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DECEMBER 2003

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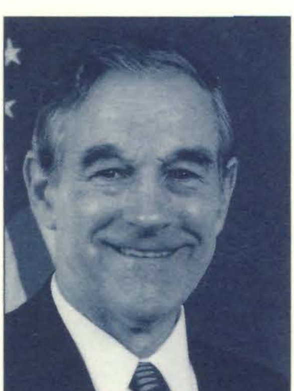
Friday, January 16, 2004, 7 p.m.
Doug Bandow
"The Morality of Capitalism"

Doug Bandow is a senior fellow at the Cato Institute in Washington, D.C. and a contributing editor to *The Freeman.* His weekly column is published by major newspapers across the country, and he writes regularly for leading publications such as *Fortune* magazine. He is co-editor of the newly published book *Wealth, Poverty, and Human Destiny.* In addition to being a prolific author, Bandow speaks frequently at academic conferences, on college campuses, and to business groups. He has appeared on many national television and radio shows, from *Crossfire* to *Oprah.*



Friday, February 13, 2004, 7 p.m.
The Honorable Ron Paul

Congressman Ron Paul of Texas is the leading spokesman in Washington for limited constitutional government, low taxes, free markets, and a return to sound monetary policies based on commodity-backed currency. Dr. Paul is the author of several books, including *Challenge to Liberty*; *The Case for Gold*; and *A Republic, If You Can Keep It.* He has received many awards and honors during his career in Congress, from organizations such as the National Taxpayers Union, Citizens Against Government Waste, the Council for a Competitive Economy, Young Americans for Freedom, and countless others.

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THE FREEMAN

Ideas On Liberty

December 2003 Vol. 53, No. 11

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Hilda Neatby

COLUMNS

BOOK REVIEWS

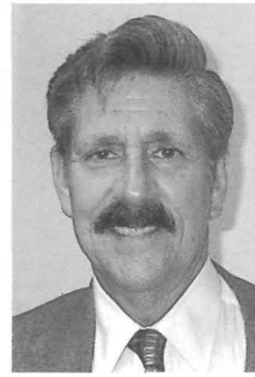
From the President

THE FREEMAN
Ideas On Liberty

DECEMBER 2003

by Richard M. Ebeling

Ninety Years of Monetary Central Planning in the United States



Ninety years ago this month, on December 23, 1913, the Congress passed the Federal Reserve Act, establishing a national central-banking system in the United States. The governing board of the Federal Reserve was organized on August 12, 1914, and the Federal Reserve banks opened for operation on November 16, 1914.

On the surface, the preamble to the Act, which summarized the purpose of the new government-created institution, seemed fairly innocuous:

> An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

But what this meant was the start of the monopolization of monetary matters in the hands of a single politically appointed authority within the boundaries of the United States. Twice in the first half of the nineteenth century Congress had chartered a Bank of the United States, an institution meant to facilitate government borrowing and that also served as a corrupt political trough at which the friends and supporters of politicians were able to get cheap loans.

During the Civil War the Lincoln administration had set up a National Banking System, which also served as a vehicle for funding government deficit spending and creating the worst monetary inflation in nineteenth-century America. The color of the currency issued during this time became the basis of the colloquial phrase "Greenbacks."

In the last decades of the nineteenth and the first decade of the twentieth centuries, there was a major push by a number of leading bankers, financiers, and economists for the United States to establish a "modern" banking system on the model of the great European countries. "Modern" in this instance, meant a government-created and -controlled central banking system.

Those innocuously sounding functions listed in the Act's preamble, however, have given this monetary authority the power to: (a) control the quantity of money and credit supplied in the United States; (b) influence the value or purchasing power of the monetary unit that is used by the citizenry of the country in all their transactions; and (c) indirectly manipulate the rates of interest at which borrowers and lenders transfer savings for investment and other purposes, including the funding of government budget deficits.

The 90-year record of the Federal Reserve has been a roller coaster of inflations and recessions, including the disaster of the Great Depression, and the recent "excessive exuberance" of the late 1990s and dramatic market decline of the early 2000s.

Richard Ebeling (rebeling@fee.org) is the president of FEE. His latest book is Austrian Economics and the Political Economy of Freedom *(Elgar).*

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THE FREEMAN (Ideas On Liberty)
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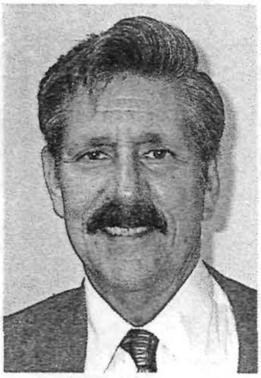

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The crucial and fundamental problem with the power and authority of the Federal Reserve is that it represents *monetary central planning*. In a world that has, for the most part, turned its back on the theoretical error and practical disaster of believing that governments have the wisdom and ability to centrally plan the economic affairs of a society, central banking remains one of the major remaining forms of socialism practiced around the globe.

Government control and planning of the monetary system has enabled extensive political influence over virtually every aspect of economic life. In 1942 Gustav Stolper, a German free-market economist then in exile from war-torn Europe and living in the United States, published a book titled *This Age of Fables*. He pointed out:

> Hardly ever do the advocates of free capitalism realize how utterly their ideal was frustrated at the moment the state assumed control of the monetary system. . . . A "free" capitalism with government responsibility for money and credit has lost its innocence. From that point on it is no longer a matter of principle but one of expediency how far one wishes or permits government interference to go. Money control is the supreme and most comprehensive of all governmental controls short of expropriation.

The Power to Manipulate

Through monetary central planning governments have the capacity to manipulate and destroy the real value of the accumulated savings and wealth of tens of millions of hard-working people. Governments can redistribute income among individuals and groups in the society to serve various political purposes. And they can distort and twist the patterns of investment, capital, and resource allocation throughout the society, resulting in the booms and busts that have punctuated the economic history of the last 100 years.

The rationale behind such control has been the notion that governments and their appointed central-banking authorities have the knowledge and capability of maintaining economy-wide stability and growth. But what has never been explained is how a handful of central bankers can know, better than the free competitive market, what should be used as money, what the quantity and value of that money should be, and what interest rates can assure a proper and continuous balance between savings and investment.

In other words, central banking represents one of those instances of the hubris of the social engineer, who claims to know more about how to better manage some aspect of society rather than to leave these decisions and their outcomes to the market participants themselves.

In 1942 Stolper also pointed out that "There is today only one prominent [classical] liberal theorist consistent enough to advocate free, uncontrolled competition among banks in the creation of money, [Ludwig von] Mises." In the 1920s Mises proposed denationalizing the monetary and banking system, allowing the market to decide what was used as money, and permitting private, competitive banking to determine the quantity and value of that money in the marketplace.

Today, however, a growing number of economists and policy analysts has taken up the task of demonstrating why monetary central planning has so frequently led to the financial and economic disasters that have been experienced during the last century. And, in addition, they have shown the principles and logic through which such a private competitive monetary and banking system can, in fact, generate a greater degree of economy-wide stability and coordination than any government planning authority can ever hope to achieve.

If, in the 21st century, socialism is to be fully discarded into the "dustbin of history" (to use Karl Marx's phrase), a primary task will be the abolishment of central banking in the United States and around the world. □

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PERSPECTIVE

Feeling Their Oats

How inspiring it was to see nearly two dozen representatives of the poorest nations' governments walk out of September's World Trade Organization meeting to protest the rich countries' subsidies to farmers. I don't say this lightly. Governments rarely inspire anything in me. But here was a group of governments that finally put diplomatic niceties aside and identified the Western governments' hypocrisy for what it is.

We're much more accustomed to hearing rulers in the developing world browbeat us about our meager "foreign aid" or our consumption of the "world's" resources. So it was refreshing to see them object to intervention in agriculture, that most egregious violation of free-market principles.

U.S. officials especially like to deliver lectures on the virtues of free trade and helping the poor. Meanwhile, they keep in place a protectionist system that delivers a double whammy to those struggling for prosperity in the developing world.

First, at the behest of wealthy and well-connected farmers, the U.S. government maintains a variety of quotas and tariffs on imported agricultural products. (The same is true for textiles and apparel.) These interventions raise prices in the United States and constrict the export market to the detriment of people who might otherwise climb out of poverty. (For example, Brazilian sugar growers could produce twice as much and employ more people were it not for American quotas—a favor to U.S. sugar producers that raises the price to consumers.)

Second, subsidies to the growers of cotton, rice, peanuts, corn, and other crops throttle agricultural development in Africa, Asia, and Latin America. How can farmers there compete with American and European farmers when Western governments finance the overproduction of crops, which are then dumped in the poor countries at low prices?

Subsidies also cost the American taxpayers dearly. "The federal government doled out more than $114 billion in farm subsidies nationwide from 1995 through 2002," the *Lincoln* (Nebraska) *Journal Star* reported recently.

The hypocrisy about helping the poor has a domestic dimension also. Virtually all politicians promise to end poverty and help "working families." Yet they never advocate scrapping the tariffs and quotas that, by design, make it more expensive to buy food and clothing. Couldn't we have free trade—for the children?

Some farmers will say they couldn't get along without government help. Humbug. As columnist Deroy Murdock wrote, "Washington does not finance broccoli, chickens, lettuce or tomatoes. Yet somehow Americans devour these items daily. Those who propagate them earn profits or at least have the decency not to whimper about their losses to their congressmen."

The governments that halted the WTO meeting certainly do not have exemplary records on trade or other aspects of freedom. Their countries wouldn't be so poor if they did. But that doesn't make them wrong in this instance. It would be nice if the so-called capitalist countries would lead by example. Nothing is more damaging to the case for freedom than hypocrisy.

* * *

A remarkable Canadian woman saw what was wrong with government schools in the 1950s, but she didn't quite see the solution. Daniel Hager introduces this unsung hero.

It's been said many times: incentives matter. Ralph Hood shows how incentives in the form of contests have produced advances in aviation.

And speaking of aviation, William Zieburtz marvels at all the trouble people go to just so he can fly.

Social Security is built on a foundation of myths. John Attarian says that until the myths are understood as such, solutions to the pension problem will remain flawed.

In a classic reprint from 1955, Dean Russell describes the coming of age of a capitalist.

When unemployment rises, the first call is to "save jobs." As if the government were capable of doing such a thing. Timothy Terrell explains.

Scanning the world, it's increasingly clear that what the have-nots lack is capitalism. So writes Andrew Bernstein.

In the columns: FEE President Richard Ebeling assesses the 90-year record of the Federal Reserve. Lawrence Reed reports on an incentive-based approach to organ donation. Thomas Szasz exposes a gap in the ACLU's protection of civil liberties. Burton Folsom finds some lessons in the integration of baseball. Charles Baird unmasks the National Apprenticeship Act. And Donald Boudreaux, seeing the assertion that the state is the source of rights, responds, "It Just Ain't So!"

Books reviewed this month explore Stalin at war, the history of socialism, and the market process.

The 2003 index begins on page 41.

—SHELDON RICHMAN

You may have noticed that your magazine has returned to its previous name, *The Freeman* with "Ideas on Liberty" as its subtitle. As the flagship of FEE, *The Freeman* has supplied, month after month, some of the finest contributions to our understanding of the principles and applications of the philosophy of freedom.

The Freeman captures in a single phrase the concept that guides everything we do at the Foundation for Economic Education—the case for the free and responsible individual.

At this holiday time of the year, remember to think of *The Freeman* as that perfect gift for helping to widen the circle of people who might benefit from being introduced to the freedom philosophy. Together, we can make freedom triumphant in the 21st century.

—*Richard M. Ebeling*

THE FREEMAN
Ideas On Liberty
DECEMBER 2003

The State Is the Source of Rights?

It Just Ain't So!

In 1776 a reliable indicator of an American's opinion of the ideas expressed in the Declaration of Independence was his attitude toward the 1649 execution of England's King Charles I. Liberals, who shared Jefferson's principles, believed Charles to have been a tyrant and hence most deserving of losing his head. Conservatives, resisting the call to liberty, classified Charles's execution as "murder," believing the English revolutionaries of 130 years earlier to have been reckless destroyers of the foundation on which civilization rests: a powerful monarchy.

Indeed, it was Charles's execution that put the fear of chaos into Thomas Hobbes, inciting him to write his 1651 classic, *Leviathan*. Hobbes was so sure that only an all-powerful monarch could create the law and order necessary for civilization that he famously predicted that lives in a world without such a monarch would be "solitary, poor, nasty, brutish, and short." Hobbes, I'm sure, thought of himself as a clear-headed realist who was immune to silly bourgeois notions of individual rights.

While few people today share Hobbes's commitment to monarchy, most modern folks accept uncritically his deeper premise that law and order can be produced only by government.

This neo-Hobbesianism normally is accepted quietly, as a matter of course. But recently it has been boldly trumpeted. Just last year Oxford University Press published Liam Murphy and Thomas Nagel's *The Myth of Ownership*, and in 1999 Norton published Stephen Holmes and Cass Sunstein's *The Cost of Rights*. Both books argue that government is the necessary provider of law, order, and infrastructure; therefore, taxes are the price citizens must pay for civilization. In fact, both books go further—especially Murphy and Nagel's—arguing that rights don't exist without the state.

The *Washington Post*'s E. J. Dionne is smitten with neo-Hobbesianism. He used the dismal occasion of April 15 to instruct readers on the necessity of government and of the taxation that fuels it. "Absent a government committed to the protection of rights, there are no rights," Dionne insisted in his op-ed "The Price of Liberty." Utterly convinced of the truth of this claim, he is "tempted to pick out the two dozen loudest anti-tax propagandists and send them a copy of one of the most important volumes of the last decade . . . [Holmes and Sunstein's] 'The Cost of Rights.'"

Although it appears to Dionne and many others to be indisputably correct, neo-Hobbesianism suffers from at least two flaws: it is mistaken in its facts and defective in its logic.

Factually Mistaken

Contrary to the belief of neo-Hobbesians, law, rights, and the security they beget can be, and often are, provided privately.

A well-documented example is the Lex Mercatoria (law merchant). This is the extensive body of commercial law that began growing a thousand years ago in the Mediterranean region as trade expanded. Medieval merchants scattered around the Mediterranean—from Turkey to Morocco, from Egypt to Spain—had no common sovereign power to whom disputes could be referred. Nevertheless, an impartial, effective, efficient, and surprisingly nuanced body of law developed out of merchants' practices and the expectations generated by these practices. Merchant courts—manned by merchants—became part of this law-discovery and law-enforcement process.

If, for example, a merchant court ruled that a Turkish rug maker owed ten pounds of gold to a Sicilian ship owner, the Turkish merchant would pay. He would pay even though no royal sheriff, no police force, no sovereign power of any sort was available to force him to do so. He obeyed the law because he wished to protect his reputation.

Despite the fact that it emerged unplanned over the years from the competitive practices of private merchants, and despite the fact that the courts which enunciated the rules of the Lex Mercatoria and handed down judgments were not arms of a sovereign power, this body of law serves today as the foundation for the Uniform Commercial Code in the United States.

It is simply untrue that the state is the sole source and sole enforcer of law.

A Non Sequitur

But let's suppose, contrary to fact but for the sake of argument, that Dionne and other neo-Hobbesians are correct that the state is the only possible source of law and law enforcement. Given that law is absolutely necessary for order to exist and for rights to be protected, would it then be correct to insist that without the state "there are no rights"?

No. Even if government were necessary, it does not follow that individual rights are not antecedent to, and logically independent of, government.

Fundamental to civilization is the enormous dependence that each of us has on countless others. I'm able to spend my days teaching students, writing papers, and giving talks only because each of millions of other people regularly performs his own small task: growing food, assembling automobiles, stocking supermarket shelves, weaving cloth, drilling for oil, piloting commercial jetliners, making laundry detergent, conducting philharmonic orchestras, writing computer programs, negotiating and drawing up contracts, researching and developing medicines, and on and on and on.

Some of these tasks might be more important, on some scale, than others. But no one task alone can properly be identified as *the* key task; many individual tasks are indispensable for civilization. Only *together* do they make civilization possible.

Neo-Hobbesians commit a non sequitur when they erroneously conclude that, because civilization would crumble without law enforcement, civilization ultimately owes itself to law enforcement.

There are any number of sets of tasks whose absence would cause civilization to crumble. Most obviously, if no one grew food, civilization would cease; if no one worked to supply clothing, civilization would cease; if no one built human dwellings, civilization would cease. These tasks are surely no less important than that of the police officer who patrols the neighborhood or of the naval officer who steers a destroyer.

And yet no one argues that horticulturists or haberdashers or homebuilders provide *the* foundational input for civilization—an input so fundamental that rights themselves owe their existence to it. (After all, what "rights" would I have if all farmers stopped working? I'd starve to death.) Why the special regard for law enforcement?

It's time to quit regarding the state and law enforcement as something special. At its best, the state is an efficient supplier of law and order. At its worst—and at its worst it's a monster too terrible to describe—it is the single greatest enemy of civilization and individual rights.

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School and State: A Neat Solution to the Neatby Dispute

by Daniel Hager

Before there was Rudolf Flesch there was Hilda Neatby.

In 1955 Flesch published *Why Johnny Can't Read,* a bestseller that charged the U.S. educational system with malfeasance for not correctly teaching young students how to read.

Two years earlier Hilda Neatby (1904–75), a University of Saskatchewan history professor, rocked the boat north of the border with *So Little for the Mind.* Illiteracy was so rampant in Canadian schools that it was considered normal: "It is simply assumed that many secondary school boys and girls cannot read."[1] But this deficiency, Neatby argued, was merely a symptom of a deeper ill: a de-emphasis of learning in favor of turning out students who were well "socialized" but whose gross level of ignorance was of little import. High school students could not understand math problems "expressed in perfectly grammatical and unambiguous English," but so what? "It is never suggested that there should be a *pons asinorum* over which non-readers may not pass."[2]

Like Flesch's, Neatby's book hit raw nerves. By December 1953, only two months after publication, it had already gone through a second printing and into its second edition. In a preface to that edition she dealt with the furor of protest she had aroused. She denied having "passed a sweeping condemnation" on the educational establishment and explained her purpose with another subtle jab, citing a French expression without translation: "Je n'oppose pas; je ne propose pas; j'expose."[3] She also responded to critics who claimed that her alleged "intemperance of language" had provoked "hostility" in "educational breasts": "I refuse to believe that any of our responsible educational leaders would be deterred by faults in the form of my criticism from remedying the weaknesses which I may have succeeded in exposing."[4] *Touché encore.*

But both Flesch and Neatby, despite their early triumphs, eventually lost out to the educationists. Flesch published a 1981 sequel, *Why Johnny* **Still** *Can't Read,* detailing how the educationists had mollified incensed parents and other critics by talking about reforms but failing to make substantive changes. Today the public schools still turn out a scandalously high proportion of students who are crippled by the printed page. And in Canada the contemporary schools appear to be in disarray, according to the 1993 book *Rituals of Failure* by journalist Sandro Contenta. Inmates are suffused by demoralization, dispiritedness, and a sense of futility. Students' resistance to authority translates into resistance to learning.

The question provoked by Neatby and Flesch and other mid-twentieth-century crit-

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ics of publicly funded schooling is, how can it be improved? The debate rages yet today. But in light of a half century of additional ineffectualness since Neatby and Flesch burst into prominence, it is clear that the question itself needs to be improved.

It should be restated thus: Why should there be any publicly funded schooling at all?

The most powerful argument *against* tax-supported schools was listed by educational historian Ellwood Cubberley among the reasons propounded *for* them in the first half of the nineteenth century: "That the taking over of education by the State is . . . the exercise of the State's inherent right to self-preservation and improvement"; and "That only a system of state-controlled schools can be free to teach whatever the welfare of the State may demand."[5]

Such intrinsic power granted to the state should provoke alarm. The state's interests are allowed to supersede those of parents. The schooling structure becomes a political jousting ground for groups with competing views about what the "welfare of the State may demand." Since social control is implicit, the system attracts persons with a hunger for domination whether for personal or ideological reasons. The goal of social indoctrination and manipulation may foster not the advancement of enlightenment but the maintenance of ignorance. In the absence of competition, the state enterprise is enabled to function in the historic tradition of socialism: Political and administrative power is retained through the overstating of achievements and the shifting of blame for failures.

Maintaining Control

The market for literacy is 100 percent of the population. A competitive, totally private learning industry paid directly by customers would seek assiduously to satisfy every last one with maximum value for the prices charged. By contrast, the publicly funded schooling bureaucracy's overriding concern is not to teach youngsters how to read but rather to keep its control intact, its revenue flows unstanched, and its critics at bay.

The United States began its journey into state-controlled educational bureaucracy with the "common school" movement that first bore fruit in the 1830s. The so-called "father of the common school" was Horace Mann, who as initial secretary of the Massachusetts Board of Education pioneered the path for imposing statewide standards and curricula on all local schools. Joel Spring noted that Mann was a phrenologist and temperance activist who hoped that "the mental faculties could be developed and shaped to create a moral and good individual and, consequently, a moral and just society."[6] He quotes from Mann's diary while Mann was contemplating the 1837 offer to lead the Massachusetts Board: "When will a society, like a mother, take care of *all* her children?"[7] On accepting the position, Mann wrote, "Henceforth, so long as I hold this office, I devote myself to the supremest welfare of mankind upon earth."[8]

Mann's best-known Canadian counterpart was Egerton Ryerson, who was chief superintendent of schools for Ontario and who centralized provincial authority over local schools under the School Act of 1846. Sandro Contenta cited a scholar's assertion that "Ryerson set up the first Canadian system of mass social control" and also noted that Ryerson "believed a publicly funded, universal school system would create stability by training the population in their duties towards the political order."[9]

A century later the primary problem with the training, according to Hilda Neatby, was that it had been commandeered by the disciples of the American educational theorist John Dewey. She wrote, "Dewey, more than any other single person, must be held responsible for the intellectual, cultural and moral poverty of much modern teaching."[10]

Neatby had come to national prominence as a member of the so-called Massey Commission, which from 1949 to 1951 investigated Canadian cultural life and the threat of cultural domination by the national neighbor to the south. The aridity of the provincial schooling systems became clear

Hilda Neatby

during the commission's public hearings, and afterwards its head, Vincent Massey, who became Canadian governor general from 1952 to 1957, "pushed [Neatby] to write a book on the state of primary and secondary education in Canada" and secretly provided financial backing for the project.[11]

Neatby delineated "the intellectual barbarism and moral anarchy which are threatening Canadian schools."[12] She found a "mania for equality and for the 'socialized' existence" and "a scorn of the intellect" that were rooted in Dewey's slogan, "Not knowledge or information, but self-realization, is the goal."[13] But Deweyite efforts to prepare children for socialized participation in democracy would be ultimately contraductive: "Experts talk constantly of training for leadership, but their whole system is one of conditioning for servitude. This is disastrous to the well-being of democracy which depends for safety on the free development of the highest qualities of gifted individuals."[14] Neatby perceived incipient tyranny: "For all his talk of democracy, the educator is generally authoritarian and dogmatic. Teacher-training institutions in general exist to indoctrinate; their task is not to discover truth, but to convey 'the truth.'"[15]

Not Alone

Neatby and Flesch were not the only North Americans during the mid-century to write about educational malfeasance. Bernard Iddings Bell in 1949 stated the widespread belief that "the millions of dollars which we devote every year to high-school education are, for the most part, money spent for the retarding of intelligence, the discouragement of efficiency, the stunting of character."[16] Mortimer Smith wrote the same year, "What borders on the criminal is the poor teaching and neglect of those subjects that deal with the history of ideas and ideals, a knowledge of which is essential to all youth who would assume their place in society as thinking, feeling human beings."[17]

The underlying message of Bell's and Smith's criticisms is that the political institution of public schooling needed to be captured from the opposition and controlled by those in agreement with them. But the framers of the federal Constitution understood the necessity of fragmenting political institutions so as to keep them too weak to foster tyranny. Bell approvingly acknowledged that "the sole purpose of the State, as the founders of America saw things, the only justification for government, is to keep people from interfering with one another. A nation exists for the sake of its free citizens and not an enslaved citizenry for the sake of the nation."[18]

But then he took a leap in an unexpected direction. His first recommendation for reform, emphatic enough that he wrote it in italics, was that *"the teaching profession must be organized more widely and definitely than it now is, to see to it that the public is aroused, first of all, to insist on adequate financial support of education and, secondly, to resist all political control, all attempts to transform the schools, colleges, and universities into agencies for the spreading of government-devised propaganda."*[19]

The irony is that a half century later the teachers *are* organized but have become entrenched political instruments for the spreading of statist propaganda.

The logical means for keeping public schooling from malfeasing is to shut it down entirely. It becomes suitably weak when it does not exist.

"There are few agreements in education," Contenta wrote. "Everyone and their relatives seem to have a different idea of what schools should be doing."[20] That comment sounds like an argument for total privatization of the learning industry, the abolition of tax-supported schooling. Consumers have different ideas about which products and services best suit them. They naturally seek value in the marketplace. A completely privatized learning market would be no different. Competitive providers would seek to maximize their own gain by offering a variety of learning services tailored to reach different market segments with the greatest possible efficiency at the lowest possible cost.

The ritual herding of the young into state-prescribed confinement persists mainly because it is just that, a ritual of such hoariness as to be largely unquestioned. Fifty years after Hilda Neatby offended her nation's government educational establishment, the way to the superior system she advocated is becoming clearer—get government out of it and let the nonpoliticized free market take over. □

1. Hilda Neatby, *So Little for the Mind* (Toronto: Clarke, Irwin & Company Limited, 1953), p. 157.
2. Ibid.
3. Ibid., p. vi.
4. Ibid., p. vii.
5. Ellwood P. Cubberley, *Public Education in the United States: A Study and Interpretation of American Educational History* (Boston: Houghton Mifflin Company, 1919), p. 121.
6. Joel Spring, *The American School, 1642–1985* (New York: Longman, Inc., 1986), p. 83.
7. Ibid.
8. Ibid., p. 84.
9. Sandro Contenta, *Rituals of Failure* (Toronto: Between the Lines, 1993), p. 14.
10. Neatby, p. 24.
11. Michael Hayden, *So Much To Do, So Little Time—The Writings of Hilda Neatby* (Vancouver: University of British Columbia Press, 1983), p. 32.
12. Neatby, p. 238.
13. Ibid., pp. 236, 321, 251.
14. Ibid., p. 236.
15. Ibid., pp. 116–17.
16. Bernard Iddings Bell, *Crisis in Education* (New York: McGraw-Hill, 1949), pp. 54–55.
17. Mortimer Smith, *And Madly Teach* (Chicago: Henry Regnery Company, 1949), p. 11.
18. Bell, pp. 181–82.
19. Ibid., p. 202.
20. Contenta, p. 11.

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Aviation, People, and Incentives

by Ralph Hood

An economist once said that economics can be summed up in four words—"people react to incentives." Yes, and competition speeds the process.

Incentives and competition working together generate money, effort, and progress. This has been particularly true during the last hundred years—which is also the first hundred years this month—of powered flight.

The entire world knows that Charles Lindbergh flew from New York to Paris in 1927. But how many can tell you what role Raymond Orteig played in Lindbergh's flight?

Raymond Orteig was the New York hotelier who created the Orteig Prize in 1919, offering $25,000 to the first person to fly nonstop between New York and Paris. This prize—a fortune at the time—and the resultant competition created a frenzy of activity, investment, effort, and progress.

With the prize as a carrot, Charles Lindbergh attracted investors and had the Spirit of St. Louis (named after his St. Louis investors) built by Ryan Aircraft. (He first sought a Bellanca aircraft, but Giuseppe Bellanca said he would build it only if he himself could select the pilot. No way was he going to risk his reputation on an unknown pilot like Lindbergh. Lindbergh took his money to Ryan; they built the Spirit of St. Louis, and one wonders if Giuseppe cursed his decision for the remainder of his long life.)

The rest is history. Lindbergh made the flight, won the prize, and became more famous than Elvis ever got. My mother—a gaga-eyed 16 years old at the time—took a picture of Lindbergh and the Spirit later in 1927, and that picture hangs in my home today.

Other incentives brought money, effort, and progress to aviation. Anyone who has ever seen a floatplane or flying boat can tell you they tend to be bulky, heavy, and slow. A person setting out to build a racing airplane would not choose a floatplane. It is a fact, though, that from 1914 to 1931 some of the world's fastest airplanes were floatplanes. In fact, the first airplane to go 400 miles per hour was a floatplane, and the great English fighter plane, the Spitfire, was derived from that floatplane.

How can this be explained? It all came about because of the Schneider Trophy for the winner of an annual floatplane race. The trophy came with cash, and competition quickly turned the race into a worldwide contest. No less a pilot than Jimmy Doolittle won in 1924. The Italians were strong competitors and winners, and the British—with that 400-mph floatplane—won the final race in 1931.

One of the greatest achievements of all time took place in 1986 when the Voyager

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flew around the world nonstop without refueling. Built by businessman Burt Rutan and flown by his brother Dick Rutan with Jeana Yeager, the Voyager was a private effort in successful pursuit of the prestigious Collier Trophy. (Dick Rutan is a friend, and he later went after the big prize for the first around-the-world balloon flight. He didn't get out of the county before the balloon ripped and he parachuted into a cactus patch.)

Lest you think the day of the prize in aviation is over, the big one now is $10,000,000 for the first private spacecraft to launch into space, return, and do it again within two weeks. Burt Rutan, like Lindbergh in 1927, has found all the private investors he needs, and is shooting for the prize in an all-new aircraft. Will he make it? I wouldn't bet against him even though, as is usual with big prizes, there is competition.

The Wright Brothers themselves were after the big prize of success in the marketplace. Anyone who doubts that should study the Wrights' years of lawsuits to protect their patents.

True Free Enterprise

These big prizes—and we haven't even touched on the annual American races for the Bendix and Thompson prizes—represent free enterprise in the truest form. The prize goes to the winner only. As in the marketplace, those who try and fail get nothing; thus effort and investment are generated far in excess of the cost of the prize. It has been estimated, for example, that more than

Col. Charles Lindbergh and Raymond Orteig

$400,000 was spent in competing efforts to win the $25,000 Orteig Prize.

The best prizes dictate the goal, not the method. Orteig dictated neither the number of engines nor the number of pilots for the flight to Paris. Most competitors chose to fly with multiple engines and pilots. Lindbergh won with a simpler approach. The government today does it backward by dictating methods—such as the catalytic converter—thus in effect halting all development efforts on possibly superior alternatives.

People do react to incentives and competition in a free market. And it works. □

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Thoughts of Miracles on the Plane

William B. Zieburtz, Jr.

I am right now flying through the air. It is just me, just regular old me, just my mother's son, and yet I am flying 37,000 feet above the ground. It seems miraculous, and miracles give rise to questions. The first being—what forces keep me up here?

Well, as I understand it, the air pressure under the wings of this plane is somehow greater than the weight of the plane. How could that be? Well, again according to my best understanding, the velocity of the plane and the design of the wings are such that enough air moves in the right way to ensure that we stay aloft. And how does this happen? Well, the engines on the plane burn fuel to propel us through the thin air at great speed, allowing the wings to do their job. And how does all this happen?

Or perhaps the more interesting question for the moment isn't so much how, but who? Who makes it possible for me, a man who probably couldn't pass a high-school physics test, to fly? Even in my relative ignorance, it is a long list. Engineers and other designers; metallurgists; fabricators; inspectors; skilled machinists and mechanics; technicians; specialists in hydraulics, electronics, weather, communications, dispatch, and avionics; computer programmers; air-traffic controllers; and a flight crew, just to name a few.

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The list is trivially short in comparison to the pages a complete list would fill, but it is amazing nonetheless, and it leads directly to the next question: why?

Why is it that all of these people have worked together to move me from Atlanta to Los Angeles? Why have they coordinated and cooperated on my behalf? Why, when none of them care about my meeting or the people I go to see, have they worked so hard to make my trip so easy and convenient? Why were components manufactured with great precision, and assembled with talent and care? Why was fuel purchased and why was a flight crew assembled? Why were flight schedules established, drinks and snacks loaded on board?

It is as if the world somehow has aligned itself for my benefit. For me, the son of my father and father of my son. A regular guy, with not a single person on this planet ready to bow or scrape at my arrival. I am moving faster and more comfortably right now than the richest and most powerful man in the world could have moved just a hundred years ago. For thousands of years it would have been impossible for a man to travel as I am doing right now. Yet it is within my power to fly to Miami for the winter, to Maine for the summer, and to spend New Year's in New York if I wish.

But it is just me, emperor of nowhere, crown prince of nothing. I have no claim on the lives of any of the individuals who have worked on my behalf—no ability to ask them for favors, no chance of obtaining special treatment. Yet they help me, the father of my daughter, brother to my sister, do something even Caesar could not envision. Why?

The answer, being important, is both complex and simple. It is because they are each free to seek their best way in the world, and their best way is to be of use to me and legions like me. Being free, these men and women apply their talents in an unimaginable variety of ways, creating new technologies, finding new approaches, dreaming new dreams. I don't have to know who they are, and they don't have to know each other, much less me. They merely know that the market rewards them for hard work and creativity, for diligence and dependability, for being useful to mankind.

Cooperating without a plan, coordinating without orders, thousands of individuals combining to create an industry ready to serve. This is the result of a free market. That man can fly across the country at 526 miles per hour and at 37,000 feet is amazing. But the market that lets that man be me—now that's a miracle. □

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Alleviating the Organ Shortage

When the French social commentator Alexis de Tocqueville visited a young, bustling America in the 1830s, he was amazed to discover that its industrious and self-reliant citizens were constantly forming "associations" to advance the arts, build libraries and hospitals, and meet social needs of every kind. If something good needed done, Americans of that day rarely expected politicians and bureaucrats, who were distant in both space and spirit, to do it for them. In *Democracy in America*, Tocqueville wrote, "If men are to remain civilized, or to become more so, the art of associating together must grow and improve."

If Tocqueville were touring America today, he would surely cite a non-profit group known as LifeSharers as a superlative example of this penchant to solve problems through voluntary initiative. This group deserves special attention, and your support, because it deals with something as important as life itself. Moreover, it must overcome both law and conventional sentiments to do its good work.

The problem LifeSharers seeks to ameliorate is the nationwide shortage of human body organs. Federal law and many people's sensibilities prevent a genuine market in human organs, but the effect of those inhibitions is the deaths of about 17 Americans every day. That's how many die waiting for a heart, kidney, lung, or another organ—a daily toll that adds up to over 6,200 a year. Here's another way to look at it: people on the transplant waiting list are dying at the rate of one every 90 minutes.

Today's donation system relies on little more than altruism: Leave your organs for others because it's a good thing to do. That may be an admirable motive, but it has nonetheless yielded an intractable shortage. The sad fact is that only about 30 percent of Americans who die with harvestable organs ever consented to donating. Making matters worse, the families of those who did sign donor cards often veto the wishes of the deceased by refusing consent. There is a movement afoot to promote "donor authorization," which would allow organs to be recovered if the deceased had signed donor cards, even if their families disapprove. If widely adopted, that would modestly alleviate the crisis—but still leave us with needless deaths among potential organ recipients.

The altruistic approach has left us in a crisis because it fights human nature. We've been asking people to think about something that is very unpleasant, and to commit to doing something that is very scary, without giving them anything in return except a good feeling. Clearly, the number of people generous enough to make that trade isn't nearly enough to supply all the organs needed.

Enter David J. Undis, a 49-year-old retired insurance executive from Nashville, Tennessee. A former economics student, Undis reasoned that some old-fashioned incentive

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could be the cure for the organ shortage. The law prohibits monetary payment for organs, so he came up with another powerful motivator: putting organ donors at the front of the transplant waiting list. By doing so, he figured *everybody* would have a strong incentive to sign a donor card because anybody who didn't would have to go to the back of the waiting list. So he launched LifeSharers in May 2002.

LifeSharers members agree to donate their organs when they die, but they give fellow members "first dibs" on them. Nonmembers can have a member's organs if no member who is a suitable match for them wants them. The Internet makes it easy to sign up. Anyone can join at www.lifesharers.com. Membership is free and open to everyone.

Directing your donation first to other members of the network creates an incentive for others to join. To date, members of the infant organization number fewer than 2,000. To understand the enormous potential, Undis asks us to imagine what it will be like when LifeSharers has a million members: "You'll be crazy not to join if you think you'll ever need an organ. By not joining, you'll be reducing your access to 1,000,000 hearts, 1,000,000 livers, 2,000,000 kidneys, 2,000,000 lungs, 2,000,000 corneas, and more. Let's face it—if only organ donors could receive organs, just about everybody would be a donor."

Incentive Increases

As LifeSharers grows so does the incentive to become a registered donor: preferred access to an ever-larger pool of donated organs. That will also make the system fairer, because your chances of receiving an organ will be greater if you've agreed to be a donor. LifeSharers is good for all transplant constituencies—donors, recipients, the medical profession, and the community at large.

But LifeSharers is not without its critics. They say it's not fair to give special treatment to those who have agreed to donate their organs when they die. But it's actually people who don't donate their organs who are getting special treatment. They receive about 70 percent of all donated organs, while registered organ donors receive only about 30 percent. LifeSharers doesn't *create* an inequity; it *corrects* one.

Critics also say that medical factors alone should decide who gets organs. But this straw man doesn't stand up. Many nonmedical factors, including ability to pay, already play an important role in the organ allocation system. And the system gives live donors preferential treatment if they later need an organ, so there is already precedent for giving preference to people who agree to donate in the future.

The critics of LifeSharers seem to miss the most important point: LifeSharers is increasing the number of organ donors. More donors means fewer deaths. Philosophical nitpicking pales in comparison.

Congress is considering whether to allow limited financial incentives to encourage more people to become organ donors. But while politicians debate and people on the transplant waiting list die, creative individuals like Dave Undis are already at work to solve the problem. The LifeSharers phenomenon is a civil-society venture that isn't waiting for the slow and creaky wheels of government to start rolling. □

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Social Security: Mythmaking and Policymaking

by John Attarian

As Social Security's critics know, the government program is robed in myths, for example, that it is "insurance" financed with a "trust fund," paying "guaranteed" benefits "as a matter of earned right." These myths have given most Americans a mistaken understanding of Social Security. As a result, they perniciously affected policymaking in the past and severely constrain reform options today.

Beginning in 1935, when Social Security was enacted, the program's administrators made a huge effort to shape the public's understanding of and beliefs about it. In speeches, articles, pamphlets, and other mass-circulation literature, they described Social Security as "insurance" under which workers pay "contributions" or "premiums" to receive "guaranteed" benefits that, being "paid for," are theirs "as a matter of earned right," without any means test.[1]

The mainstream media uncritically adopted these semantics, referring to "earned annuities regardless of other income," "old-age insurance," "insurance premiums," old-age income provided "as a matter of right," Social Security as a "mass insurance policy," and to the government as "writing insurance policies guaranteeing to pay monthly benefits."[2] Moreover, and very importantly, Social Security's payroll tax and the creation of the "Old-Age and Survivors Insurance Trust Fund" as part of the 1939 Social Security Amendments made this depiction seem real and believable.

As a result these semantics became Americans' frame of reference for thinking about the program. That is, the terms created a false consciousness about Social Security. By "false consciousness" I mean simply an understanding of something's nature that is at variance with reality, but that is nevertheless taken as true and governs belief and conduct.

The falseness of these beliefs is proved by Section 1104 of the original Social Security Act, never repealed: "The right to alter, amend, or repeal any provision of this Act is hereby reserved to the Congress." This routine reservation of power to amend legislation means Congress can cut benefits. And it has, several times, beginning with the removal of Social Security's money-back guarantee in 1939. This necessarily demolishes the "earned right," and with it any analogy to insurance, with its binding contractual obligations. For obvious reasons, this particular provision of Social Security, and its implications, were never publicized by Social Security's partisans.

This false consciousness quickly attained a powerful grip on the American mind. In 1950 the self-employed were brought under Social Security. Beneficiaries who had previously started small businesses in retirement

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By the time Social Security experienced its first financial crisis in the 1970s, the elderly lobby was a mighty force—and its ranks were filled with people who had spent their entire lives since 1935 being told that Social Security was insurance, that they had paid for their benefits, which were theirs as an earned right.

found that their new efforts were now covered employment; monthly self-employment earnings above $50, then $75, would trigger loss of benefits under the "retirement earnings test." Many self-employed elderly were outraged: had they not been told that their benefits came as a right?[3] Similarly, the famous *Flemming v. Nestor* Supreme Court ruling (1960) arose because Ephram Nestor, deported for being a communist in the 1930s, lost his benefits under the 1954 Social Security Amendments, which suspended benefits for those deported for subversive activity. Invoking statements by politicians that benefits are paid as an earned right, Nestor's unsuccessful suit is further evidence of the public's absorption of Social Security's myths.[4]

Beginning in the late 1950s several senior groups were organized, including, the American Association of Retired Persons (AARP) in 1958, the National Council of Senior Citizens in 1961, and the Gray Panthers in 1971. The growth of the population aged 65 and over, from 19.1 million in 1965 to 26.1 million in 1980 and 32 million in 1990, fueled the expansion of these senior organizations. The AARP, for example, grew from 800,000 members in 1968 to 5 million by 1975 to 16 million by 1986, and to 28 million in 1990.[5]

This was a fateful development. By the time Social Security experienced its first financial crisis in the 1970s, the elderly lobby was a mighty force—and its ranks were filled with people who had spent their entire lives since 1935 being told that Social Security was insurance, that they had paid for their benefits, which were theirs as an earned right. Moreover, in their experience Social Security seemed to live up to its misleading image. In short, there had arisen a large, well-organized, and militant pressure-group bloc steeped in false consciousness and armed with the political power to give it a strong influence on policymaking.

Meanwhile, a new myth appeared: Social Security is a "social contract" or "compact between the generations."[6] No such contract or compact exists. The generations did not covenant with one another. Congress passed a law. And no "contract" can coexist with Section 1104, which empowers Congress to rewrite this "contract" unilaterally. Nevertheless, this myth won widespread acceptance.

Reagan's 1981 Social Security Debacle

The power of the false consciousness was dramatically demonstrated in 1981. Inflationary stagnation and an erroneous double indexing of benefits for inflation, enacted in 1972, had combined to drive Social Security into annual deficits and projected bankruptcy. The Cost of Living Adjustment (COLA) was corrected in 1977, and a massive and bitterly resented tax increase was enacted.[7] Yet Social Security's deficits continued. In May 1981 President Ronald Reagan proposed cutting benefits to end the crisis. The proposal included a reduction in early retirement benefits (benefits which persons can collect if they retire before the normal retirement age) from 80 percent of the normal benefit to 55 percent.[8]

Attacks on Reagan's proposals erupted immediately. Democrats in Congress flayed Reagan, declaring that "Benefits are a right—an earned right," that he was guilty

By the late 1980s it was clear that when the baby boomers retire, Social Security tax rates mandated under current law will not cover current-law benefits and that Social Security will have to liquidate its government debt holdings. Eventually it will be unable to pay full benefits on time.

of "breaching a contract," that "Social Security is bought and paid for by the hard labor of the American worker," and so on.[9] Letters to newspapers declared, "Where do you get the nerve to insinuate that Social Security recipients are 'supported' by workers? Social Security is an insurance program, generously contributed to by workers and employers"; beneficiaries "have earned their benefits"; and one's benefit is "a pension earned by a lifetime of work."[10]

In July 1981 Congress defeated most of Reagan's proposals. But it did eliminate Social Security's $122 minimum monthly benefit.[11] This prompted a fresh eruption of ill-informed anger. For example: "These seniors contributed many hours and dollars to Social Security during their working years. This is not a dole." "Columnists should stop writing about Social Security as if it were social welfare for senior citizens. . . . Social Security is an insurance program establishing a trust fund." "The Social Security system is an insurance system whereby our payroll deductions are the premiums we pay."[12] Congress and Reagan flinched; the minimum benefit was restored.

The response to Reagan's proposed cuts would have been negative in any case. But the specific beliefs voiced proved that Americans had a false consciousness about Social Security, which determined their response to policy proposals and thereby affecting the proposals' fate. The response proves too that most Americans had never heard of Section 1104—because Social Security's partisans had chosen not to tell them.

More: Reagan's defeat had roused the myth-indoctrinated elderly to vigilance and given themselves and politicians a demonstration of their power. From now on, Social Security policymaking would occur in the shadow of their bludgeon.

Social Security Myths and the Post-Reagan Paralysis

In 1983 Congress raised Social Security taxes and reduced future benefits by raising the retirement age and trimming early retirement benefits after 2000. (So much for the "contract.") The benefit reduction for current beneficiaries was minimal, mostly through a new, modest benefit tax.[13] Politicians had learned their lesson.

Throughout the 1980s, Congress wrestled with chronic large budget deficits. Various deficit-reduction proposals were made and some enacted; but most, such as the Gramm-Rudman-Hollings Act, exempted Social Security. The few proposals to cut Social Security, such as a 1985 attempt to eliminate the 1986 COLA, were quickly retracted in the face of seniors' wrath.[14]

In January 1993 the new Clinton administration proposed reducing the deficit by freezing Social Security COLAs. The AARP condemned the freeze. Witnessing for the false consciousness, Senator Daniel Patrick Moynihan called it "unacceptable," since it would weaken the idea that Social Security is insurance. We should, he said, "acknowledge that this is a contributory insurance program. These monies are held in trust. . . . It's paid-up insurance." Representative Newt Gingrich called Social Security a "contract" and vowed to "keep the Democrats from tampering with it." President Bill Clinton reversed himself, told the AARP's leadership he believed Social Security is a special contract with the elderly—explicitly affirming Social Security's myths—and dropped the COLA freeze.[15]

"A Sacred Trust"

The Republican alternative to Clinton's deficit plan exempted Social Security. As myth-smitten as Moynihan and Clinton, Congressman John Kasich wrote that "Republicans believe that Social Security represents a fundamental agreement between the Federal Government and the American people—an agreement that must be preserved." Republicans would cut the deficit without cutting benefits, which seniors deem "a sacred trust."[16]

By the late 1980s it was clear that when the baby boomers retire, Social Security tax rates mandated under current law will not cover current-law benefits and that Social Security will have to liquidate its government debt holdings. Eventually it will be unable to pay full benefits on time. Debate arose over how to revise Social Security in order to avert fiscal crisis.

Means-testing benefits—eliminating or reducing them for better-off beneficiaries—is one option for reducing costs. But Social Security partisans such as Representative Bill Archer opposed means-testing because it "violates the earned-right concept" of Social Security.[17] Means-testing remains unadopted.

Many Social Security reformers assert their commitment to maintaining benefits for current retirees. In 1997 the Heritage Foundation's Daniel Mitchell observed that "all privatization proposals explicitly guarantee" benefits for current and imminent retirees—partly for political reasons, but also because of a "moral argument. . . . Simply stated, the government made a contract with them to provide a certain level in exchange for taxes paid, and it would be wrong to break that contract."[18] Clearly, Mitchell bought the myth that we are contract-bound.

More recently, David John, also of Heritage, declared that "The benefits of current retirees and those close to retirement must not be reduced. Washington has a moral contract" with these persons. John explicitly advocated legally guaranteeing current-law benefits for them. Legislation has been introduced to create such guarantees.[19] This would make a central tenet of the false consciousness a reality, obviously to make reform palatable to the myth-steeped, politically powerful elderly. But locking policymakers into benefit-side rigidity would be disastrous.

Unfortunately, refusal to reduce current retirees' benefits saddles privatization plans with colossal transition costs, since the initial generation of workers under privatization must finance not only its own retirement, but that of the current beneficiaries. For example, in 1998 Peter Ferrara and Michael Tanner of the Cato Institute proposed leaving current retirees' benefits unchanged and diverting 10 percentage points of the 12.4 percent Social Security tax into individual retirement accounts. The annual revenue diversions—the shortfalls that must somehow be financed—in 1998–2027 would have totaled $10.6 trillion in 1998 dollars.[20]

The only way to reduce transition costs is to cut current as well as future benefits—but that requires confronting and exploding the false consciousness and educating the public to see Social Security benefits for what they really are: redistributive transfers that are neither guaranteed nor earned rights, but rather contingent, malleable, and subject to revision by Congress. So far, reformers have been unwilling to do so. Until they do, they are doomed to wrestle with transition costs and to concoct complicated, costly schemes to defray them.

It emerges, then, that Social Security is trapped between the imperatives of economics and the imperatives of politics. On the one hand, it must have flexibility to raise taxes and cut benefits to remain solvent and affordable. On the other, taxpayers have been taxed over their threshold of pain for Social Security, while an entitlement mentality precludes benefit cuts—at least for current beneficiaries. Would-be Social Security reformers are caught in this same trap, between a need for flexibility and politically imposed rigidity. The false consciousness worked mightily to create this trap. It necessarily follows that the false consciousness must be demolished for any real, sound reform to happen. □

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THE FREEMAN
(Ideas On Liberty)
DECEMBER 2003

FEE Classic

The Birth of a Capitalist

by Dean Russell

When the new superintendent came to the orphanage where I was reared, he found that we kids were not allowed to earn or have any spending money. So one of the first things he did was to tell us that if we were able to earn any money in our spare time, we could keep it or spend it as we pleased. We listened. But since none of us knew how to go about earning extra money, nothing happened. Then one 15-year-old boy had a brilliant idea.

We were all attending a movie. The program included a "short" on fishing. All of us saw a group of fishermen in the movie pay cash for live bait—minnows. But only one of us was able to apply this idea to our own situation.

"We have a creek full of minnows," Jack pointed out to the rest of us. "Why can't we earn money by selling live bait to the fishermen at Timber Lake?"

We just listened. Even when the possibility was explained to us, it still didn't register. So Jack worked out his plan alone. He knew that the variety of minnows called *chubs* was best for bait, because we had used them when fishing in our own small pond. So Jack went to Timber Lake to check the demand and price for chubs. The rest of us continued to wait and watch, skeptically.

The late Dean Russell was a long-time member of FEE's staff and the author of Frédéric Bastiat: Ideas and Influence, The TVA Idea, *and* The Conscription Idea. *This article is reprinted from the September 1955 issue of* Ideas on Liberty.

Jack found that the demand was good and the going rate was fifty cents a dozen. His sales talk to the fishermen was simple and effective. He just said: "We sell chubs for thirty-five cents a dozen out at the orphanage."

The next day there were eleven customers, not enough chubs to go around, and much confusion. Then the superintendent stepped in. He organized seventeen of us into a company with Jack as the president. Jack's job was to count and store the minnows we other kids caught, sell them to the customers, and keep the books on the project. We all agreed that Jack should keep a nickel from each thirty-five cent sale he made for us. The money was divided from time to time, each of us getting whatever percentage the books showed he had contributed.

All of us were happy. We now had spending money for candy, cokes, and vital things like that. But then we discovered that the president of our company, the boy who had thought up the idea, got more money than any of us! And frankly, we didn't like it.

We could see the logic behind giving the most money to the fellow who caught the most minnows, but none of us could see why the president should get more than even the best fisherman. After all, what did he do? Did he catch any chubs? Did he have to wade in the water and get his shoes and overalls wet? As far as we could see, all he did was take for himself a part of our earnings. And we were on the verge of a small revolution when the superintendent entered the picture again.

He said: "Before Jack thought up this idea, none of you had any money." That was true.

"Has he taken anything from you that you had before?" No he hadn't, since we didn't have anything before.

"Would you have any spending money now, if he hadn't showed you how to earn it?" I wasn't sure about that. Since it was such a simple idea, I secretly felt that I would have thought it up the next day, if Jack hadn't beat me to it. Anyway, suppose he did think it up? That was two months ago!

"Do any of you care to quit your job with the company?" the superintendent asked. None of us did, because then we might be back where we started—with no money at all.

"If any one of you wants to quit, you can do so and go into business for yourself, find your own customers, sell your own minnows, and keep the entire thirty-five cents." But the superintendent got no takers on that suggestion. None of us wanted to take the risk of losing a reasonably sure thirty cents for the mere possibility of gaining an extra five cents. All we had in mind was a more equal split of the company's income.

The superintendent concluded: "It seems to me that none of you should begrudge the fact that Jack gets about three times as much money as most of you. Without him, you would probably have less than you now have, and possibly you wouldn't have any."

I can see now that the superintendent was trying to explain to us that, as far as we were concerned, Jack had created a new source of wealth. He was trying to tell us, in a nice way, that Jack's brain was more valuable than our brawn. He was pointing out that while Jack was making a considerable amount of money for himself, he was also making money for the rest of us. But I couldn't see that when I was sixteen years old. All I could see was that Jack had more money than I had; that I worked harder and longer than he did; and that he was taking an unfair share of *my* money. And, logic or no logic, we kids would have changed that situation if it had been put to the test of a majority vote.

No one expected us teen-age kids to be deep-thinking economists. We operated mostly by emotion and feeling instead of reason and logic. While most of us outgrew that immaturity, some didn't. And they found many other grown men and women—voters all—who agreed with them that the government should use taxes and subsidies to make all incomes more equal.

I wish there were some way I could convince those people of this idea: Even from the materialistic viewpoint of their own selfish interests, they would be better served by not taking the capitalists' profits away from them. □

THE FREEMAN (Ideas On Liberty)
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Civil Liberties and Civil Commitment

Defenders of civil liberties readily recognize when some state interventions—such as censorship of the press or forced religious observances—violate civil liberties. However, many of the same defenders of civil liberties are unable or refuse to recognize when certain other state interventions—such as civil commitment—violate civil liberties.

The American Civil Liberties Union (ACLU) claims to be the premier American organization for the protection of civil liberties. (It does not claim to be a "libertarian" organization.) The Union's website states: "The ACLU's mission is to fight civil liberties violations wherever and whenever they occur. . . . We're not anti-anything. The only things we fight are attempts to take away or limit your civil liberties, like your right to practice any religion you want (or none at all). . . . The ACLU is our nation's guardian of liberty."

During its first quarter of a century the ACLU took no notice of psychiatric coercions. Once it did, it was love at first sight. Charles L. Markmann, the official historian of the ACLU, proudly relates how, after World War II, the ACLU "began to draft model statutes for the commitment of the insane." The ACLU has never wavered in its support of involuntary mental hospitalization and the insanity defense.

For many years Aryeh Neier was the executive director of the ACLU. In his recent autobiography, he relates that when he joined the New York Civil Liberties Union in 1963, "I knew little about mental commitment. *The issue was not on the civil liberties agenda.* I had not then read the works of Thomas Szasz. . . . "

Unfortunately, Neier did not read my writings very carefully. In 1968 he formed a special action group in the ACLU, called the Civil Liberties and Mental Illness Litigation Project. This group became, in effect, a mouthpiece of organized psychiatry, devoting its efforts to bolstering the legal foundations of psychiatric coercions and excuses. In 1976, the Union issued a formal *Policy Guide on Civil Commitment,* a document that might as well have been written by the board of directors of the American Psychiatric Association.

Twenty years later the ACLU issued a fresh endorsement of psychiatric brutalities. In a book titled *The Rights of People With Mental Disabilities*, the ACLU endorsed not only deprivation of liberty as "hospitalization," but also poisoning as "drug treatment": "[U]nlike criminal defendants, people facing commitment can be preventively detained for behavior that violates no law because the confinement is to an institution, not a prison, and the purpose is treatment, not punishment. . . . At its root the right to treatment is an assertion that the government has an obligation not just to protect institutionalized individuals or leave them alone, but to provide services that will

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improve their lives. . . . The difference between appropriate medication and chemical restraint is often as much a metaphysical as a legal or medical question."

Whether a particular drug is *appropriate* for what ails a particular patient is a *medical and scientific question.* Whether a patient uses a drug *voluntarily* or whether it is introduced into his body *against his explicit objection, by agents of the state using physical force,* is a *common sense question.* Why does the ACLU conflate and confuse these wholly separate issues? Cui bono?

Civil Liberties Are Only for Sane People

A person looking at the term "American Civil Liberties Union" and told that it is the name of an organization concerned with protecting the American people's right to free speech would assume that the Union is opposed to incarcerating innocent persons because of what they say. Actually, the opposite is the case.

The ACLU defends the rights of Jews, Catholics, and Muslims to assert their particular religious beliefs, which many others regard as false. However, it does not defend the rights of mental patients to assert their particular beliefs, which psychiatrists and many others regard as false and call "delusions." To the contrary, the Union defends the rights of the psychiatrist to imprison such persons, provided the jailors are called "psychiatrists," and the jails "hospitals."

My review of the ACLU's position regarding coerced psychiatric interventions may seem excessively critical. I fear, however, that it is not nearly critical enough. I have not pinpointed what makes the ACLU's support of involuntary psychiatric interventions particularly foolish and obscene.

Let us recall that in 1963, when Aryeh Neier joined the ACLU, "The issue [mental commitment] was not on the civil liberties agenda." Neier should have asked himself why it wasn't. He would have found that civil commitment was not on the civil liberties agenda because the ACLU accepted the psychiatric view that mental hospitalization, like medical hospitalization, is a medical procedure. Period. Let us pause and consider this point carefully.

In a document submitted to a Senate committee in 1961, the American Psychiatric Association (APA) stated: "We, as doctors, want our psychiatric hospitals and outpatient facilities to be looked upon as treatment centers for sick people in the same sense that general hospitals are so viewed."

The APA is committed to defining psychiatric procedures imposed on persons against their will as legally and medically indistinguishable from medical procedures provided to persons with their consent. This recasting of oppression as "liberation from mental illness" reduces persons called "mental patients" to the level of wards, and turns the psychiatrists coercing them into their guardians. The ACLU embraces this interpretation. I reject it.

In this connection, we must keep in mind two things. One is that medical interventions cannot be imposed on competent adults against their will: in Anglo-American law, medical treatment without consent—regardless of its effect on the health of the subject—constitutes "assault and battery." The other is that proceedings for civil commitment and legal incompetence are wholly different interventions: the principal result of the former is confinement in a mental hospital, of the latter, the appointment of a legal guardian.

According to *Black's Law Dictionary,* "Every confinement of the person is an 'imprisonment,' whether it be in a common prison, or in private house, or in the stocks, or even by forcibly detaining one in the public streets." Incarceration in a building called "mental hospital" is imprisonment: it is preventive detention, not medical treatment. Q.E.D. □

THE FREEMAN
Ideas On Liberty
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The Absurdity of "Saving Jobs"

by Timothy D. Terrell

In any period of economic distress there is a renewed search for political solutions to unemployment. It seems obvious that jobs must be saved, and the government must be the key to preserving those jobs. So we get another round of government intervention: economic stimulus packages, scapegoating, bailouts, and protectionism.

One of the problems with this effort to keep unemployment down is its underlying assumption that the basic economic problem is a lack of jobs. The assumption seems reasonable enough; after all, financial hardship usually accompanies a layoff. Yet jobs per se are not the ultimate goal of the economy. Jobs are a means to an end. Even though a few of us may enjoy our jobs enough to be willing to work for free, we generally work so that we can purchase things or give to others with the income the job provides. Most people, in fact, look forward to a time around age 65 when their financial situation allows them to quit their current jobs and pursue other worthwhile activities.

Jobs by themselves are useless unless they are productive. People can appear industrious without actually producing something of value—it's what we call "busy work." Having someone vigorously make mud pies is probably not going to contribute very much to our standard of living, because mud pies are not usually thought to have any value. The price system, which includes wages, is the surest guide to what consumers want.

Because of the difficulty of changing from one type of work to another, there is usually a brief period of unemployment involved. The computer whiz, finding that the dot-coms are not doing quite as well as they once were, and made painfully aware of the fact by the appearance of a pink slip in his box, may discover after several weeks that the most valuable work he can now do is not even related to computers. During those several weeks, he may say something like, "There just aren't any jobs" or "No one is hiring."

What the computer whiz means is, more precisely, "No one is willing to hire me in my normal line of work for the wages I am accustomed to receiving." Expressing the problem as a lack of jobs is not as accurate as saying that (a) the apparent value people place on the services dot-coms provide has fallen, and thus (b) the dot-com owners place a lower value on the labor services of their employees.

The hardship of job loss often results in a search for someone to blame. Frequently, that is a competitor. It is true that competition does bring about job loss on the individual level. If my mousetrap firm is not as efficient as your mousetrap firm, my employees and I may lose our jobs, as consumers buy your lower-priced mousetraps. Yet that is quite a different problem from job loss *in*

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the aggregate, or unemployment. After all, while my firm is laying off workers, your firm is adding workers. The alternative to this "frictional" unemployment is to end all competition between firms—a "cure" that would be far worse than the disease.

If the mousetrap industry as a whole is laying off workers, one of the potential reasons is that the buying public has decided that it prefers fewer mousetraps and more of something else. In that case, the industry that makes "something else" is probably hiring. It is also possible that a reduction in employment within an industry can come from a change in the production process that requires less labor. Using robots to replace some workers may mean fewer jobs in that industry, but, again, robot-making firms are probably hiring.

In either case, the workers being laid off probably do not have the skills to move directly into another industry. When a textile mill closes because of foreign competition, the mill workers can be expected to have trouble adjusting to the jobs that are available in auto manufacturing. To many workers, political action to eliminate the competition seems preferable. To serve these interests, a para-industry of job-savers, made up of community activists, politicians, and the owners and employees of threatened businesses, can arise to carry out attacks against trouble-making competitors.

Favorite Targets

"Big box" stores are a favorite target for the job-savers. Stores like Wal-Mart or Home Depot can usually offer lower prices on popular retail items because of economies of scale. The building construction is cheaper per square foot than smaller downtown stores, and the labor requirements are lower—a store ten times the size doesn't require ten times the managers. Owners of small local businesses recognize that many shoppers will leave the congested downtown for the big box on the bypass. Their livelihood is at risk, along with the jobs of their employees. Fearing the competition, they get the local government to reject rezoning proposals, set restrictions on maximum building size, or otherwise prevent the entry of the national chain.

Some variant of this process is at work in countless towns across the United States. In Clemson, South Carolina, a small but vocal group has used job-saving rhetoric, combined with political maneuvering, to prevent a local landowner from using his property for a Wal-Mart.* The "anti-sprawl" group cited a study showing that for every job Wal-Mart created, one-and-a-half jobs were lost in other local businesses. (Other studies have shown negligible effects on employment.) If the study is accurate, it essentially means that Wal-Mart manages to use fewer hours of labor to provide the items people want to purchase. The fact that Wal-Mart's labor-conserving approach is more efficient is reflected in the store's popularity among shoppers. Even if the Clemson economy were isolated from surrounding areas, the loss in income would be more than offset by the lower prices. In other words, fewer dollars might be earned, but those dollars would buy more. Because Clemson is in fact not isolated from neighboring economies, the Wal-Mart may actually increase local incomes, as people from nearby towns choose to spend their dollars in a shopper-friendly Clemson.

In the broader economy, more efficient competition can be shut out through trade barriers such as tariffs or quotas. Supposedly, tariffs can save jobs by protecting an industry that is being outperformed by foreign firms. Certainly, tariffs can preserve jobs and increase incomes *in that industry*. Yet the overall picture is not so favorable to trade barriers. When we impose tariffs on, say, steel, foreign steel sellers are unable to acquire dollars from us. The only way to buy Americans' exports (say, wheat) is to have dollars to offer in trade. Thus, exports decline.

Dollars, after all, are only a medium of exchange. They allow a foreigner to buy wheat with steel, just as dollars allow me, as a college professor, to exchange economics

*See my "Stopping Government Sprawl," *Ideas on Liberty*, February 2001, pp. 17–19.

lectures for housing. If steel producers succeed in obtaining a steel tariff, their jobs are saved—at the expense of jobs in industries that export to foreign countries. Because the United States may be a relatively low-cost wheat producer but a high-cost steel producer, the tariff misallocates labor by discouraging people from doing what they "ought" (in an efficiency sense) to be doing—moving from steel production to wheat production. The domestic economy that is really better at wheat production is producing steel, and foreign economies that are better at steel production are producing wheat. This implies that the net impact of the tariff is a lower standard of living worldwide. Wheat producers are still producing wheat, and steel producers are still producing steel, but the total amount of wheat and steel being produced is lower than it would be without tariffs.

Despite the clearly harmful effects of this sort of "job-saving," politicians still bow to special-interest groups that are able to muster an important number of votes. It was particularly disappointing to see President Bush impose tariffs of up to 30 percent on imported steel last year, since he has historically sided with the anti-tariff wing of the Republican Party. Though Bush has more recently granted numerous exemptions on certain steel products, the effects are still likely to be seen in reduced exports, even without retaliatory trade barriers imposed by the European Union or Japan. Steel manufacturers in Ohio, Pennsylvania, and West Virginia win, while exporters of farm products, computers, automobiles, and other goods will lose. Because the effects of foreign competition will be muted, Americans will not be induced to move away from steel toward industries in which they are comparatively more productive. Protectionism in the steel industry could reduce overall incomes in the U.S. economy—an untimely blow, to say the least.

A change of focus is needed. Instead of concentrating on preserving jobs in this industry or that downtown area, we should pursue the satisfaction of human needs. Job-preservation, by itself, is a red herring. Too often the media and political figures can use the concept misleadingly, because the gains to the beneficiaries are highly visible, while the losses are largely concealed. The connection between foreign steel imports and jobs lost at a domestic steel mill is easy for most people to see, while the link between foreign steel imports and jobs gained in farm machinery manufacturing is almost invisible to the public. We will probably never see a bumper sticker saying, "Save American farmers; buy foreign goods." But maybe we should. □

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Global Capitalism: Curing Oppression and Poverty

by Andrew Bernstein

Although leftist agitators continue to protest global capitalism, they overlook the key points in the debate. Capitalism has been instituted on three continents—in western Europe, North America, and Asia. These nations—England, France, the United States, Japan, Hong Kong, and the others—are among the world's wealthiest countries with per capita incomes in the range of at least $20,000–$30,000 annually. Additionally, even the prosperity of a so-called "socialist" country like Sweden is based on significant elements of capitalism, including Volvo, Saab, and Ericsson, as well as countless private small shops.

But capitalism is not merely the system of prosperity; fundamentally, it is the system of individual rights and freedom. The inalienable rights of individuals are largely protected in these countries. For example, their citizens enjoy freedom of speech, of the press, and of intellectual expression. They have freedom of religion. Similarly, they possess economic freedom, including the right to own property—their own home or farm—to start their own businesses, and to seek profit. These countries hold free elections, and their governments are subject to the rule of law.

By contrast, the noncapitalist nations of the world, past and present, lack both freedom and prosperity. For example, in feudal Europe, before the capitalist revolution of the late eighteenth century, serfdom and its legacy dominated. Peasants were often legally tied to the land and possessed few rights. Commoners, more broadly, were subordinated to the king, aristocrats, and Church, and free thought was punished. Voltaire, for example, was imprisoned for his revolutionary ideas, as was Diderot. Galileo was threatened with torture and Giordano Bruno burned at the stake for supporting scientific theories that clashed with the teachings of the Church. The minds and rights of individual citizens were thoroughly suppressed.

What were the practical results of such repression? Poverty, famine, and disease were endemic during the feudal era. The bubonic plague wiped out virtually one third of Europe's population during the fourteenth century, and recurred incessantly into the eighteenth. Famine killed sizable portions of the population in Scotland, Finland, and Ireland—and caused misery and death even in such relatively prosperous countries as England and France. According to one economist, economic growth was nonexistent during the centuries 500–1500—and per capita income rose by merely 0.1 percent per year in the years 1500–1700. In 1500 the European per capita GDP was roughly $215; in 1700, roughly $265.[1]

The world today is filled with countries more brutally repressed even than those of

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feudal Europe. In Sudan, for example, the Islamic government arms Arab militias that murder, rape, and enslave the black Christian population. There are currently tens of thousands of black slaves in Sudan. In Rwanda in 1994, Hutu tribesmen slaughtered 800,000 innocent victims, mostly members of the Tutsi tribe. In communist North Korea, political prisoners are enslaved, starved, and used for target practice by prison guards and troops.[2]

The practical results of such oppression are the same as in feudal Europe. In Sudan per capita GDP is $296; in Rwanda it is $227. In North Korea, where nighttime satellite photographs reveal utter darkness because the country lacks electricity, conditions are just as grim. Despite massive aid from the capitalist West, tens of thousands of human beings starved to death there in recent years.[3]

What must be recognized is that freedom is a necessary condition of wealth. Cures for disease, economic growth, agricultural and industrial revolutions—the means by which human beings rise above deprivation and misery—are products of the rational mind operating under conditions of political-economic freedom. When a James Watt, an Edward Jenner, a Cyrus McCormick, an Alexander Graham Bell, or a Thomas Edison exists under an oppressive regime, whether feudal, communist, fascist or theocratic, his intelligence and revolutionary thinking make him a threat and he is suppressed. But when such a genius lives under capitalism, he is free to create a perfected steam engine, a treatment for smallpox, a reaper, a telephone, and an electric lighting system, respectively.

Liberation from Bondage

The freedom of the capitalist system liberates creative human brainpower from bondage to the state. The ensuing advances in science, medicine, agriculture, technology, and industry generate vast increases in living standards and life expectancies. It is not surprising that during the capitalist epoch, roughly 1820 to the present, the free countries of western Europe and North America saw their total economic output increase 60 times, and per capita income grow to be 13 times what it had been previously.[4]

Even minimal capitalist elements have already produced salutary results in communist Vietnam. The annual minimum wage there is $134; but Nike, which owns Vietnamese factories—misleadingly dubbed "sweatshops" by anti-capitalist ideologues—pays an average salary of $670, which is double the country's per capita GDP.[5] Western companies in the poorest countries pay their workers, on average, twice what the corresponding native firms pay. Most important, workers *voluntarily* seek such employment, and unlike the repressive governments, these private companies have no legal right to initiate force against them.

Capitalism is freedom—and freedom leads to prosperity. The moral is the practical. On the other hand, statism is oppression—and oppression leads to destitution. The immoral is the impractical. After two centuries of capitalism, 80 years of socialism, and a millennium of feudalism, the contest is over and the scores are on the board. The alternatives open to human beings are stark: freedom and prosperity or statism and misery. We have only to make our choice. □

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The Costs of Segregation to the Detroit Tigers

Many people know the remarkable and inspiring story of Jackie Robinson and how he endured racial insults to integrate major league baseball in 1947. In Robinson's first year alone he won the rookie-of-the-year award and led his Brooklyn Dodgers to the National League pennant.

But Robinson was only part of the integration story. What about those teams that refused to hire blacks, that insisted on following racist policies? What made them finally decide to integrate?

To answer these questions, it is useful to focus on the Detroit Tigers. While other major league teams were signing Satchel Paige, Willie Mays, Hank Aaron, and other black stars, the Detroit Tigers, under owner Walter Briggs, refused to hire any blacks. Wendell Smith, a black athlete and sportswriter, called Briggs "very prejudiced. He's the major league combination of Simon Legree and Adolf Hitler." Smith was no doubt exaggerating. However, the Tigers were indeed the next-to-last team in the major leagues to integrate (in 1958)—and only did so after Briggs had died.

Let's look at the results of Detroit's decision to avoid hiring blacks. Before baseball integrated, Detroit was a top team in the major leagues. Led by ace pitcher Hal Newhouser and sluggers Hank Greenberg and Rudy York, the Tigers won the American League pennant in 1945. During each of the next two years, they finished in second place, clearly among the best teams in baseball.

The next year, 1948, the Cleveland Indians signed two outstanding black players: Larry Doby, a power-hitting outfielder, and Satchel Paige, possibly the greatest pitcher of his generation. The result was that Indians won the pennant by one game, and then, with seven key hits from Doby, they won the World Series. What's more, Cleveland set a major league record for attendance—2.7 million fans bought tickets to watch the integrated team play.

The examples of Brooklyn and Cleveland gave the other teams something to ponder. They could continue to ignore black talent, but there would be a cost: fewer wins and fewer fans.

The Detroit Tigers learned this lesson the hard way. In 1948 the Tigers dropped from second to fifth place in the American League—and during the next ten years they would finish among the top three teams only once. In 1952 they wound up in last place in the American League, winning only 50 games and losing 104. No batter on the team hit higher than .284.

From 1945 to 1952, the Tigers had plunged from world champions to cellar dwellers, yet Walter Briggs still refused to sign a black player or develop any blacks in Detroit's minor-league system. The Tigers did bring up Al Kaline and Harvey Kuenn, two excellent white players, who both won batting titles in the 1950s. But their talents

---

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were wasted without a quality supporting cast that included talented blacks.

With Detroit in a tailspin, Walter Briggs died and the Briggs family sold the Tigers in 1956 to Fred Knorr, a Michigan man who was very different from Briggs. During the 1930s, while Briggs was enjoying segregated baseball in Detroit, Knorr was 100 miles west, graduating from Hillsdale College, the second oldest campus in the United States to have an integrated student body. Knorr believed in integration on principle and soon helped contribute $75,000 to develop 17 black players in Detroit's minor-league system.

Knorr was killed in an accident in 1960, but his policy of integration was paying off, and the Tigers made a splendid comeback during the 1960s. They signed Willie Horton, a power-hitting outfielder, and Earl Wilson, a veteran pitcher who won 22 games in his first season as a Tiger. In 1968 Wilson, along with Denny McLain, was a mainstay of the Tiger pitching staff. Horton hit 36 home runs and was fourth in the league in batting average. The Tigers that year, after a long drought, went on to win the pennant and the World Series.

Lessons Learned

What lessons can we learn from Detroit's experience with segregation? First, as baseball expert Steve Sailer has noted, "competitive markets make irrational bigotry expensive—not impossible, but costly." In the 1950s Detroit could continue to field segregated teams, but only at a price. Joseph Bibb, a black sportswriter, said it well: "The white man wants money and color pays off."

The Boston Red Sox learned this lesson the hard way, too. In 1959, one year after Detroit, Boston became the last team in major league baseball to integrate. The Red Sox, like the Tigers, paid their price for segregation in the won-lost column. More specifically, in 1946, Boston won the American League pennant (with Detroit finishing second). From 1947 to 1951, with integration still slow, Boston never finished lower than third place in the American League. But they never finished higher than third place from 1952 to 1959, the year they finally integrated. During those bleak years, Boston manager Pinky Higgins, a native of Red Oak, Texas, insisted, "There'll be no niggers on this ball club as long as I have anything to say about it." No pennants either. Boston's superstar Ted Williams was the greatest hitter in baseball during the 1950s, but without roles for black players his Red Sox languished during that decade.

There is an economics lesson to learn here, too. The integration of baseball was a triumph of the free market. No government mandate forced Branch Rickey, the Dodgers' general manager, to sign Jackie Robinson. Self-interest, in the form of economic gain, was the key to integrating not just one team, but, within 12 years, all teams in the major leagues. Quotas and affirmative action were unnecessary and would have been counterproductive. When the baseball commissioner finally allowed open competition, some owners quickly wanted to hire black players—and soon after they did so, all teams voluntarily followed suit. Nobody forced anyone to do anything he didn't want to do.

One final point is that free markets in baseball provided black heroes to all Americans during the 1940s and 1950s. Whites all over Brooklyn cheered mightily for Jackie Robinson to clobber white pitchers, and for his black teammate, Don Newcombe, to strike out white hitters. After winning the 1948 World Series, Cleveland teammates Larry Doby and Steve Gromek, one black and the other white, were photographed in a spontaneous embrace. Racial barriers receded and sports became the entering wedge that helped make the revolution in race relations possible. □

BOOKS

Stalin's Other War: Soviet Grand Strategy, 1939–1941

by Albert L. Weeks

Rowman & Littlefield • 2002 • 201 pages • $60 hardcover; 24.95 paperback

Reviewed by Richard M. Ebeling

For most of the period since the end of World War II the general interpretation about the role of the Soviet Union in the events leading up to the beginning of the war in 1939 ran something like the following:

In the 1930s Great Britain and France had failed to show decisiveness in standing up to the growing threat from Hitler's Germany. Stalin, in the Soviet Union, had a clearer understanding of this threat and showed greater resolve to resist fascism's increasing power. He ended the Soviet Union's aggressive propaganda against the West, and attempted to form a "popular front" with other anti-fascist nations and groups in Europe on the basis of "collective security."

Britain's and France's appeasement policies, which allowed Hitler to occupy Austria and Czechoslovakia in 1938 and early 1939, made Stalin realize that to save the Soviet Union from having to possibly face Nazi aggression alone without support from the Western powers, he had to "buy time" to build up Soviet military defenses. Thus, he chose to enter into a nonaggression pact with Hitler in August of 1939. He agreed in a secret protocol of that pact to divide up Poland with Nazi Germany in the event of war breaking out, so as to widen the buffer zone separating Nazi military power from the Soviet heartland. Stalin's fears were proven right when Hitler broke the pact in June of 1941 and invaded the USSR.

It may have been unsavory and unfortunate for the Poles, who had their nation carved up by the two totalitarian giants in September 1939; or for the Finns, who were invaded by the Red Army and lost border territory to the Soviet Union in the winter of 1939-1940; or for the Baltic nations of Estonia, Latvia, and Lithuania, which were annexed by Stalin in June 1940; or for the residents of the Romanian provinces of Bessarabia and Bukovia, which were also occupied by Stalin's forces in June 1940. But these lands provided "breathing space" for the Soviet Union to peacefully prepare for the inevitable war and do its part, after it was invaded, to destroy the Nazi threat to humanity.

This interpretation has been increasingly challenged over the last two decades. Ernst Topitsch's *Stalin's War* (1987), Viktor Suvorov's *Icebreaker* (1990), and Heinz Magenheimer's *Hitler's War* (1998), for example, all argue that Stalin's purpose was not to protect the Soviet Union from an early attack. Instead, Stalin's strategy was to intentionally create the conditions for a war to more easily break out between Nazi Germany and the Western powers. Such a war would weaken the "capitalist nations" and produce the conditions for communist revolution throughout Europe at the point of Soviet bayonets and tanks.

These authors also have argued that Stalin was planning an aggressive war against Nazi Germany, with the only problem being that Hitler attacked the Soviet Union before Stalin could break the nonaggression pact and invade Germany. Magenheimer even reproduced maps from the Soviet archives showing the planned directions of attack into the German heartland by Soviet military units. The differences of opinion among these writers have been about the date for Stalin's aggressive war on Germany. Was it to have been in the summer of 1941 or the spring of 1942?

The latest work on this theme is Albert Weeks's *Stalin's Other War*. Weeks has drawn on the latest findings in the formerly secret Soviet archives to carefully explain and contrast these two historical interpretations of Stalin's policies between 1939 and 1941. But it is clear that he is impressed by the documentation that substantiates the case for seeing Stalin as an active and aggressive force for bringing about the start of the Second World War.

Lenin believed that World War I served as the catalyst for weakening the "capitalist nations." Out of their war with each other came the opportunity for socialist revolution and the overthrow of the property-owning "exploiters." The proof of this, according to Lenin, was shown by the success of his Bolsheviks coming to power in Russia in 1917 and maintaining their control over one-sixth of the landmass of the world when the war was over.

Stalin accepted Lenin's view and believed that another equally exhausting new world war among those capitalist nations would enable the socialist revolution to be extended all the way across the European continent. In a secret speech before Communist Party members in January 1925, Stalin said that the Soviet Union would not be able to stay out of a future war; but when action was taken by the USSR it should be at the end of the conflict to tip the scales toward an outcome favorable for world revolution.

Weeks argues that Stalin's appeal for "collective security" in the 1930s was not to defeat fascism, but to prevent Britain and France from aligning with Nazi Germany against the Soviet Union. In the typical Marxist paranoia of class conspiracy and conflict, the trick, in Stalin's mind, was to prevent all the capitalist countries from ganging up on the homeland of socialism in Soviet Russia.

Weeks includes as an appendix to his book a translation of a previously secret speech that Stalin delivered on August 19, 1939, four days before the Nazi-Soviet nonaggression pact was signed in Moscow on August 23. Stalin explained that peace prevented the spread of communism; war, on the other hand, provided the destruction and destabilization that was the entrée to revolution.

> Comrades! It is in the interest of the USSR, the Land of the Toilers, that war breaks out between the Reich and the capitalist Anglo-French bloc. Everything must be done so that the war lasts as long as possible in order that both sides become exhausted. Namely for this reason we must agree to the pact proposed by Germany, and use it so that once this war is declared, it will last for a maximum amount of time.

If the Nazis were defeated, Stalin argued, "the sovietization of Germany follows inevitably and a Communist government will be established." And if the war had weakened the Western allies enough, "This will likewise ensure the sovietization of France."

If the Nazis were to win at the end of a long war they would be exhausted and have to rule over a large area, which would preoccupy them from attacking the Soviet Union; and "these peoples who fell under the 'protection' of a victorious Germany would become our allies. We would have a large arena in which to develop the world revolution." But regardless of the eventual victor, the Communist Parties in all these countries needed to keep up their propaganda and subversion so the groundwork would have been prepared for that revolution when the time came.

Thus, in Stalin's mind, Hitler's drive for a Europe dominated by Nazi Germany was in fact a tool for him to use for advancing the global cause of communism. By freeing Hitler of the fear of a two-front war, Nazi Germany would invade Poland, the British and French might then declare war on Germany, and a prolonged war in central and western Europe would drain the capitalist nations, while leaving the Soviet Union neutral in the world conflict. This would enable Stalin to continue to build up Soviet military power, enter the war at a time of his own choosing, and bring communism to Europe through use of the Red Army.

But the collapse of France in June 1940 changed the configuration of forces and the likely length of the war. Hitler attempted to draw Stalin actively into the Axis alliance against the British Empire in November 1940; when that failed because Stalin's price for participation seemed too high, Hitler ordered the plans to be set in motion for the invasion of the USSR in the spring of 1941.

From the documents that have started to become available in Moscow, Weeks explains, it is evident that Stalin now shifted to a more aggressive military strategy against Nazi Germany. A huge military buildup of Soviet forces along the border with Germany (in what had been Poland) was set in motion. But the controversy has been about whether this buildup was for defensive or offensive purposes.

The documents show that no plan or preparations were organized for the construction of defense positions. The deployment and order of battle were virtually all consistent with an offensive strategy, not the repulse of an anticipated attack. The configuration of these forces explains why the Germans faced no serious defense positions when they invaded, and why they were able to initially capture so many Soviet soldiers and advance so rapidly into Soviet territory—in the first six months of the German invasion seven million Red Army soldiers were either captured or killed, and 500,000 square miles of Soviet territory were occupied.

Furthermore, there has come to light the full text of a Soviet General Staff document from May 15, 1941, that explicitly presents the plan to "Preempt the enemy by deploying against and attacking the German Army at the very moment when he has reached the deployment stage but is still not able to organize its forces into a front or coordinate all his forces."

Was this just a plan prepared by the Soviet military, or was this reflective of Stalin's intentions? Ten days earlier, on May 5, Stalin spoke at a reception for recent graduates of Red Army officer schools, and declared that the time for mere defense was over now that the Soviet military had been reconstructed and was ready for battle. "Now is the time to go from defense to offense."

It is fairly clear, now, that Stalin, having helped to start the Second World War through his pact with Hitler, was readying to attack Germany and begin the process of sovietizing the European continent. Hitler, guided by his own aggressive ambitions, merely beat him to the punch by striking first. But even out of the actual turn of events, Stalin succeeded in imposing communism on half of Europe for almost half a century.

Stalin, however, was not pleased with even this outcome. At the Potsdam Conference, after the defeat of Germany, President Truman went up to Stalin and congratulated him on the Soviet Army's conquest of Berlin. Stalin glumly replied that the Russian Army under Czar Alexander I had reached Paris in the war against Napoleon. □

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Heaven on Earth: The Rise and Fall of Socialism

by Joshua Muravchik

Encounter Books • 2002 • 417 pages • $27.95.

Reviewed by Tyler Cowen

The history of socialism is a sad, bitter, and bloody story. Arguably it is mankind's greatest tragedy of all time. Joshua Muravchik notes that regimes calling themselves socialist have murdered over 100 million people since 1917. Nor have those same regimes brought economic prosperity or equality of opportunity, as the rhetoric of socialism invariably promises.

Muravchik is well positioned to present such a history of socialism. He grew up in a socialist family where socialism was treated as a religious faith, and he was once national chairman of the Young People's Socialist League. He is now a resident scholar at the American Enterprise Institute and a very learned man.

The book starts with the role of Babeuf in the French Revolution, a key advocate for socialism. We then hear about Robert Owen's experimental socialist colony in New Harmony, about Friedrich Engels, Lenin, Mussolini, and Julius Nyerere in Tanzania. The final section of the book deals with the socialist collapse, covering American labor leaders, Deng and Gorbachev, and the fall of social democracy as an ideal. Each chapter is clear, to the point, and full of facts. The author focuses on portraits of thinkers who have been instrumental in propagating the socialist philosophy and its corresponding economic institutions. Those portraits are simultaneously enlightening and depressing.

The book nonetheless reads as a disappointment overall. It is difficult to find a central thesis about why socialism was ever so appealing, or why it was subsequently given up by so many. We are told repeatedly that socialism was a utopian vision that sought to remake the world. True, but why would such an obviously flawed idea enjoy such a long and broad reign? What is the underlying human imperfection behind the attraction to socialism? Given the author's background, it is odd how little psychological insight the book conveys. Instead we get a tightly controlled narrative, fine as far as it goes but never gripping or compelling.

The choice of subject matter is problematic as well. Why start with Babeuf and the French Revolution? It is unlikely that the true root of the socialist ideal lies with this thinker, despite the author's claim that the French Revolution was the "manger in which socialism was born." Babeuf is instead one in a long line of mistaken visionaries, drawing his ideas from numerous longstanding elements of the Western tradition, including Christianity. In any case, surely socialism is but one example of a broader, more common kind of error, and presumably an error that still lies with us.

There is little else in this book to criticize, other than its failure to take more chances. The book would have been better, I believe, if the author had tried to establish insightful psychological portraits, going far beneath the surface, of leading socialist thinkers. Such portraits would help the reader understand how such smart people could have adhered to such vicious fallacies even in the face of strong intellectual criticism and evidence of their failure in practice. Furthermore, the different portraits could have been done so as to draw out elements of commonality or contrast, and relate a core thesis to the social-science literature on belief, cognition, psychology, or economics.

My favorite hypothesis for the popularity of socialism (and numerous other ideologies) cites the capacity of human beings to deceive themselves, considering only information that supports their point of view. This self-deception faculty is rampant in human nature and human history. Still, we would like to have some indication of when the tendency for self-deception gets turned on to such a strong extent, and how it becomes socially validated and extended. On this point much work remains to be done.

In the meantime, it is always useful to have a book that reminds us of the socialist tragedy of the twentieth century. And for those of us who do not know the relevant history, Muravchik offers a highly readable and trustworthy source on numerous personalities and events associated with that tragedy. But *Heaven on Earth* does not offer what I buy books for, namely, the "A-HA!" feeling of some new insight or perspective. □

Tyler Cowen is a professor of economics at George Mason University and a contributor to www.volokh.com *and* www.marginalrevolution.com. *His most recent book is* Creative Destruction.

Naked Economics: Undressing the Dismal Science

by Charles Wheelan

W. W. Norton • 2002 • 288 pages • $25.95 hardcover; $15.95 paperback

Reviewed by E. Frank Stephenson

Charles Wheelan's goal in writing *Naked Economics* is to introduce people who might otherwise have avoided economics texts and courses larded with graphs and equations to "a subject that is provocative, powerful, and highly relevant to almost every aspect of our lives." Wheelan largely achieves his commendable goal, for *Naked Economics* is a nifty primer that does indeed "walk through some of the most powerful concepts in economics while simplifying the building blocks or skipping them entirely."

Not surprisingly, since the author's day job is writing for *The Economist*, the chapter on international trade is one of the book's strongest. He begins the chapter by asking readers to imagine there is an invention that, in rich and poor countries alike, is capable of turning corn into stereo equipment, soybeans into cars, or Windows software into fine French wines. Wheelan then reveals that such an invention already exists. It's trade. From that beginning, he proceeds to explain that trade makes us richer by allowing greater specialization in production, is mutually beneficial because it is based on voluntary exchange, and helps consumers by lowering the prices they pay for both imported and domestic goods. Not yet finished extolling the virtues of international trade, Wheelan turns to slaying the myths of "sweatshop labor" and a trade-fostered environmental "race to the bottom."

Wheelan's chapter titled "The Power of Markets" is another of his better ones. He uses the question "Who feeds Paris?" as a springboard for explaining how markets are "a powerful force for making our lives better," how they use "prices to allocate scarce resources," how "markets are self-correcting," and how "every market transaction makes all parties better off." And readers of this magazine will be reminded of F. A. Hayek and Leonard Read when the author writes that "Prices are like giant neon billboards that flash important information." The only significant weakness of this chapter is Wheelan's nearly exclusive focus on market outcomes; the chapter could have been strengthened by the inclusion of more discussion about the mechanics of how markets work.

Although he does not credit it by name, Wheelan also provides a nice introduction to the public-choice school of economics. In the chapter "The Power of Organized Interests," he takes on pork-barrel spending and logrolling, and reveals how small interests such as mohair farmers and ethanol producers can effectively wrangle beneficial legislation out of the political process. The chapter also introduces the concept of rent-seeking and explains how regulations such as occupational licensing can become powerful tools for self-interested individuals to extract rewards that they would be unable to obtain in the marketplace.

There's much else to like about *Naked Economics*. Wheelan debunks the notion that "overpopulation" hinders economic growth and skewers the fixed-number-of-jobs fallacy underlying France's 35-hour workweek. He recognizes the importance of property rights and institutions. He discusses inflation as a tax on money holdings and the government's ability to use monetary policy for political purposes (the political business cycle). And Wheelan correctly labels Social Security "one big pyramid scheme," even though his discussion focuses more on demographic issues than on liberty.

Unfortunately, as Burton Malkiel notes in his foreword, *Naked Economics* is "well balanced." Thus while one does get nice treatments of markets, trade, and public choice, one must also endure Wheelan's views on SUVs, suburban sprawl, fast food, global warming, and trade-induced "cultural homogenization." Readers sharing this magazine's love of freedom should expect to utter an occasional groan. On the topics of externalities and macroeconomic policy in particular, Wheelan envisions a large and active role for government.

A minor complaint is also in order. Readers who believe not all economic research is mathematical gibberish will be pleased that *Naked Economics* is sprinkled with examples of economists' relevance. However, the citations are somewhat erratic, and there are some noteworthy omissions (including James Buchanan and Gordon Tullock's pioneering research in public choice, and Adam Smith in the chapter on markets; the trade chapter contains too much Paul Krugman and too little David Ricardo).

Early in the book, Wheelan writes, "Life is about trade-offs, and so is economics." Indeed, so is *Naked Economics*. Although the reader must endure occasional outbursts of statism, the trade-off is well worth it, for Charles Wheelan has written a lively introduction to the sexiest discipline known to mankind, economics. □

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by Charles W. Baird

THE FREEMAN (Ideas On Liberty)
DECEMBER 2003

California's Apprenticeship Scam

In 1937 Congress and President Roosevelt enacted the National Apprenticeship Act (NAA), which, sadly, is still in effect. It enables "the [U.S.] Department of Labor to formulate and promote the furtherance of labor standards necessary to safeguard the welfare of apprentices and to cooperate with the states in the promotion of such standards."

Like most New Deal legislation, the NAA was enacted under the widespread illusion that the best way to get out of the Great Depression was to curtail economic competition. Its proponents thought there were too many apprenticeship programs, most of which were union-free, for the good of the country. The federal government in "cooperation" with the states and construction-industry unions proceeded to eliminate union-free competition in the market for apprenticeship training. However, the NAA gives the secretary of labor much discretion in setting apprenticeship standards, and in the 1980s the standards were gradually loosened to permit some union-free programs to be registered. However, to this day no registration may be granted without giving construction unions a chance to object. They don't have veto power, but they have a strong voice in the decision process. HR 1660, now in the House of Representatives, would, if enacted, remove the requirement that unions be given a chance to object.

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The NAA allows the secretary of labor to delegate approval decisions to individual state apprenticeship councils so long as state practice does not conflict with broad federal guidelines. The federal Bureau of Apprenticeship and Training makes approval decisions for the 23 states that the secretary does not "recognize" for the purpose of registering apprenticeship programs. At least some of those states are not recognized simply because they choose not to set up their own bureaucracies for this purpose. Some others have been denied recognition. California has been recognized since 1978, but it is about to become "derecognized."

In the 1980s and through 1992, the U.S. Department of Labor (DOL) increasingly insisted that state apprenticeship councils not discriminate between union and nonunion apprenticeship programs. There was no approved union-free apprenticeship program in California until the Walther Electric Co. sponsored one in 1988. California had been restricting the approval of nonunion programs by refusing to certify nonunion apprenticeships where there were existing unionized ones. Officially a proposed union-free program would be turned down if there were no "need" for it because of an existing unionized one. This "needs test," of course, is a common device by which regulatory bodies restrict competition from disfavored interlopers.

In 1988 the DOL threatened to derecognize the California Apprenticeship Council (CAC) because of the discriminatory needs test. The unions sued, and in December

1992, the California Supreme Court, in *Associated Builders and Contractors v. California Apprenticeship Council* agreed that state apprenticeship practices could be overruled by the DOL. Thereafter, until Gray Davis became California's governor in 1999, the needs test was not used to discriminate against proposed union-free apprenticeship programs. By 1997 the market share of unionized construction workers in California (19.6 percent) dropped below the national average (19.7 percent).

The union movement pulled out all stops in its effort to elect Gray Davis governor in November 1998, and it succeeded. Thereafter, the unions presented Davis with demands for payback, and he obediently complied. Among other things, such as forcing all California State University and Community Colleges faculty as well as all K-12 teachers to pay union dues as a condition of continued employment, Davis appointed union-friendly people to CAC, the state Department of Industrial Relations, and its Division of Apprenticeship Standards (DAS). CAC and DAS jointly administer the California apprenticeship program. They soon became union front organizations that, under the cloak of statute AB 921, contrary to the 1992 California Supreme Court decision, reinstated the discriminatory needs test.

Union-Free Sites Closed

The Clinton DOL did not object. In July 2001 the CAC closed 27 union-free training sites that had been approved in 1998 simply because unions wanted them closed. In February 2002 Davis's associates on CAC imposed apprenticeship prevailing-wage requirements on all private as well as government construction in the state thereby greatly reducing the demand for union-free apprentices whose market-determined wages were below prevailing wages. Since no construction work done by apprentices for pay less than the prevailing wage could count as training toward certification as journeymen, fewer workers were willing to enter and remain in union-free apprenticeships. It is not for nothing that Gray Davis, now recalled, became nationally known as the quintessential pay-to-play governor.

By the end of 1999 the construction-union market share in California jumped up to 25.4 percent. Since then it has remained above the national average, although both shares are falling due to the nationwide decline of unions in the private sector.

In 2001 a new secretary of labor took office, and the department began to pay attention to the apprenticeship issue. In May 2002 the DOL sent a letter to the California Department of Industrial Relations (DIR) threatening to derecognize CAC unless its discriminatory needs test was abolished. Davis appointees refused to comply and insisted on a hearing before an administrative law judge. After several delays that hearing was planned for last fall.

One would think that the 1992 decision of the California Supreme Court on precisely this issue would have settled the matter, but the unions held a lot of Davis's IOUs, so he and his appointees claimed the right to discriminate against union-free apprenticeships in defiance of the DOL. However, in July the department declared that effective August 7, 2003, any California apprenticeship program seeking approval has the option of applying to the federal Bureau of Apprenticeship and Training rather than CAC. While CAC has not yet been derecognized, its ability to discriminate through its needs test has been circumvented.

Actually, the whole issue ought to be beside the point. In a free society there would be no National Apprenticeship Act. Apprenticeship programs would compete to obtain market share. They would attempt to build reputational capital, and competitive private quality evaluators would emerge to lower consumers' information costs in the apprenticeship market. The contractors who hire the journeymen and apprentices of the construction trades would be keen to sort the wheat from the chaff and would produce their own quality rating services. The California dispute exists only because government is involved where it ought not to be. So what else is new? □

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Prepared by Beth A. Hoffman, Managing Editor

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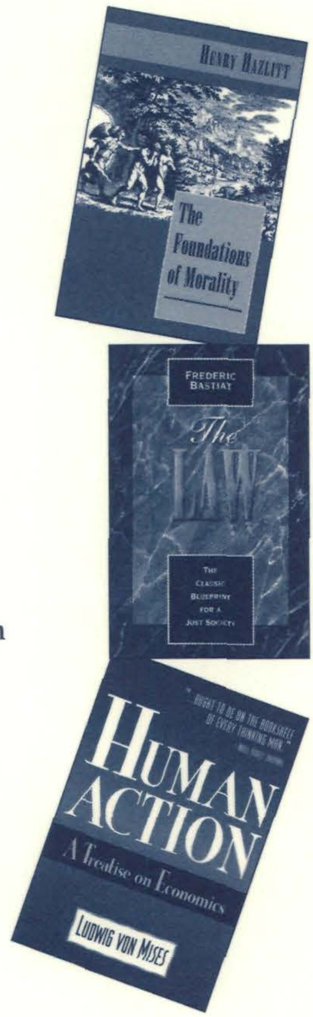

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"The Christmas spirit of giving and sharing persists today because capitalism and private property survive. What Dickens failed to realize is that it is having private property and the freedom to use it that permits Christmas giving."

—BETTINA BIEN GREAVES, "The Christmas Spirit" (1986)

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