facilitate it have an obligation not only to understand but also to be able to articulate the moral foundations of those political and economic systems. Part of Younkins's rationale for undertaking this project is that the synthesis he has in mind better enables us to do just that.

Younkins is more than just the editor, and the book is more than just an anthology of essays on the philosophy of capitalism. It opens with three essays by Younkins, which lay out the basic arguments of Menger, Mises, and Rand, respectively. The middle section of the book collects 12 previously published essays by philosophers and economists from a variety of scholarly journals. This section features many names familiar to readers of *The Freeman*: Samuel Bostaph, Gloria Zúñiga, Murray Rothbard, Jeffrey Herbener, Douglas Rasmussen, Chris Sciabarra, Barry Smith, Walter Block, Richard Johnsson, Ricardo Crespo, Larry Sechrest, Tibor Machan. The book then concludes with a long capstone essay by Younkins in which he makes his case for the integrated Austrian/Objectivist/Aristotelian model, further developing ideas from his earlier book *Capitalism and Commerce*.

The book is thus not quite a monograph, yet more than an anthology. The combination of Younkins's own original arguments, which are compelling and sophisticated, with the array of other scholarly perspectives that he presents is a very effective approach. The book will be of great interest for proponents of all three of the schools of thought Younkins ties together, and also for interested critics of them. Perhaps some of their objections will be answered by Younkins's synthesis.

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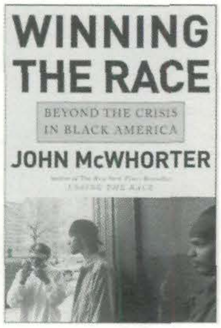
Winning the Race: Beyond the Crisis in Black America

by John McWhorter
Gotham Books • 2005 • 422 pages • $27.50

Reviewed by George C. Leef



If you ask most academics why black Americans generally continue to trail behind whites and Asians in income, education, and social status, the answer is apt to include phrases like "institutional racism" and "privilege." In their thought world it is never appropriate to blame the "victim" or even to meekly suggest that the explanation for inequality might not be found in defects in "society." (Former Harvard president Larry Summers found out how true that is.)

A few individuals, however, dare to challenge the orthodoxy and have argued that the shortage of black progress is mainly due to bad ideas coursing around in the black community. The two best-known advocates of that position are Shelby Steele and the author of this book, John McWhorter. McWhorter, who is a scholar affiliated with the Manhattan Institute and was formerly a professor of linguistics at the University of California, has shattered quite a few intellectual taboos in his rather young career, and *Winning the Race* leaves them in shards everywhere.

"It's not that there is 'something wrong with black people,' but rather that there is something wrong with what black people learned from a new breed of white people in the 1960s," McWhorter writes. "It's something that manifests itself in many ways, generating a range of tendencies and events and customs that can seem unconnected but are rooted in the same source." That source is what he calls "the meme of therapeutic alienation."

A meme is "an idea, behavior, style, or usage that spreads from person to person within a culture." McWhorter's contention is that the idea that blacks are entitled to a sense of indignation and will be better off for vociferously expressing it has rapidly, thoughtlessly spread throughout the black community. Unfortunately, indignation for its own sake gets in the way of constructive behavior of the kind that recent immigrants (Vietnamese, for instance) have engaged in to begin their economic ascent. "Alienation," McWhorter writes, "drifted from being a spur to action to being a form of self-medication. Here is where legendary Civil Rights activist Bayard Rustin became dismayed as a new generation of black activists began embracing the 'heroics' of idle protest and theatrical rage, uninterested in rolling their sleeves up and working out concrete plans for change."

Yes, that is the sound of a gauntlet crashing down.

McWhorter amasses a great deal of persuasive evidence for his argument. For example, labor-force participation began to decline among young blacks (men, especially) in the 1960s, when the nation's economy was racing along. What happened? Alienation happened. The idea that working "for peanuts" was demeaning and acting up was cool took hold among young blacks. To the standard claim that good jobs left inner-city areas making it impossible for blacks to work and stay off welfare, McWhorter cites the contrary example of Indianapolis, where plenty of work remained within short commutes and unemployment among blacks rose anyway. The excuse that white, business-class America denied blacks "access" to jobs leaves McWhorter exasperated:

"[I]f millions of blacks had picked up stakes from the South and moved thousands of miles from their homes in search of work for decades, why did a core of their children suddenly lapse into criminality and generations of living on the dole when work moved a twenty-minute drive away?"

Another facet of the problem is the attitude of many young blacks toward education. Why is there such a large achievement gap between black students and whites and Asians, even when the latter come from the same or lower socio-economic strata than the blacks? McWhorter is persuaded that the root of the problem is attitude. Too many young blacks pursue education in a desultory fashion, expecting high grades just for showing up. "My people suffered in the past, so now I'm entitled" seems to be the chip-on-the-shoulder frame of mind. Furthermore, serious academic work isn't cool. It's "acting white."

Apropos of education, McWhorter attacks one of the most sacred of all cows in the leftist herd—"affirmative action." Rather than assisting blacks, preferential treatment in college admissions actually harmed them because "the lowered bar only deprives black students and parents of any reason to learn how to hit the highest note." Thus "affirmative action" seduces its supposed beneficiaries into thinking that mediocrity is fine. In the cocoon of higher education it may be, but not in the tough competition of life.

McWhorter proceeds with a demolition of the "diversity leads to better education" rationale that the Supreme Court mindlessly bought into in its 2003 decision in *Grutter v. Bollinger.* That demolition itself is worth the price of the book.

Winning the Race is a fantastic piece of sociological analysis that points the way to success for American blacks: Stop wallowing in alienation and government support; instead, take advantage of the great opportunities available in the market.

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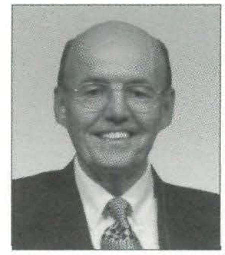

Hayek on the Rule of Law and Unions

BY CHARLES W. BAIRD

In F. A. Hayek's mind the rule of law has two equally important parts. Like most writers on the subject he argued that the rule of law requires everyone, including those who wield government powers, to be bound by the same set of rules. He called this principle "*isonomia*" (Greek for "equal law"). *Isonomia*, by itself, says nothing about the scope of government activities. So long as all the rules apply equally to everyone, *isonomia* exists whether a government is limited to enforcing individual rights or is permitted to intervene extensively in private affairs.

The second part of the Hayekian rule of law is the principle of limited government. Hayek often wrote about the proper scope of government action, and he thoroughly examined the issue in *The Constitution of Liberty* (1960). There he argued that the principal function of a government under the rule of law is to provide the protective services of the classical night-watchman state. The legitimate protective role of the state is to enforce the "rules of just conduct" among people. These rules create an environment within which people remain free to pursue their own purposes while dealing with all others solely on the basis of voluntary exchange. Later, in *Law, Legislation and Liberty I* (1973), he made clear that "law" in "the rule of law" is "*nomos*: the law of liberty."

Hayek's two most detailed discussions of labor unions are found in *The Constitution of Liberty* and in *1980s Unemployment and the Unions* (2nd edition, 1984). He argued that unions, because of the legislation that empowers them, violate both principles of the rule of law. *Isonomia* precludes privilege; yet, as he wrote in *The Constitution of Liberty*: "Public policy concerning labor unions has, in little more than a century, moved from one extreme to the other. From a state in which little the unions could do was legal if they were not prohibited altogether, we now have reached a state where they have become uniquely privileged institutions to which the general rules of law do not apply."

Muddled thinking leads public opinion to tolerate legislation, such as the National Labor Relations Act (NLRA), that exempts unions from the rule of law. Hayek continues,

> [T]he fact that it is legitimate for unions to try to secure higher wages has been interpreted to mean that they must be allowed to do whatever seems necessary to succeed in their effort. In particular, because striking has been accepted as a legitimate weapon of unions, it has come to be believed that they must be allowed to do whatever seems necessary to make a strike successful. In general, the legalization of unions has come to mean that whatever methods they regard as indispensable for their purposes are also to be considered legal.

A government limited to enforcing the rules of just conduct is a government that, among other things, does not abridge any person's freedom of association; yet,

> Most people . . . still support the aspirations of the unions in the belief that they are struggling for "freedom of association," when this term has in fact lost its meaning and the real issue has become the freedom of the individual to join or not join a union. The existing confusion is due in part to the rapidity with which the character of the problem has changed; in many countries voluntary associations of workers had only just become legal when they began to use coercion to force unwilling workers into membership and to keep non-members out of employment. Most people probably still believe that a "labor dispute" normally means a disagreement about remuneration

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and the conditions of employment, while as often as not its sole cause is an attempt on the part of the unions to force unwilling workers to join.

Hayek also thought that statutory unionism leads to the crippling of the market economy, which in turn leads to a vastly expanded scope of government's role in the economy.

> [Unions] are using their power in a manner which tends to make the market system ineffective and which, at the same time, gives them a control of the direction of economic activity which would be dangerous in the hands of government but is intolerable if exercised by a particular group. . . .
>
> Unionism as it is now tends to produce that very system of overall socialist planning which few unions want and which, indeed, it is in their best interest to avoid.

Notwithstanding this, Hayek was not opposed to unionism per se. Rather he was concerned with the unions' statutory exemptions from the rule of law. As he made clear in 1960 and again in 1984 Hayek supported the right of workers, exercising their freedom of association, to form voluntary labor unions and even to strike so long as the rules of behavior in strikes are consistent with the rule of law.

The principles of exclusive representation and union security embodied in the NLRA, which I have explained in earlier columns, make American unions *in*voluntary organizations and therefore outside the rule of law.

The statutory right to strike embodied in the NLRA also violates the rule of law. If "strike" is defined as a collective withholding of labor services by workers who find the terms and conditions of employment unacceptable, a strike is consistent with the rule of law. In the absence of an unexpired fixed-term employment contract, any individual worker has a right to withhold his labor from an employer who doesn't offer satisfactory terms. If every worker has such a right they all can individually choose to exercise it simultaneously. Even if a worker has an unexpired fixed-term contract with an employer, he cannot be forced to continue on the job. If he walks off the job the employer's only recourse is to sue him for breach of contract and let other employers know that he is an unreliable employee. But the NLRA's statutory right to strike allows strikers, with impunity, to use violence and threats of violence to try to prevent customers, suppliers and, most of all, replacement workers from exercising their rights under the rule of law to do business with any strike target.

Although Hayek never discussed the principle of mandatory good-faith bargaining incorporated in the NLRA, it is clear that that principle too is inconsistent with the Hayekian rule of law. In ordinary contract law all parties to a contract must have freely chosen to bargain with the others over the terms and have consented to the terms that emerged from the bargaining. Absent mutual consent a contract is null and void. The NLRA forces employers to bargain with unions over anything the union chooses except things that it is illegal for either party to do. Individuals are not free to choose to bargain for themselves. Simply put, every union-negotiated contract under the rules of the NLRA violates the rule of law.

American politicians frequently proclaim their fealty to what they call the rule of law. To most of them this is the idea that all people must be equally subject to whatever statutes are enacted—even if those statutes, such as the NLRA, invade what Hayek and other classical liberals regard as the protected private domain of all individuals. This is the rule of might-makes-right, not the rule of law. Just as collectivists stole the word "liberal," they have stolen the phrase "rule of law." We must try to reclaim them both.

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"Those of us who believe in freedom must believe also in the freedom of individuals to make their own mistakes. If a man knowingly prefers to live for today, to use his resources for current enjoyment, deliberately choosing a penurious old age, by what right do we prevent him from doing so? We may argue with him, seek to persuade him that he is wrong, but are we entitled to use coercion to prevent him from doing what he chooses to do? Is there not always the possibility that he is right and that we are wrong? Humility is the distinguishing virtue of the true believer in freedom; arrogance, of the paternalist."

Milton Friedman, *Capitalism and Freedom*

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