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Christopher Witzky and
Rolf E. Wubbels

Government Policies and Capital Growth

ALTHOUGH many factors have contributed to current U.S. economic problems, the subject of insufficient capital formation has received foremost attention in recent years. Sparked by the obvious failure of traditional Keynesian demand-management policies, supply-side economics has captured the public imagination while eliciting approval from a broad spectrum of economists and politicians.

The essence of the capital formation problem is that an insufficient portion of national income is saved for investment, while too much is spent for government and private consumption. Decades of fiscal and monetary mismanagement coupled with a perverse tax system have generated a consumption boom at the cost of chronic double-digit inflation, sluggish productivity and lackluster economic growth. Consumer indebtedness helped finance the boom, rising from $188 billion in 1976 to $305 billion in 1980.

Disincentives to replacing our aging capital stock are resulting in widespread plant obsolescence and declining rates of capital utilization.

Never as avid savers as their European and Japanese counterparts, Americans have become one of the least thrifty peoples of the industrialized world. The less a nation saves, the fewer are the resources to be devoted to the formation of capital necessary to insure healthy economic growth and mitigate inflation. The net supply of funds from household savings provides almost

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all of the net funds raised by the other primary sectors of government and business. Both government and business are net dissavers.

Developing Incentives for Savings and Investment

In seeking to encourage future savings and investment, policymakers are now scrutinizing the incentive systems developed by America's trading partners. Although savings rates and consumption patterns are partly a cultural phenomenon, the U.S. tax system is effectively biased against savings and investment, while foreign countries tend to rely much more on consumption-based levies such as the value-added tax. The United States also depends more heavily on capital gains taxes. Beyond such factors, a number of countries have adopted clearly positive investment and savings-oriented tax policies.

The Japanese have a tradition of saving, which is reinforced by a tax policy that exempts virtually all interest income earned by Japanese citizens. This exemption includes interest on deposits of up to $13,300 in both postal savings accounts and banks, interest on up to $13,300 worth of government bonds, and interest on as much as $22,000 held in employee payroll savings accounts. In this way, a maximum of $62,000 in savings can be sheltered from taxes on interest income. On average, the Japanese now save about 26% of their disposable income.

Since the 1960s a cornerstone of the West German policy to increase savings had been a government tax-free bonus program for special savings accounts held for six or seven years. These accounts could take the form of bank accounts, life insurance policies, building society shares, and stocks and bonds. Any adult with a taxable income of less than $13,700 could deposit up to $475 per year into such an account, which would earn an annual tax-free bonus of 14% a year plus 2% for each dependent child, in addition to accrued interest. Deposit and income ceilings were doubled for married couples.

Furthermore, an employee could set up a special account to service regular payroll deductions of up to $357 annually and qualify for a government bonus of 30 to 40%, depending upon family size. Individual annual interest income of up to $460 has been tax-free, and life insurance premiums are deductible under certain conditions. Such policies have helped to generate an impressive savings rate of 14%.

The cost of these tax rebates and savings programs amounted to $4.1 billion in 1980, about 3.5% of West German federal spending. Facing a projected 1981 public sector deficit of some $32 billion due to rapidly mounting costs for social-welfare programs, the government has eliminated many portions of the 14% bonus scheme.

Austria, with its relatively low inflation rate, provides similar incentives to save and invest. A portion of interest on savings is exempt from tax, and numerous other deductions and tax privileges provide the Austrian investor with a positive rate of return. Austria is also well-known for its banking secrecy laws which are more stringent than those in Switzerland.

France Offers Advantages

In France all individuals, including children, are allowed to earn tax-free interest of 7.5% on deposits of up to $10,840 in mutual savings banks. The first $723 of dividend income from stocks is tax-free under various conditions.

The most recent French savings incentive is the popular 1978 Monory Act (after former Finance Minister Rene Monory) which became effective May 1978. The law allows individuals who invest in French equities to deduct up to 5000 francs (about $1200) from their taxable income each year for four consecutive years. The deduction limit is raised 500 francs for the first and second child and 1000 francs for each additional child. The money must remain invested for a minimum of three years, though not necessarily in the same securities. Investments may be made in mutual funds, provided that at least 60% of the portfolio is devoted to stock of French companies.

Observers regard passage of the Monory Act as an important factor in the resulting boom on the Paris Bourse. French industry has also benefited from over $1.95 billion in new equity offerings, spurring investments in new plant and equipment.

"Loi Monory" has been an overwhelming success. Mr. Monory was able to report to the Cabinet on February 15, 1980 that in 1979 more than one million people took advantage of the law, investing an additional $1.8 billion in equities since its enactment. Since 1978 French production has risen by more than 17%; and in 1979 the French saved approximately 17% of disposable income. Since the Monory Act is only a temporary four-year relief measure, some government officials are already worrying about the possible withdrawal of investors from the Paris Bourse when the Act expires in 1983.

The election of Socialist President Francois Mitterrand in May of this year has placed the French economy in jeopardy and threatens to undermine many of these advances.

The problems of England's economy are well known. Although the Thatcher Administration has made major strides in curbing monetary growth and reducing inflation, government policies have been largely oriented toward "tax-shifting" rather than real tax reductions.

After taking over in April 1979, the Thatcher government cut personal taxes for middle and high-income groups but soon found that the red ink was excessive. The administration then nearly doubled the value-added tax, from 8% to 15%, raised gasoline taxes by 20 cents per gallon, and moved away from promises to cut corporate taxes.

These factors, plus rising interest rates, led to an explosion in the retail price level and an unfavorable economic climate. The nation's bond market had already virtually been destroyed in 1971 by the combination of inflation and high marginal personal tax rates. Equity markets, though also depressed, received some benefit from reductions in the destructive top marginal tax rate on investment income from 98% to 75%.

For many years the United Kingdom also had one of the highest capital gains taxes. All investment income exceeding £5000 per annum was subject to an additional 15 percentage point tax over and above the maximum individual rate of 60%. The maximum tax rate on capital gains thus amounted to 75%. The capital gains tax now stands at 30% on any gains above £3000.

Even with these reforms, however, it is likely that high inflation and falling productivity will continue to plague the United Kingdom unless both taxes and spending are further reduced.

Adverse Policies in U.S.

What does the United States do to encourage savings and investment? Virtually nothing. In fact, most existing policies work to make consumption a virtue and savings a risk.

In the United States nominal interest and dividend income has been taxed as unearned income at marginal rates up to 70%. This policy, combined with high inflation and interest-rate ceilings on bank deposits, has made savings a guaranteed-loss proposition. As a percentage of disposable income, the U.S. savings rate dropped from 7.4% in 1970 to 6.9% in 1976, reaching a low of 3.4% in the first quarter of 1980. (In 1981, the Commerce Department issued a new statistical measure of the savings rate. Although the new savings rate statistics are nominally higher, the declining trend remains.) Thanks in part to this decline, productivity growth slowed to an annual average of only 1.2% in the 1970s, down from 2.5% in the 1960s. Between 1963 and 1973 American output per person rose by 1.9%, the slowest of any major industrial country.

Under current tax law, taxable income is not adjusted for inflation. As a result, during an inflationary period, individuals advance into higher tax brackets due to increasing nominal money incomes, while real incomes are rising much less or may even be declining. In addition, capital gains computed in dollar terms enter into the tax base, even though such nominal gains can represent very much smaller real gains (or possibly real losses). Thus, inflation raises personal taxes by a much larger percentage than nominal incomes, causing the average tax rate to rise and tax payments to increase in real terms.

According to Martin Feldstein, president of the National Bureau of Economic Research, even if corporate profits and stock prices could manage to keep pace with inflation (an unlikely possibility) and maintain traditional rates of real growth, a 20% tax on nominal capital gains would mean an 80% tax on real gains given a 7% inflation rate, depending on the holding period. An 8% inflation rate would push the effective rate over 100%. Thus, capital gains taxes have actually been massively confiscatory. Similar inflationary effects on income tax rates result in confiscation of savings.

Penalizing Capital Gains

Small investors nearly abandoned the American stock markets in the mid-1970s, partially due to exorbitant taxes on capital gains pegged at a maximum of 49% for most of the decade. In addition to depressing equity market values and reducing new capital formation as measured by venture capital funds and new public offerings, capital gains taxes tend to inhibit capital mobility. If a capital asset appreciates substantially, the accumulated capital gains tax liability upon realization can deter the asset's sale. This is referred to as the "lock-in" effect. It is difficult to measure the opportunity cost of this capital immobility in terms of diminished exploitation of new technologies.

Over the entrenched opposition of the Carter Administration, Congress enacted the Steiger Amendment to the Revenue Act of 1978, lowering the maximum tax on long-term capital gains to 28%. According to a Treasury Department study, the net revenue loss in 1979 from this reduction was only $100 million, far less than the forecasted loss of $1.7 billion. The rate cut was offset by $2.5 billion in new revenues from higher turnover rates.

An extensive 1980 survey of stock ownership by the New York Stock Exchange has shown that the small investor returned to the stock market during the latter part of the decade, perhaps in response to the Steiger Amendment. Even with the current surge, however, the 1980 shareholder total was still one million less than the high of 30.8 million in 1970, when 15.1% of the American population held stock. In 1980 that percentage was 13.6%, up considerably from 11.9% in 1975.

These developments should be interpreted with caution, however, for the average portfolio size has shrunk. In addition, during the 1970s there was a great increase in the rate of inflation and a serious decline in the prices of common stocks, measured in constant dollars. In fact, the total return on common stocks for the whole period, in constant dollars, was negative. Between the end of 1969 and the end of 1979, the value of common stocks on the New York Stock Exchange declined by about 42%. This drop is far greater than that of the 1930s when the value of stocks on the New York Stock Exchange fell by about 31%. Thus, investors in high tax brackets tended to experience losses greater than those of the Great Depression, since dividends were taxed at higher rates in the seventies than in the thirties.

The decline in real stock prices was probably made worse by market adjustments in response to two types of inflationary tax-raising effects which arise from standard methods for computing business costs and profits. First, depreciation expenses are computed on the basis of historical cost of acquisition rather than on replacement cost, resulting in underdepreciation. Second, cost of goods sold from inventory is sometimes valued at current rather than replacement cost. These accounting procedures understate real current costs and hence overstate real profits. Thus, taxation of inflated corporate profits effectively results in the net confiscation of capital.

Tax Rates Outrun Inflation

In summary, the federal government's tax collections rise substantially as a share of both corporate and personal income as individuals and corporations are exposed to the effects of inflation. In fact, taxes have risen in the United States at almost twice the rate of inflation since the late 1960s.

Inappropriate tax policies and inflation are not the only sources of our problems. Government routinely attempts to direct the flow of funds toward socially desirable goals. These attempts fall under the heading of the social allocation of capital. Such intervention has become increasingly popular in recent years through various means: 1) usury laws or interest rate ceilings; 2) government loan guarantees; 3) interest rate subsidies; 4) government borrowing and re-lending, and 5) regulations.

Special interest groups see government intervention as a means for improving the condition of a particular sector of society, enabling it to borrow funds which might not otherwise be available or might only be available at significantly higher interest rates.

Through such intervention, the

function of the financial markets is altered. Funds no longer flow on the basis of expected return and risk. When the government explicitly directs funds to certain investments, it tampers with the workings of the marketplace. This tampering can lead to less efficient financial markets with the result that savings are allocated at higher cost and/or with greater inconvenience.

Put another way, such intervention produces the case in which investments are undertaken which are not optimal in terms of market efficiency relative to market standards. As a result, there may be an adverse effect on real economic growth. Financial markets simply become less efficient in channeling savings to investment opportunities on a risk-adjusted return basis. Clearly, cost estimates due to these induced distortions should be included in any cost-benefit analysis of capital gains taxation. Unfortunately, such cost estimates are nearly impossible to formulate.

Of course, government is not the only culprit causing our myriad capital formation problems. Management and labor must share the blame. Often management continues to use nearsighted incentive programs which reward short-term results rather than long-term strategic thinking. As a result, executives have been slow to introduce reporting techniques that are in the best interests of the organization. For example, two-thirds of American industries still use the First-In First-Out inventory valuation method, resulting in an inflated bottom line. American management has also failed to provide the work force with incentives for finding and initiating new ways of reducing the amount of labor in the production process.

Politically Feasible Measures to Encourage Growth

Productivity and innovation are not solely management functions. Organized labor has complicated matters by locking management into Cost of Living Adjustments (COLAs) and by resisting automation. In contrast, Japanese workers generally embrace technological changes which result in more efficient production processes. Fujitsu Fanuc Ltd. is now operating a $38 million plant that uses robots and numerically-controlled machine tools to help build other robots and machine tools, requiring one-fifth the number of workers that a conventional plant would need.

Given this operating environment, what can realistically be done to restore adequate capital growth? Congressman Richard Schulze has introduced H.R. 63, the Individual Investors Incentive Act. This bill would provide a 10% tax credit up to $1000 for individuals ($2000 for married couples filing jointly) for new or additional investments in stocks and mutual funds of domestic corporations. Patterned after the French Monory Act, the "Schulze Bill" would directly encourage savings and investment and would provide a needed incentive for our stagnating economy.

New York's Republican Senator Alphonse D'Amato has introduced the Family Savings Incentive Act. This Act would raise the exemption for interest income to $1000 for individuals and $2000 for those who file joint returns. This concept has been endorsed by the Savings and Loan Foundation.

The Jones-Conable Capital Cost Recovery Act, better known as "10-5-3," provides for simplified accelerated depreciation of capital investment. Because such changes only affect the timing of after-tax cash flows, the effective reduction in the tax rate is merely the result of the time value of money. The effect is, therefore, somewhat illusory, since taxes will be even higher in later years when depreciation charges are exhausted. Such taxes may only be avoided in future years if any tax savings are immediately recapitalized and depreciated.

The ultimate long-range solution to the capital formation problem hinges on concerted actions by all factors of production. Natural resources must be allocated by the market. Management must once again seek to innovate, along with the active cooperation of labor and government. Savings must be encouraged and productively employed, and obstacles to the market allocation of capital flows must be abolished. The Kemp-Roth program, though a step in the right direction, is only a band-aid remedy. More substantial action will be needed in the future.

Leave the Markets Alone

IDEAS ON LIBERTY

CAPITALISM is a viable economic system or it is not. An active policy of government intervention in a free market business system is a contradiction in terms. Trades of private property are either voluntary or they are not; one cannot legislate the free market or create competition. To have a free market the government must leave the markets alone; to have the state *make* markets "free" is again a contradiction in terms.

D.T. ARMENTANO, *The Myths of Antitrust*

John Semmens

ESSENTIAL AIR SERVICE SUBSIDIES: *Just Plane Foolish*

ONE OF THE ARGUMENTS that is always offered in opposition to deregulation of transportation is that some remote, sparsely populated regions will be denied essential services. In order to neutralize this argument and get airline deregulation passed in 1978, Congress provided for subsidies to support "essential air service." Little thought was given to just exactly what constitutes "essential air service." Consequently, the "essential air service" subsidy program is one of the most wasteful perpetrated by the federal government.

The major accomplishment of this subsidy program is to finance underutilized scheduled commercial air service. The ordinary person quite naturally imagines that "essential" must mean necessary or indispensable. What is "necessary" or "indispensable" about flying largely empty aircraft around various parts of the country? The official definition of what is "essential air service" is determined in a completely arbitrary and silly fashion. If a point on the map had scheduled air service at some time during the 1968–78 base period, it is entitled to a subsidy for the provision of scheduled air service until 1988.

Since most of these points receiving scheduled service between 1968 and 1978 were also receiving subsidies for this service, the decisive criterion for future subsidy is a historical demonstration of previously unviable or inefficient air service operations. In other words, past waste serves as the justification for future waste.

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There should be no misunderstanding of what is being subsidized, though defenders of the program do their best to disseminate misleading interpretations of the meaning of "essential air service." What is being subsidized is business and tourist travel. This program is not giving aid to the destitute. It is not feeding starving children. It is simply utilizing taxpayers' money to allow businessmen and tourists to pay less than the full cost of their transportation. The subsidy can be substantial. On one series of routes in New England it amounts to about $40 per passenger. In Montana, it amounts to $90 per passenger, in Arizona to $200, and in one section of Nebraska over $600 per passenger.

This is unconscionable waste. What justification can there be for requiring that taxpayers finance some Arizonan's vacation to the tune of $200 or some Nebraskan's business trip to the tune of $600? There is no justification. There is no reason why the users of air service should not pay the full cost of that service. Advocates of the subsidy point out, quite correctly, that requiring riders to pay the full cost will reduce the number of trips made. So what?

There is nothing inherently beneficial about air travel. Trips should only be made if the benefits outweigh the costs. This weighing process is distorted when part of the cost is covered through an involuntary payment by a third party—namely the taxpayer. More trips than would be justified by the benefits are taken because the user is not paying the full cost. This wastes scarce resources and reduces the general welfare of the society.

Aware of the pitiful current operating results under the "essential air service" program, some of its proponents have sufficient gall to claim that the real problem is undersubsidization. The CAB, they assert, is too niggardly in its subsidy awards. If the CAB would only authorize sufficient funds for larger aircraft and more frequent service, we could really develop the scheduled air service system. The subsidy, these people assure us, is an "investment" that will pay off in the long run.

These claims are unfounded and the reasoning is fallacious. By way of illustration, let's examine an example from Arizona. Recent subsidized service to Prescott has been performed with an eight-passenger Cessna 402 at a load factor of about 20%. That is, less than two passengers per flight are enplaned or deplaned at Prescott. Advocates of a larger subsidy argue that the small plane discourages many would-be passengers. To buttress their case they point out that enplanements at Prescott in 1968 were ten times greater than the most recent year

(6000 vs. 600). In 1968, a larger aircraft and more frequent arrivals and departures produced more passenger trips. Undisclosed in this simplistic comparison is the fact that in 1968 the load factor was only 8%. This is the equivalent of three passengers boarding the 40-seat aircraft employed. Thus, in 1968 three of 40 seats were filled vs. two of eight in 1979.

This example would appear a rather convincing demonstration of the inelasticity of demand for air service. No sane person could seriously propose to add 30 seats in order to fill one, and claim that this is a wise "investment." Investments that will pay off in the long run will be undertaken by private capital. There is no need for subsidy. Private firms are adequately familiar with start-up costs for new products and services. Firms have been known to sustain several years of losses in order to build a market. In fact, the lack of willingness of a private business firm to engage in providing a service unless subsidized is a convincing expression of the firm's belief that there will not be a long-run payoff on their investment.

In the past year, the federal government has spent nearly $90 million in subsidies for scheduled air service. This expenditure has involved a coercive expropriation of funds from the general public in order to finance inefficient and wasteful air service. The nation is ill-served by this policy.

The market place is well-suited to the task of selecting and funding investments that will increase consumer choice and welfare. The "essential air service" subsidy can only interfere with the market's ability to ascertain and meet society's genuine needs. There is no reason for the retention, and ample justification for the elimination, of this subsidy program. Congress would do well to dispense with the "essential air service" program.

Subsidies for Ghosts

IDEAS ON LIBERTY

IF the people of an overpopulated community are subsidized with grants from the outside, regardless of the purpose for which the money might have been intended, they will not be encouraged to move to greener pastures or to develop the resources of their own area; for in either case, they stand to lose the subsidy. Thus they are subsidized in partial idleness in their old economic rut, and the nation is poorer for lack of the wealth which they might otherwise produce.

OSCAR W. COOLEY

Perry E. Gresham

Natural Liberty

THE NAME of Adam Smith, long neglected, has recently come back into fashion. The supply side economists all claim him as the great father of their ideas. In part they are correct, for Adam Smith pioneered the modern exposition of the division of labor, the necessity for capital and the saving which develops it, the importance of liberty, the magic of the market, the role of competition and all the factors that go into production. The new interest in the famous Scot, however, does not correct the false image which has developed the past two centuries.

The irony of history has left us with a profile of Adam Smith which is both false and unfair. He was the friend and champion of the poor, yet he is now regarded as the defender of privilege. He was a radical for liberty, but friend and foe alike now call him a conservative. He did not employ the word capital or capitalist in his several books, yet he is generally regarded as the economist of Capitalism. He is called "quaint" in some circles as if his message belonged only to Scotland in the 18th Century. His remarks are actually relevant to every time and place where the market operates. The division of labor, for example, was just as much a factor in human action in the days of Plato or in the latest decades of the 20th Century as in 1776.

What went wrong? How could the dedicated friend of the poor become the principal defender of the rich? The answer seems to be that, in part, the inversion was accidental—an accident of history. But there appears to be a deliberate bias which

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has perverted the message of Adam Smith in order to advance the message of those who are trying to escape freedom. Max Lerner, for example, knew what he was saying when he wrote of Adam Smith, "He was an unconscious mercenary in the service of the rising capitalist class." Lerner continued by charging him with giving "a new dignity to greed and a new sanctification to the predatory impulses." The combination of accident and deliberate bias has inverted the original message and intent. The public has assumed the falsehood and forgotten the truth.

Radical Approach

Adam Smith was anything but a conservative. The conservatives of his day were all mercantilists and he wrote his great book, *Wealth of Nations,* in full rebuttal of their ideas. His thoughts, when applied to our current economic scene, are far from conservative. He called his doctrine "natural liberty" and the conservative of today finds the doctrine threatening to the status quo. While many conservatives ask the young to conform to past life styles, Adam Smith challenged them to live their own lives. Some conservatives are keen for protective tariffs, while Smith followed David Hume in declaring for free trade. While many conservatives were blowing their nationalist bugles, Smith was declaring for freedom to all peoples everywhere. "Natural liberty" meant the removal of government restraints so that free people could live their lives and manage their property according to individual preference as long as nobody else was injured through force or fraud.

Karl Marx, on the other hand, was an angry man, and he was particularly angry at Adam Smith. Marx used the word "capitalism" in a pejorative sense. Smith did not use the word at all. "Of the Nature, Accumulation, and Employment of Stock" was the title of Book II of *The Wealth of Nations*. Smith knew full well that investment is essential to any sort of economic activity. He also knew that thrift is necessary for the accumulation of capital. But he would have flinched at the word "Capitalism" by virtue of the fact that the "ism" suggests a sort of cult attitude. He saw capital as a prime ingredient for human action, but it was for him an instrument and nothing more. He did not revere capital, he only used it. The false dichotomy of property values vs. human values derives, in part, from the Marxian misuse of the term, "Capitalism." Smith called his view of society "natural liberty" and that term is most surely tilted toward human values. The capital necessary for production is in full service of such values.

The charge that Adam Smith outlined a philosophy relevant only to 18th-century Scotland is ridiculous. The whole world is crying out for natural liberty today. The failure of socialism is a prime factor in the new interest in Adam Smith. George Santayana wrote in his *Character and Opinion in the United States,* "When he [the American] has given his neighbor a chance he thinks he has done enough for him; but he feels it an absolute duty to do that. It will take some hammering to drive a coddling socialism into America." The hammering has been done and the socialism has been tried in part. The failure is apparent and the voice of liberty is heard once more in the land.

George Gilder in his *Wealth and Poverty* sees Adam Smith's *Wealth of Nations* inspired by The Golden Rule. I have long pondered the divergence of emphasis in Smith's *Theory of Moral Sentiments* and his subsequent volume. His early book speaks of human sympathy while his *Wealth of Nations* speaks of human greed. The motives of people are quite complex and ambivalent. Egoism enters all altruism and there is a redeeming touch of altruism in most egoism. Henry Ford was interested in profit, but he was also interested in making the best possible car for the least possible money. He was not only a gènius at production and marketing, but he was proud of the fact that he was able to pay his workers very well. His amazing success was, in large part, the result of his dedication to The Golden Rule.

Human Nature

Smith was correctly describing our human nature when he said that the butcher and baker do not sell us our supper out of benevolence. He was also correct when he said, "I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it." This is only part of the human situation. The late philosopher, T. V. Smith, opened one of his essays in *Live Without Fear* with the remark, "No man is an S.O.B. to himself!" The merchant who has profit in mind also wishes to be a hero in his community. He wishes to be highly regarded and praised as a person of good will. These attitudes help his customers and help him as well. Natural liberty corrects and disciplines the greedy by means of competition, but it also affords opportunity for a generous person to serve his fellow man and profit in so doing. J. C. Penney lived by the golden rule and found it profitable.

"The invisible hand" of Adam Smith operates today as it did in 1776 and in 3000 B.C. Whenever imaginative and creative people are free to carry on their enterprises, the private good redounds to public benefit even though the *pro bono publico* effect is not deliberate. History is replete with periods of prosperity and happiness brought on by the unintentional beneficence of selfish people in a free society. Many contemporaries scoff at this idea. They love the word "mandatory" and lay stress on the recalcitrance of people who will do good only if forced to do so. They are blind to the natural effect of freedom. They are even more blind to the fact that enforced morality has bad implications and disappointing results.

On Choosing Freedom

The natural liberty philosophy assumed that sensible people would choose freedom if they had a choice. I am convinced that the assumption was and is correct. I have seen people by the dozens swimming from mainland China toward Hong Kong and risking their lives to gain individual liberty. I have seen people plan and dare to attempt crossing the Berlin Wall to West Germany and freedom. I have never seen people swimming toward socialism and away from liberty and I have seen nobody risk his life to get into East Germany from the free West. Eric Fromm in his *Escape From Freedom* overstated his case and was in mild contradiction with his own concept of "the productive man" or "the marketing man." From babyhood on, a human being is annoyed by unnecessary restraints. Babies fight their covers and try to break free from their clothing or their pens. College students I have known in fifty years of teaching have cherished freedom to live their own lives and do their own thing. Liberty is truly natural.

The aggregate demand economics of John Maynard Keynes contributed substantially toward government intervention in economic matters. Keynes, himself a successful capitalist, advocated government action to stimulate consumption. He was in the tradition of Parson Malthus with regard to fear of thrift. In his busy life devoted to other things he appears to have overlooked the danger to liberty inherent in the burgeoning bureaucracy and the relentless growth of government. Nor did he fully appreciate the problems of violent force which is in any legitimate sense a government monopoly. Government officials seek power and enjoy exercising it. People are taxed to pay for the people and the programs that take away their natural liberty.

For the good of the poor that they may be free to rise, for the prosperity of the people that the economy may continue to grow, for the freedom of the individual to exercise his God-given right to initiate and invent, for relief from the tyranny of government intrusion into every aspect of life, for relief from excessive taxation and for the natural liberty of everybody, we need to take a new hard look at the Sage of Kirkcaldy. The absent-minded old professor who had no axe to grind except for the good of mankind has something very important to tell us. It is called Natural Liberty and we can regain it only if we bestir ourselves.

Over-Governed

Our present world displays what Walter Lippmann called "The sickness of an over-governed society." Competing ideologies are contending for the minds of leaders and thinkers. The socialists find the solution to the problem in still more government to make our present government work better. They seek wage and price controls to remedy inflation; super-bureaucrats to supervise the bureaucrats; transfer payments to relieve the poor; they call for a zero-growth economy; mandatory conservation of scarce products to avoid disaster; planning, to replace the market; and government control of our lives.

Marx did not ask anyone to promote his ideas. He saw society as devoid of choice in a headlong march which would destroy capitalism and place the proletariat in charge until all vestiges of bourgeois life had been liquidated; then the classless society would emerge. For Marx people could either join the inevitable revolution or be swept away by it. The years have proved him wrong. Russia and China are examples. The fringe socialist countries have illustrated his failures in less dramatic fashion.

The Road to Serfdom, by Friedrich A. Hayek, was a warning shot across the bow of every ship of state in the free world. He wrote, "We have progressively abandoned that freedom in economic affairs without which personal and political freedom has never existed in the past." He saw the State socialism of Hitler's Germany and Mussolini's Italy as the direct result of our western drift toward socialism. Only now have some of the so-called free nations begun to reverse the trend. Many people, enthralled by the false promises of socialism, have unwittingly lent full support to more and more government control of our lives. Our interest-group society is forever seeking government support for its special advantage, and the costs of the new programs are so diffused that government continues to grow. The psychological fact that people enjoy running other people's lives speeds the process. We wind up with more and more government, more and more taxes and less and less natural liberty. No wonder Adam Smith is once more coming into fashion.

Arthur Laffer and his convincing curve may tend to reduce taxes. This is a good thing in itself in that the government has less money to spend and the people have more; but if, as he argues, the government revenues are thereby increased we may wind up with still more government. Jude Wanniski, in *The Way the World Works,* makes a strong case for free trade and for lower taxes but fails to face the problem of natural liberty which is in jeopardy. George Gilder shows the benevolent face of capitalism and effectively answers the zero-sum economic growth predictions of the Club of Rome, but he does not quite recapture the vision of natural liberty which gave a sort of everlasting relevance to Adam Smith.

Smith Viewed with Hope What Angered Marx

While Marx was gloomy and angry, Adam Smith was happy, hopeful and objective. He was not trying to get even with anybody. There was no hate and little envy in what he said and did. His interests were those of an old professor devoted to the task of finding what is true and presenting that truth to the world as best he could. His phrase "natural liberty" is felicitous and descriptive of his entire philosophy of political economy.

He assumed the freedom of the human will. He saw humanity as a mixture of greed and generosity, love and hate, hope and despair, joy and sorrow, good and bad. He concluded that nobody could be wise enough and good enough to manage the lives of other people, that each person manage his own life in a free society with laws to defend the realm and protect against force or fraud. He observed the long sweep of history and found prosperity, happiness and success in periods when people enjoyed "natural liberty." He concluded that, with each person seeking his own gain, the public interest was served as if by "an invisible hand." He saw the market operating as a natural tendency wherever the government did not pervert it.

Would this "natural liberty" work today, given our size, population and highly technical society? The answer is yes. The law of gravity keeps on working even though we fly airplanes and explore outer space, in apparent defiance of Sir Isaac Newton and his laws of motion.

Freedom of Thought

The people of our modern world are in search of an adequate world view. They feel the need of a general philosophy of life that explains things and provides a pattern for understanding. Fortunately, there is no one adequate view of the world. Adam Smith believed in freedom of thought and opinion even more than he believed in a free political economy. People continue, however, to search for modes of political and economic thinking. Their search leads them in the direction of either Karl Marx or Adam Smith, since these two pioneers represent the opposing views of a controlled economy on the one hand and a free economy on the other. John Maynard Keynes was quite perceptive when he wrote in his *General Theory,* "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else." Our ideas enable us to explore and experiment, but they do not yield certainty.

Even the natural sciences cannot say "This is the way it is." They depend on plausible formulation based on tacit assumptions. People once thought in terms of a flat earth until Copernicus, and they failed to see the nature of relativity until Einstein. Political economy is still less exact, but each thoughtful person needs a world view to enlarge his limited observations. The two major competing realms of discourse in political economy are the dialectical materialism of Karl Marx and the natural liberty of Adam Smith. The socialism of Marx has succeeded nowhere in the world at any time. The natural liberty of Adam Smith has never failed anywhere in the world at any time.

Natural liberty is hard to come by, since governments are always getting in the way with personal ambitions and mandatory support. They defend themselves well since they have a monopoly on violent force. Only those who are hurt are willing to sacrifice "Life, fortune and sacred honor" to defend liberty. Only such sacrifice, however, can keep government within its bounds of defense of the realm, protection of civil and human liberties, judicial settlement of disputes, defense of each individual against wrongs to his person or property and such other limited functions as are beyond the reach of the private sector.

Liberty Follows No Blueprint

Natural liberty is not a neatly packaged system of political economy. Marxism is a religious system. Socialism is a control system based on government. Capitalism is a somewhat loose formulation of economic production and distribution, but it is an "ism" and is a system. Natural liberty is a descriptive term that eschews all systems and lets liberty obtain. It is a philosophy of society and human action which requires no system. When restraints are lifted the market works in a manner similar to the laws of motion—though not as precise and exact. The laws of the market are not determined but are formulated from the tendencies of people to act in a somewhat predictable manner. The magic of a free market is more nearly analogous to actuarial prediction, rather than a physical law such as the law of gravity.

Smith assumed the freedom of the

will while Marx denied it. We can confidently say, however, that free people tend to act out their preferences in a certain way. When needed and attractive goods are produced, customers will find ways to buy them. Natural liberty does not mean chaotic behavior, even though it stoutly denies the economic determinism of Marx. Free and imaginative people are forever bringing surprises to the world. The great advances of history are the result of achievements which nobody could have predicted. This does not contradict the actuarial assumption that a free market will work. Natural liberty works so well that we are startled and amazed.

The Soviet Union cannot believe natural liberty will work, but when they gave each of their farmers liberty with one acre of land the production on 1 per cent of the land resulted in 27 per cent of all agricultural production! Politicians and bureaucrats in Western nations do not believe the market will work and they do their best to keep it from having an opportunity. I do not know of a single economist of stature who does not recognize the fact and performance of the market, yet many of them cling to the view that government control and intervention are better and more fair. It seems difficult for a person who thinks of himself as an expert on the economy to believe that the impersonal market, left to its devices, can better produce, allocate, price, inform suppliers, improve products than can any panel of experts. In brief, intellectuals find it difficult to admit that everybody knows better than anybody what is best for everybody. No person is good enough or wise enough to run the lives of other people.

Opportunity Unrestrained

The practice of natural liberty means freedom from envy and hate. To each his own denies equality except for the fact that each person has equal opportunity before God and under the law. Natural liberty is the poor person's opportunity to rise. It opens the way for more and better production and standards of living. The rich are not the enemy, but the example and the very useful source of capital for helping the poor to rise. The only people who lose position under natural liberty are the planners, the managers of other people's lives, the politicians and the bureaucrats. When those who have tried to tell everybody else how to live finally give up and seek productive employment, they turn out to be the happiest people around. The world is about to give natural liberty a new chance. Bravo!

Bettina Bien Greaves

The Tragedy of Inflation: *Much More than Higher Prices*

INFLATION is very unpopular today. However, most who deplore it think of it simply as rising prices. But prices of goods and services may rise for many reasons: shortages due to destruction by pests, drought, flood, or increased demands when fashions change or a war breaks out. Thus, to define inflation as rising prices is far from helpful. In fact, it leads to serious error by directing attention to individuals who raise specific prices (businessmen) and wages (workers).

This definition of inflation neglects the real cause of *generally* rising prices—an increase in the quantity of money and/or credit. Once inflation is defined as monetary expansion, it becomes clear that only the government and government-privileged banks can be responsible. Only they may print money and/or create new dollar credit. Anyone else who tried to do so would be branded a counterfeiter.

Inflation, by which we mean monetary expansion, may proceed in several ways. The government may spend more money than it collects in taxes or borrows from individuals, filling the deficit (a) by printing paper money, or (b) by borrowing, through the Federal Reserve Banking system, new money or bank credit created by the "Fed" for this express purpose.

With the sanction, active encouragement and protection of government, private commercial banks may also increase the quantity of money by lending many times as much as the sums deposited by their customers in checking accounts. Com-

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mercial and savings banks are also able to expand the quantity of money and credit by an even greater ratio on the basis of savings and time deposits. Thus, the creation of new money, permitted and encouraged by government and government-promoted Federal Reserve policy, builds on itself and the number of dollars snowballs. Only by defining inflation as monetary expansion may we understand its more complex and far-ranging consequences.

A great deal has been written about the pressures produced on prices by a monetary expansion, shoving prices inevitably upward in an irregular and ragged fashion. Some prices are affected sooner, others later, some more, others less. Prices are not all affected equally, or proportionately to the monetary expansion. Because the effect of inflation on prices is uneven, its other consequences are serious, long-lasting and irreversible. It is these other consequences of inflation which we shall be considering here, consequences which make conditions worse, even from the point of view of the backers of the programs resulting in monetary expansion.

Some Win: Others Lose

There is no way to issue new dollars or bank credit so that everyone will benefit equally and simultaneously. Some politically favored persons always receive the newly-created money and bank credit sooner than others. Having more money gives these people a decided advantage in making purchases. They may buy more than they could have before. Or they may offer higher prices for what they want. Thus they can outbid other would-be purchasers who find less in the stores to buy at previously prevailing prices. Stocks of what the other would-be buyers would have purchased have been bought up by the new dollar holders. In this way, the first recipients of the new money "win," but always at the expense of others.

In time the new money will work its way through the market, from the first beneficiaries to those from whom they buy—merchants, suppliers, and so on—as each in turn receives some of the new dollars. But at each step in this sequence of transactions the advantage of having more dollars sooner than others is watered down a bit. Many who receive some of the new money much later will find they must pay higher prices without higher incomes. Thus inevitably those who receive some of the new money considerably later, or receive none at all, will lose.

Each transfer of dollars represents an irreversible shift of goods, services, wealth and income. The "winners" gain at the permanent expense of the "losers." Although the losers are never easy to identify, their loss is real enough. They must struggle to adjust to a market in which the things they want are increasingly scarce and more expensive. Circumstances will change, of course. Attempts may be made to reverse the respective roles of "winners" and "losers." But compensation after the fact can never undo the harm done earlier. It can only set in operation a similar sequence of uneven, irregular and ragged price shifts, creating different winners and losers.

Illusory Profits

Anyone whose selling prices are boosted by the issue of new dollars receives an unanticipated surplus. He gains due to the inflation. But this gain may not be a *real* gain. His increased income pushes him into a higher tax bracket. Then government promptly takes a greater portion than before. He may also have to pay higher prices to replace merchandise bought by the inflation-created "winners."

In anticipation of increased sales, merchants may order more of the particular items the new dollar holders are demanding. To fill these bigger orders, suppliers must also change their plans. To speed up or expand production of these particular commodities, they will have to offer more money to workers and to the owners of needed resources. Thus, the new dollars are passed further along throughout the economy, pushing up one wage here, another there, one price here, another there, and so on, adding to business costs along the line and reducing the gain merchants, suppliers and producers had received from the inflation and on which they had paid taxes.

As a result of the inflation, enterprisers will also discover that the funds set aside for depreciation are insufficient to replace their equipment when it is worn out. With prices rising throughout the economy, new plants and new machinery, like almost everything else, cost more than before. Funds just aren't available for replacing them. If enterprisers are to continue operating, they must buy their new equipment out of either (a) current income or (b) borrowed funds. If they supplement insufficient depreciation allowances from current income, they will be using funds they should be accumulating to maintain their investment in the future, thus putting their enterprise in jeopardy. If they borrow additional funds from the banks, they will be helping to push interest rates up, thus increasing their business costs still more and further reducing their gain.

In time, what looks like an enterpriser's gain in dollar terms may be no gain at all. Receipts that seem exceptionally high in depreciating dollars are thus deceptive. It is extremely difficult to keep operating and maintain a profitable business during an inflation. If enterprisers fail to recognize that a dollar profit may be an illusory profit, if they fail to take this into consideration in planning, calculating and allowing for depreciation, they will soon suffer losses that are *not* illusory but real! Yet through it all their books could still show dollar "profits," deceiving them into believing their enterprises are financially sound. "Illusory profits" may easily lure them into spending more than they can afford and consuming capital they cannot replace. Thus "profits" in terms of inflation-depreciated dollars mislead many an enterprise past the point of no return, down the road to bankruptcy.

Production Patterns Shifted

The new dollar holders spend their money for whatever they want most. If the new money goes first as benefits to unemployed workers or welfare recipients for instance, or as higher salaries to government employees, teachers, postmen, soldiers, and so on, it will probably be spent on consumer goods. If the new money goes first as loans to new car buyers and home owners, it will be transferred to car salesmen, automobile workers, carpenters, electricians, and the like. If the new money goes first as bank credit to producers—builders, farmers, ship owners, automobile manufacturers, producers of military weapons, owners of radio and TV stations, and so on—it will probably go next to those who build tools, machines, factories, electronic equipment, and the like, and then later to those who extract and transport raw materials and other resources.

In any event, those who sell to the "winners" promptly enjoy an unexpected "boom" in that phase of their business. When they place orders with their suppliers to refill exhausted inventories of those particular items, the pattern of production starts to shift—toward producing more of the things requested by the new dollar spenders and less of what was being produced before. Step by step, producers respond to the demands of the new dollar holders and those who receive the new dollars.

As resources, capital, labor and energy shift production to satisfy the demands of the inflation "winners," the wants of the inflation "losers" are neglected. Those who receive none of the new money, or do not receive any until much later, are at a serious disadvantage in making purchases. They find in the stores fewer of the things they want to buy, because the "winners" bought more; they also find that prices are higher though their incomes are not. Moreover, the resources, capital, labor and energy which were used in producing for the politically-favored "winners" are no longer available, having been transformed into specialized tools and machines for supplying an artificial, government-subsidized market.

Malinvestment

If the monetary expansion is not halted, enterprisers will continue making adjustments to serve the consumer wants of new dollar holders. Some enterprisers will turn next to making tools and machines for their production and others will seek to expand the supplies of the needed raw materials. Under our monetary system, the banks are encouraged by government policy to supply a large part of the funds needed to make shifts in production possible. They issue new credit through bank loans, creating additional dollars in the process, enabling the favored borrowers to spend more than before. But no more resources are available. The borrowers of the new credit must compete with other enterprisers for the available supplies. They soon discover that to hire additional workers and to buy more raw materials and tools and machines for their new projects, they must offer higher prices. Thus as they seek to fulfill their plans, they help to pass the new dollars along in the form of rising prices. In time the patterns of prices and of production will deviate more and more from what they would have been in the absence of inflation.

In this world of ours, change is inevitable. It is the role of enterprisers to watch the market closely and to try to adjust to new conditions. If they succeed they make profits; if they fail, losses. What people are buying and refusing to buy at various prices gives producers and would-be producers important clues as to *what* to make and *how much* to make.

Clusters of Errors

Enterprisers sometimes misjudge the market and miscalculate consumer wants. On a free market, the mistakes of some enterprisers are usually counteracted, at least in part, by the correct judgments and successful calculations of others. But when government is introducing new dollars and/or encouraging the banks to expand credit, most enterprisers are influenced by the same misleading factor—the expectation of continuing monetary expansion. Many enterprisers, misled by the inflation, shift production in the same direction. "Clusters of errors" appear.

Throughout the monetary expansion, producers are committing themselves and their resources more and more irretrievably to their various projects. Their investments become more specialized and less easily convertible to other uses. The longer the monetary expansion continues the greater the deviation from free market production and the more malinvestment occurs.

Inflation-instigated markets are notoriously unreliable. Government policy inevitably vacillates in response to the changing political climate. Without warning, the quantity of money and credit may be increased or decreased—political favors shifted. Once the flow of new dollars and/or cheap credit declines or is halted, inflation-induced demands cannot be sustained. At one moment enterprisers are spurred to expand production in one direction. Then a shift in government policy leads unexpectedly to a drop in demand for their products. The market on which they had counted declines or disappears. They have produced too much of some things, not enough of others.

Mountains of Waste

When the inflation is slowed down or stopped, some consumer goods produced but not yet consumed may be sold to other customers. But many of the items intended for previously subsidized consumers cannot be sold for more than their inflation-boosted costs. Factories, tools and machines, which cannot be converted to other uses, will be abandoned. Thus, the sooner inflation can be stopped the better, for the longer it continues, misdirecting production, the more resources will have been wasted and lost to future generations.

The vacillations of government intervention exaggerate the uncertainties of doing business. As the money spigot is turned on at one moment and off the next, many enterprisers swing back and forth between eagerness and reluctance in making commitments. In this way, the stops/goes, ons/offs of government interference lead in time to the ups and downs of business, the boom/bust sequence of the "trade cycle."

However, economic suffering cannot be avoided by continuing to inflate. For if monetary expansion is not halted, it must lead in time to a complete breakdown of the money and the market. If the inflation goes on until the monetary unit becomes worthless, business will come to a standstill. With no reliable medium of exchange, no trades except simple barter deals can be made. Inflation-induced investments will fall into unemployment or serious *under*-employment. Economic calculations, contractual agreements and production plans of any complexity will become impossible. Even those who, with the best of intentions, advocated the government programs that led to inflation must consider such conditions worse than those they were trying to improve.

Saving Discouraged

Saving is the principal source of increasing production. Only as people save can they have spare time and energy to devote to pleasure, learning new skills or developing and improving their tools, so as to be able to produce and have more tomorrow. It is out of savings that students may eat while acquiring knowledge and new skills. It is out of savings that inventors may live while devoting time to developing and producing new tools. It is out of savings too that workers and investors may survive while producing things for others to consume.

Most of what we have and enjoy in the world today—the many modern conveniences, complex tools and machines, remarkably efficient means of transportation, specialized electronic equipment, almost miraculous medical developments, and so on—we owe to past savers who set something aside out of what they produced and invested it in production. Thus our ancestors contributed to present day living standards.

Our ancestors saved out of the desire to try to improve their productivity, to become financially independent and beholden to no one, to provide for themselves in old age, to care for their families in emergencies and to improve conditions for their children and their children's children. The greater their confidence that savings and property would be fairly safe, the more incentive they had to forgo some immediate consumption for the sake of their own and their families' future welfare. Their savings and investments also helped support others while learning new skills, developing new technologies, inventing new machines and producing new factories. Thus their savings and investments are still contributing to our welfare today.

But our living standards are now in jeopardy. To meet the rising costs of government's rapidly increasing handouts, it increased taxes and resorted to inflation, both of which discourage saving. Fearful of losing their property and savings through inflation, producers have little incentive to save and invest in production. With less saved and invested, less is produced. With less produced, there is less to consume or to save and to invest. With less saved and invested today, there will be less for future generations to enjoy tomorrow.

Conclusion: Prolonged Inflation Means Economic Disaster

In summary, generally rising prices are one consequence of inflation, but by no means the most serious. Monetary expansion's other consequences are more destructive, long-lasting and irreversible. It leads to injustices. Some persons "win" at the expense of others who "lose," never to be fully compensated for their inflation losses. Production is misdirected so that scarce resources are wasted on unwanted enterprises. "Illusory profits" deceive producers into economic miscalculations, malinvestments and capital consumption, often placing their operations in jeopardy and perhaps forcing them into bankruptcy. Inflation adds to the uncertainties of doing business. Expansionist monetary policy is to blame for fostering unhealthy economic booms based on artificially stimulated malinvestments.

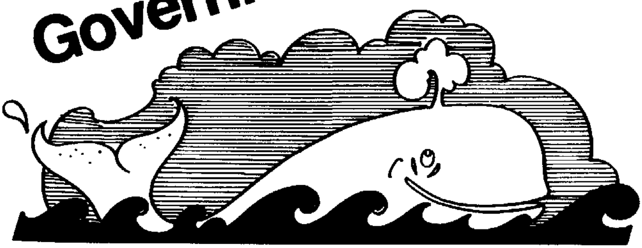
When political policies shift, artificial boom turns to economic bust with widespread economic losses and unemployment. Future generations will be poorer because inflation and credit expansion are discouraging saving and investment today. Inflation and credit expansion also discourage respect for private property, individual effort and family responsibility. Why work for a living if the government is handing out benefits? Why save if every dollar loses purchasing power from day to day? Why invest in production if earnings are penalized by steeply rising taxes? Why strive for economic and family independence if there is no disgrace in benefiting from the wealth of others, taken from them by force through taxes and inflation?

Many malinvestments undoubtedly exist today due to past monetary expansion. However, the economic suffering such malinvestments bring about could be kept to the minimum if government were to renounce all further inflation and credit expansion immediately, not just try to slow them down. Left to their own devices, enterprisers would find ways in time to absorb and/or pass over and beyond most past losses and malinvestments. Confident that their economic calculations would not be upset by a depreciating currency, erratically rising prices and illusory profits, they could return to producing goods and services for a non-artificial market. They would then be willing once more to save and invest, thus improving conditions for themselves, their families and future generations.

But if government continues to offer benefits to some at the expense of others, financing them through higher taxes and monetary expansion, serious economic disaster must be expected. New evidence will then demonstrate once more the truth of Ludwig von Mises' statement that government interference with the economy, no matter how well intentioned, "produces results contrary to its purpose, that it makes conditions worse, not better, from the point of view of the government and those backing its interference."

Dwight R. Lee

Blue Whales and Growth in Government



THE BLUE WHALE is being driven toward extinction and the federal government is spending far too much of our nation's wealth. The connection between these two problems may not be immediately obvious. But if you believe that blue whales have been slaughtered excessively (and they have), then logic also compels you to see the need to limit the growth in government. Too many blue whales have been killed and the government has grown too large because both the blue whale and the government provide opportunities for some people to receive benefits by imposing costs on others.

From an initial population of approximately 200,000, it is estimated that fewer than 6,000 blue whales are still living. The costs of killing another blue whale include the benefits sacrificed by reducing their future availability still further. But even though all whalers would like to see more whales live to bear young and increase in size, each knows that the whale he does not harpoon today will probably be harpooned by someone else tomorrow. The whaler who harpoons now gets all of the benefits but suffers only a small share of the cost resulting from fewer whales in the future. Most of this cost is spread over others.

Of course each whaler also loses from the excessive harpooning of others. But this loss would only be greater to the individual whaler who reduced his own harvesting. The incentive is for each to continue kill-

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ing whales as rapidly as possible even if this means the eventual extinction of a majestic species.

A very similar situation exists when special interest groups capture benefits from government spending. Many government programs convey benefits to specific groups by spreading costs over all taxpayers. Farm subsidies, Amtrak subsidies, urban development programs, and the Chrysler bailout are but a few examples. Federal spending on programs of this type has been increasing at an alarming rate. Programs which serve the primary purpose of simply transferring wealth from one group to another are taking approximately $350 billion of the Federal budget in fiscal 1981. This is more than the entire Federal budget in 1975.

All special interest groups may be aware of the tremendous burden that comes from rapidly enlarging the size of government. But each group also knows that passing up an opportunity to expand its favorite program will merely make it easier for other special interest groups to expand theirs. The motivation is for each to continue pressuring the government to spend more even if this means the eventual collapse of the economic productivity that supports all government spending. And there should be no mistake about it. Just as the blue whale can be driven to extinction by excessive harvesting so can our economy's productivity be extinguished by excessive government.

There are two ways an individual can acquire wealth. The first way involves engaging in productive effort. By producing things that others value this effort benefits everyone. The other way to acquire wealth is to capture the wealth others produce by engaging in transfer activities. Transfer activity can be illegal as with theft, or legal as with lobbying government for preferential treatment. But in either case it directs otherwise productive effort into activities that create no new wealth. One of the most important functions of government has always been to encourage productive enterprises by penalizing the illegal transfer of wealth. In writing the U. S. Constitution our founding fathers also attempted to reduce opportunities for using government to legally transfer wealth from one group to another by limiting the scope of government. The desire was to establish an environment in which individuals could advance their well-being only through the creation of new wealth.

Unfortunately the constitutional limits on direct government involvement in economic affairs began breaking down in the late 19th century. At first the involvement was minor and only a few found using government to confiscate the wealth of others more profitable than producing wealth themselves. But once this confiscation started the return to productive effort was reduced. This increased the number who found the advantage in harvesting government favors at the expense of those who remained productive. This further reduced the return to productive enterprise thus diverting yet more people into transfer activities. As this destructive process continued even those who persisted in the creation of wealth found their productivity hampered by the need to protect their property against an increasingly grasping government.

This trend cannot long continue without threatening the well-being of all; the producers of wealth as well as those they support. When all ships are busy transporting valuable products the first one to become a pirate can do very well indeed. But as more turn to piracy fewer find advantage in continuing to ship the goods. Unless strict sanctions are imposed against piracy the end result will be impoverished shippers and pirates alike as ocean transportation comes to a halt.

Those who argue that, if the blue whale is to be saved from eventual extinction, limits will have to be placed on their slaughter are correct. And for the same reason, if the productivity of our economy is to be saved from eventual collapse, limits will have to be placed on the growth in government. As important as it is to protect the blue whale, it is far more important to maintain our economic productivity. Destroy the economy's productivity and you destroy the wealth that allows us to take our food, clothing and shelter for granted and worry about such things as the blue whale.

How Government Grows

IDEAS ON LIBERTY

THE maximum flow of creative human energy and the utmost in voluntary cooperation among individual free men are called forth only when government is limited to the equal *protection* of the inherent rights of free and responsible human beings. To the extent that this basic life principle of a free society is implemented and safeguarded within a nation, the people of that nation will achieve balanced development and growth. Most of our reform laws violate this basic principle in that they penalize the producer and reward the "free rider" who consumes more than he produces. Thus the flow of creative human energy is increasingly inhibited as "liberal" laws authorize more and more unearned withdrawals from the stream of goods and services provided by the producers.

W.C. MULLENDORE

Ridgway K. Foley, Jr.

PRIOR RESTRAINT

"Ideas have consequences" observed that eminent historian, Richard Weaver,[1] and so they do. But ideas do not only produce, occasion or effect consequences; they are also results of earlier ideas, principles and concepts which, in turn, proceed, true or false, from the gray matter of the human mind. When one happens upon a particularly perturbing doctine, particularly one which has become accepted to the extent of becoming axiomatic, it becomes fruitful to unveil the causal linkage and probe the aura surrounding the verbal deity. I propose to do just that with the concept of "prior restraint," a praxeological doctrine now writ large in the juristic process. In short, let us identify the subject and discern from whence it came and whither it leads.

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I. THE SHORT MEANING OF PRIOR RESTRAINT

Prior restraint defines a governmental edict that proscribes as evil or unlawful certain actions potentially performable in the future. The force of law (rules and orders emanating from the state threatening punishment for disobedience) inhibits or restricts future conduct and channels embryonic human conduct into, or away from, given courses of action.

While the idea is probably as old as human civilization, the legal doctrine gained recognition and currency in the early twentieth century in such First Amendment arenas as free speech and a free press.[2] Viewing the First Amendment as possessing a "transcendent value,"[3] psuedo-civil libertarians of the court system railed against prior restraint in such fields as the public display of obscene motion pictures or the printing of seditious editorials. Mandatory restrictions before the fact, so the argument ran, unduly circumscribed the free flow of ideas and personal interchange and, for that reason, ought not be tolerated in a free society.

In essence, prior restraint constitutes a label which may be applied fairly to all state restrictions which fetter human action before the fact. It includes in its net all manner of rules, regulations, orders, and guidelines which order personal destiny—for example, the monumental avalanche of proscriptions which flow from EPA, OSHA, the Federal Reserve System, the FCC, CAB, ICC, and the like, not to mention their state and local counterparts. If the law states that any or all persons shall or shall not follow a given choice or range of conduct in the future, the state has engaged in prior restraint.

One salient distinction deserves mention. Prior restraint does not generally encompass legal directives which apply after the fact in the resolution of human disputes, for such constraints do not restrict human freedom in the same manner. A chasm of difference separates a rule which states that no property owner shall construct a dwelling more than two stories high on his real property, and an order which compels A to pay B damages occasioned when A negligently drove his automobile over B's homestead and uprooted his flower beds. As we shall note, the first example limits human conduct without a determination of whether it will or may occasion fair, wise or just results; the second hypothetical permits maximum human liberty but requires responsibility on the part of free human actors whose untrammeled conduct proves detrimental to another, equally free, human being.

II. THE DERIVATION OF PRIOR RESTRAINT

No doubt the roots of prior restraint lie deeply embedded in antiquity, far from the likely gaze of today's scholars. Such a fact should not deter us from the exercise of searching out the probable underpinnings of the theory in an attempt to glean some knowledge as to its present appeal.

Two likely candidates appear as the causative factors in the development of the doctrine of prior restraint. Each force represents a known and pervasive component of human nature; together, they represent the characteristic duality which besets mankind.

First, the human creature contains a strong strain of empathy for his fellow beings and a desire to do good things. Few of us are so callous that we begrudge a crust of bread to a sad-eyed waif. Man truly is a "little lower than the angels" in this aspect: he is kind, sympathetic, careful and, most of all, he wants to prevent catastrophes from assailing those around him.

Thus, fortified with his own subjective view of what is prudent and good, man seeks to prevent or forestall harm to himself or to others. If a crib can choke a child of a careless mother, let us do away with that design; if green trees and bushes beautify a town, let us command all inhabitants to decorate their plots with foliage; if televised violence affects weak minds, let us eliminate assaults and substitute symphonies. Prior restraint offers a method of preventing occurrences which are viewed as bad or undesirable with the highest of motives: protection of human life and safety, particularly fortification of those perceived as less well able to care for themselves.

Second, man betrays a deficient and less desirable side to his nature, an aspect which flaws all of his actions: a tendency to evil, a curious concatenation of greed, power, lust, envy and all manner of unlovely traits. Perhaps Bastiat's greatest gift, among many, was his clear perception of human nature: incapable of perfection, but quite capable of improvement.[4] It is this lesson which the prophets and priests among us have enunciated for so long. In a simple phrase, man does bad things; he is the disorderly creature who rebels against the natural order of his most orderly universe. When he acts in harmony with reality, the human being approaches perfection; when he digresses, he becomes a base and evil fellow. Recorded history, by and large, consists of a series of disjointed episodes portraying man's inhumanity to man.

Temptations of Power

This sinister part of humankind further explains and refines the reason for the existence of the doctrine of prior restraint. By and large, men enjoy exercising power and control over other persons. People like to run the lives of other, subject people. Flawed man, who possesses serious difficulty in running his own wee life in this amazingly complex world, myopically sees himself capable of managing the lives and choices and destinies of untold multitudes of his neighbors. The dictator operates from a tripartite base: fear; distrust of man's ability to do well; and, the enjoyment of coercive power. He supposes himself able to manage lives better than the citizens and, in so presuming, he ignores the good in others and magnifies the evil in his own heart. Oddly enough, it seems empirically and naturally true that mandate states and slave societies bring out the venal in the whole population; in contrast, the greater the relative freedom, the more high-spirited the choices actually made.

III. THE CONSEQUENCES OF THE IDEA OF PRIOR RESTRAINT

Just as the derivation of the doctrine may be only glimpsed through the fog of time, so also the consequences of prior restraint must remain the product of informed speculation. However, the reasons for the impediments to this view are quite different. History does not record when the doctrine of prior restraint first came into being nor the reasons therefor, probably because any "history" at that time consisted of an informal oral tradition and ideas do not lend themselves to careful recording. On the other hand, we cannot know precisely the results of prior restraint by virtue of the very doctrine itself: prior restraint prevents action and thereby inhibits, proscribes or alters consequences. We cannot tell what choices would follow ideas if the seminal choice is thwarted.

Herein lies the seed of the great evil of prior restraint: free flow of human action is restricted into certain permitted channels and all deviation receives strict punishment. No one knows how mankind would divide up the airwaves in the absence of the FCC. No one knows how the city of Portland would develop in the absence of land use and zoning controls, patents, franchises and subsidies. No one knows how many serious communicable diseases would be conquered in the absence of the FDA. No one knows what the market will bring forth from 225,000,000 prodigious minds and hands if they are left unrestrained!

Prior restraint acts as a great cosmic ideological prophylactic, cutting off life from ideas, forms and actions which may be beneficial but which will never see the light of day. Once destroyed, ideas seldom can be resurrected as they are fleeting and fragile things. In place of vibrant new ideas we retain stale old forms which may have lost meaning and most certainly vitality. Thus, the result is lost and the idea emasculated. Remember that no act or idea stands alone: all are linked inexorably from cause to effect to cause, by the law of consequences. Prior restraint breaks the chain and alters effects forever.

In a way, prior restraint leads to a partially self-fulfilling prophecy. By damning human creativity, the state foreordains the future by decreeing a string of "thou shall nots." Yet, for all the gloating attempts of the tyrants to foresee and constrain results, the future seems to ever surprise them: slaves make dull but still unpredictable subjects. The perceived harm may never occur if creative man is left alone to work out solutions to his life. The command state most certainly will produce an abundance of evils beyond the ken of small-minded men.

IV. WHEN CAN PRIOR RESTRAINT BE JUSTIFIED?

Few would condemn all forms of prior restraint. Certainly, fundamental justice requires notice of penalties to be exacted upon the conclusion of a given course of conduct. Just as certainly, a free society needs to operate upon basic premises which will insure all participants free rein to their liberty of choice, for if I can impose my will upon you by force or deception, you have lost control over your destiny just as surely as if the government passed a law fixing your course of conduct.

This essay does not present the apt place to define the fundamental and irreducible minimum nature of governmental authority. I have attempted to do so elsewhere on several occasions.[5] Suffice it to say, I consider the appropriate role of the state as twofold: the prevention of force and fraud from within and without the perimeters, and the orderly solution of otherwise insoluble disputes. Such a minimal government comports with the basic tenets of freedom and with the duality of human nature discussed in Section II. It permits the maximum release of creative energy untrammeled by unnecessary and fixed barriers, while providing those sanctions necessitated by man's irrational sinister side.

Within the framework of a thus-limited state, regulations of human conduct should be kept to a minimum. In areas where regulation to prevent force and deceit become necessary, prior restraint is justified in order that notice be granted to persons who might act malevolently toward others. In the areas where a state system of judicial resolution of interpersonal disputes is necessary, the doctrine of prior restraint should play a discrete role: the state should provide such a system and require compliance with its forms and orders if one party to the dispute chooses to involve the system; it should leave wide open the doors of private arbitration, conciliation and conflict resolution if the parties so choose.

We come full cycle to Mr. Weaver's wisdom: ideas do have consequences. In the case of the doctrine of prior restraint, the cause of the concept lies partly in the undesirable grounds of the desire for power, and partly in the fallacious grounds of the belief that mere man can mandate good results by coercion. The inexorable consequences of prior restraint, where employed outside the bounds of the doctrine of limited government, are simply an unwise and needless loss of liberty.

—FOOTNOTES—

[1]Weaver, Richard M., *Ideas Have Consequences*, (University of Chicago Press, Chicago and London, 1948).

[2]*See, e.g., Carroll v. President and Com'rs of Princess Anne,* 393 U.S. 175, 89 S. Ct. 347, 21 L.ed.2d 325 (1968); *Joseph Burstyn, Inc. v. Wilson,* 343 U.S. 495, 72 S. Ct. 777, 96 L.ed 1098 (1952); *Chaplinsky v. State of New Hampshire,* 315 U.S. 568, 62 S. Ct. 766, 86 L.ed 1031 (1942).

[3]*Speiser v. Randall,* 357 U.S. 513, 526, 78 S. Ct. 1332, 2 L.ed.2d 1460 (1958); *Adderly v. State of Florida,* 385 U.S. 39, 48–49, 87 S. Ct. 242, 248, 17 L.ed.2d 149 (1966).

[4]Roche, George Charles III, *Frederic Bastiat: A Man Alone* (Arlington House, New Rochelle, New York 1971) 194–197; *See also:* Russell, Dean, *Frederic Bastiat: Ideas and Influence* (The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 1969) 13–14, 29, 35–36.

[5]Foley, Ridgway K., Jr., "Individual Liberty and the Rule of Law." 21 *Freeman* 357–378 (June, 1971) and 7 *Willamette Law Journal* 396–418 (December 1971) and Foley, Ridgway K., Jr., "In Search of Sovereignty: The Perimeter Imperative" (unpublished manuscript).

IDEAS ON LIBERTY

Economic Harmonies

A man's happiness and well-being are not measured by his efforts but by his satisfactions, and this also holds true for society at large. . . . It may happen, and frequently does, that the service we esteem highly is in reality harmful to us; values depend on the judgments we form of them. . . . In an exchange society, man seeks to realize value irrespective of utility. The commodity he produces is seldom intended to satisfy his own wants, and thus he has little interest in its intrinsic usefulness. It is for the purchaser to judge that. What concerns the producer is that it should have maximum *value* in the market. . . . It is in vain that we attempt to separate choice and responsibility.

FREDERIC BASTIAT

Clarence B. Carson

DANGER—HIGH VOLTAGE: The Perils of Power

ON MY WALK to and from elementary school when I was a boy I used to pass a fenced enclosure. A metal sign bearing this legend was attached to the fence: "Danger—High Voltage." Inside the fence were several large transformers to which wires from a high tension power line were attached. There was a factory across the road which got its power for running large machines from the transformers. Although boys often do daring and foolish things I never heard of anyone who breached this fence to examine the transformers. The warning sign might have served only as an invitation, but it was mightily reinforced by our knowledge of the dangers of electricity.

The recollection of these things set me to thinking about another kind of danger—that posed by government. At first glance, there might appear to be no connecting links between government and electricity. After all, electricity is a physical phenomenon, while government is political and social. Even so, it turns out that upon deeper reflection there are some interesting and instructive parallels between the two. Even some of the differences are enlightening, once the parallels have been brought into focus.

The most obvious parallel between government and electricity is that both are kinds of power. This attribute is acknowledged in the language we use to describe them. Thus, we speak of the power of government. Companies that provide electricity are often referred to as power companies, and some contain the word in their formal titles.

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The power of government resides in its capacity to intimidate, coerce, or use force against its enemies, domestic or foreign. Governments are sometimes compared with one another in terms of which is the more powerful. Common measurements for making such determinations are the size of the armed forces, the amount of its armor and weapons of various sizes and kinds, the resources it can bring to bear in a military effort, the morale of its troops, and so on. Sometimes, too, we speak of political power, by which we mean such things as influence and status in bringing the power to bear on others. Such power is sometimes distributed within chains of command, but its actual exercise is often modified by the will to assert power by those in position to do so, and other informal relations.

Electric vs. Governmental Power

The power of electricity resides in its capacity to produce heat or to perform such varied functions as lighting, cooling, activating motors, and so on, depending upon the instrument to which it is applied. The power is measured in such terms as volts, ohms, amps, and watts. The basic unit of electricity is the electron. The basic unit of government is a person. The power of electricity stems from infinitesimal electrons; the power of government arises from exceedingly complex persons.

Both government and electricity work on similar principles in regard to distance. The principle can be stated this way: The farther the distance each must travel before it is applied the greater the amount of the force must be.

For the effective transmission of electricity through metal lines the amount of force required can be stated with fair precision. The amount required to transmit a current one mile is 1,000 volts or a kilovolt. The amount increases proportionally for each additional mile, e.g., 13,000 volts for a distance of 10–20 miles, 110,000 volts for a hundred miles, and so on. For the short distance involved between a transformer and various points in a house 110 volts is ordinarily sufficient. For the much shorter distances in an automobile 6 volts may be adequate. The simplest and most direct explanation of this requirement of proportionally greater force in relation to distance is that it is necessary to overcome the resistance in the wires.

The size of the force of government must be proportional to distances, too, to be effective. This relationship is most apparent in defending a border against an invader. The longer the border is the greater the size of the force that will be needed to defend it, other things being equal. The size of police force needed for the effective patrol increases with the area, though density of population is also a factor. The more functions that government attempts to perform the more power it requires. In this, the requirements of government are directly analogous to those for electricity.

But the most significant parallel between government and electricity is that both are dangerous. Electricity is dangerous to property, to life, to plants, lower animals, and man. A short in a wire can burn down a house. A stroke of lightning which strikes the ground can destroy all the life in the surrounding soil, making the area barren for a season. Electricity can shock, burn, destroy organs of the body, and kill.

A Dangerous Power

History is replete with instances which demonstrate the danger of government. The unleashed power of government has wrought devastation and destruction upon whole peoples. Government is an ever-present danger to the life, liberty, and property of those over whom it rules and to others upon whom it may make war. It can confiscate property, imprison, compel attendance upon its proceedings, and execute people. In different senses, both electricity and government are elemental forces: the one physical, the other social or political.

The dangers of electricity are well known, and great care is taken in generating, transmitting, and distributing it. High tension wires are usually conveyed high above the ground and are held in place by tall poles or metal towers. They are hung from cross bars on heavy insulators, and are well out of reach of men in their ordinary pursuits. Before the electricity is brought into homes and factories its voltage is reduced to levels that are much less dangerous by transformers. All wires are insulated, and at any place where they are exposed, they are ordinarily covered by plates or other shields. Electrical devices and appliances are usually rated for the voltages they will tolerate or require, and light fixtures specify maximum wattage bulbs to be used. Fuse or breaker boxes protect against high surges of electricity as well as sustained overloads to appliances. In short, electricity is insulated, transformed, grounded, shielded, and monitored so as to reduce its dangers to a minimum and to enable us to use it in many constructive ways.

The widespread use of electricity is a relatively recent development. At the time of the making of the United States Constitution scientists were familiar with it as a natural phenomenon, but no means had yet been devised for producing it in quantity nor potential uses conceived for it. Interest at the time was focused on controlling lightning, the most devastating manifestation of electricity in nature. Benjamin Franklin had only lately proved that lightning is electricity with his famous kite experiment. Enough was known about conducting electricity for the subsequent invention of the lightning rod to protect structures.

A Profound Understanding

By contrast, the men who formed and shaped the political institutions of the United States knew a great deal about government. They were especially aware of its dangers. Of course, they believed that government was necessary and when rightly used beneficial, but they were probably more aware of the perils of power than any generation of men who ever lived. This awareness was attributable, in part at least, to the fact that government for them had been largely de-mystified. Something akin to the de-mystification of government had also occurred in the field of electricity. By de-mystification, I mean that something was no longer considered as being primarily a mystery but rather as capable of being understood by reason, and hence could be altered and controlled.

From time immemorial, lightning had been a mystery; it had been looked upon with awe, in fear, and with superstitious wonder. Most commonly, lightning had been thought of as an instrument or plaything of the gods. Bolts of lightning were directed at men as punishment or retribution for their wrongdoing or defiance of the gods. Franklin demystified it; he brought it into the realm of the natural and made of it something to which reason could be applied.

A parallel, though not nearly so universal, view of government has often prevailed. In the age immediately preceding that of the founding of the United States Europeans generally believed in the divine right of kings. They were instruments of God. Their selection was an accident of birth. Their duty was to do the will of God; the duty of the subject was to obey those placed over him in authority. Their powers were such as were appropriate to the fallen state of man and they were hedged about with mystery such as belonged to beings who did not belong to ordinary experience. A major de-mystification of government occurred in the seventeenth and eighteenth centuries, though similar developments had occurred at other times and places in history.

The founders of the United States were beneficiaries of this de-mystification of government. The change that had taken place in the outlook on government lent a special importance to their awareness of the dangers of government. Men had undoubtedly known that government was dangerous in times past, much as they had known that lightning was dangerous. But if there was nothing much to be done about them there was no need to keep these dangers at the forefront of consciousness. De-mystification changed that.

The documents of the era of the founding of the United States abound with references to the dangers of government. John Dickinson, in his objections to British taxes, provided a primer in how governments gradually increase their powers and become despotic. He said:

> Indeed nations, in general, are not apt to *think* until they *feel;* and therefore nations in general have lost their liberty: For as violations of the rights of the *governed,* are commonly not only *specious,* but *small* at the beginning, they spread over the multitude in such a manner, as to touch individuals but slightly. Thus they are disregarded. . . . They regularly increase the first injuries, till at length the inattentive people are compelled to perceive the heaviness of their burdens—They begin to complain and inquire—but too late. They find their oppressors so strengthened by success, and themselves so entangled in examples of express authority on the part of their rulers, and of tacit recognition on their own part, that they are quite confounded. . . .
>
> From these reflections I conclude that every free state should incessantly watch, and instantly take alarm on any addition being made to the power exercised over them. Innumerable instances might be produced to show, from what slight beginnings the most extensive consequences have flowed. . . .[1]

Benjamin Franklin pointed out in 1785 how governments may become instruments of injustice. "I see, in the last newspaper from London," he declared, "that a Woman is capitally convicted at the Old Bailey, for privately stealing out of a Shop some Gauze, value 14 Shillings and threepence; is there any Proportion between the Injury done by a Theft . . . , and the Punishment of a human Creature, by Death, on a Gibbet?" Franklin ruminated on this injustice to one of its own citizens by the British government and moved to the conclusion that it was of a piece with the behavior of the government generally. He gave the following instances of mistreatment of other peoples and nations: "View the long-persisted-in, unjust monopolizing Treatment of Ireland. . . . View the plundering Government exercis'd by your Merchants in the Indies, the confiscating War made upon the American colonies; and, to say nothing of those upon France and Spain. . . ." He concluded with these stirring words:

> Justice is as strictly due between neighbour Nations as between neighbour Citizens. A Highwayman is as much a Robber when he plunders in a Gang as when single; and a Nation that makes an unjust War, is only a great Gang. . . .[2]

The danger of government was palpable to Thomas Jefferson, and none exceeded him in their fears of it and desire to see it restrained. He even declared that "The natural progress of things is for liberty to yield and government to gain ground."[3] Of the governments of Europe in his time, he said that "under pretence of governing they have divided their nations into two classes, wolves and sheep."[4] Further, "to constrain the brute force of the people, they deem it necessary to keep them down by hard labor, poverty, and ignorance; and to take from them, as from bees, so much of their earnings as that unremitting labor shall be necessary to obtain a sufficient surplus barely to sustain a scanty and miserable life. And these earnings they apply to maintain their privileged orders in splendor and idleness. . . ."[5]

Fear of Conscription

John Adams expressed his fears about military conscription to Thomas Jefferson in a letter in 1777. Jefferson had written him that Virginia had been able to fill its quota of troops without resort to a draft. Adams could but "rejoice to learn that your Battallions, were so far fill'd, as to render a Draught from the Militia, unnecessary. It is a dangerous Measure, and only to be adopted in great Extremities, even by popular Governments." He noted that monarchs often utilized the draft with "no Interest of their own nor any other object in View, than the Gratification of the Avarice, Ambition, Envy, Revenge, or Vanity of a Single Tyrant."[6]

Richard Henry Lee, in his *Letters from the Federal Farmer,* expressed agreement with John Adams' view "that unbridled passions produce the same effect, whether in a king, nobility, or a mob. The experience of all mankind has proved the prevalence of a disposition to use power wantonly. It is therefore as necessary to defend an individual against the majority in a republick as against the king in a monarchy."[7]

The dangers of government were rehearsed in full measure in the Constitutional Convention. For example, Rufus King of Massachusetts objected to setting a date for Congress to meet each year because he "could not think there would be a necessity for a meeting every year. A great vice in our system was that of legislating too much."[8] Roger Sherman of Connecticut wanted to make the President absolutely dependent on Congress because "An independence of the Executive . . . was in his opinion the very essence of tyranny. . . ."[9] Benjamin Franklin opposed salaries for those in the executive branch because, he said, "there are two passions which have a powerful influence on the affairs of men. These are ambition and avarice; the love of power, and the love of money. Separately each of these has great force in prompting men to action; but when united in view of the same object, they have in many minds the most violent effects. Place before the eyes of such men, a post of *honour* that shall be at the same time a place of *profit,* and they will move heaven and earth to obtain it."[10]

Majority Rule and Tyranny

James Madison pointed up the dangers of unrestricted majority rule: "In all cases where a majority are united by a common interest or passion, the rights of the minority are in danger." Among others, he gave the following examples:

> We have seen the mere distinction of colour made . . . a ground of the most oppressive dominion ever exercised by man over man. . . . Debtors have defrauded their creditors. The landed interest has borne hard on the mercantile interest. The Holders of one species of property have thrown a disproportion of taxes on the holders of another species. The lesson we are to draw from the whole is that where a majority are united by a common sentiment, and have an opportunity, the rights of the minor party become insecure.[11]

Some feared that the Congress might be tyrannical. For example, Gouverneur Morris of Pennsylvania thought that "It is necessary then that the Executive Magistrate should be the guardian of the people, even of the lower classes, against Legislative tyranny, against the Great & wealthy who in the course of things will necessarily compose the Legislative body."[12] On the other hand, Madison pointed out the need for "defending the Community against the incapacity, negligence or perfidy of the chief Magistrate [President]. The limitation of the period of his service, was not a sufficient security. He might lose his capacity after his appointment. He might pervert his administration into a scheme of peculation or oppression. He might betray his trust to foreign powers."[13]

Beyond all the particular dangers which this one or that one saw in one branch or another or in particular powers there was a general danger which a goodly number saw. We might well call it the danger of high voltage. They often referred to it as the danger of centralized and consolidated government, the danger of a government remote from the people with large powers, the peril of such powers for the liberties of the people. Patrick Henry described it this way in the debates over ratification in the Virginia convention:

> . . . Had the delegates who were sent to Philadelphia a power to propose a consolidated government . . . ? Here is a resolution as radical as that which separated us from Great Britain. It is radical in this . . . ; our rights and privileges are endangered, and the sovereignty of the states will be relinquished. . . . The rights of conscience, trial by jury, liberty of the press, all pretensions to human rights

and privileges, are rendered insecure . . . A number of characters, of the greatest eminence in this country object to this government for its consolidating tendency. . . . The government will operate like an ambuscade. It will destroy the state governments, and swallow the liberties of the people.[14]

For a Bill of Rights

The overarching danger which many perceived in the proposed government, then, was that the liberties of the people were not secured against it. Thomas Jefferson asserted his view of what was wanted succinctly: "Let me add that a bill of rights is what the people are entitled to against every government, general or particular, and what no just government should refuse. . . "[15] To those who argued that no powers were granted in the Constitution to invade the rights of the people, Patrick Henry gave this ringing rebuttal: "Mr. Chairman, the necessity of a bill of rights appears to me to be greater in this government than ever it was in any government before. I have observed already that the sense of European nations, and particularly Great Britain, is against the construction of rights being retained which are not expressly relinquished. I repeat, that all nations have adopted the construction, that all rights not expressly and unequivocally reserved to the people, are impliedly and incidentally relinquished to rulers, as necessarily inseparable from delegated powers. . . . If you intend to reserve your unalienable rights, you must have the most express stipulation; for, if implication be allowed, you are ousted of those rights."[16]

Our complex Constitution is the product of this awareness of the danger of government. The men who devised it, debated its features, and who demanded protection from the government, were aware that every line extending from it was hot, so to speak. It was a conduit for power. It was a potential source of oppression, because it carried the power of government. To guard against its concentration, they separated the power into three branches: legislative, executive, and judicial. The powers of government were dispersed between the state and Federal governments. Some powers were denied to the states. Other powers were denied to the general government. The branches of government were made dependent upon one another in various ways, so as to discourage unilateral action. Basic rights were reserved to the people in a Bill of Rights and by provisions in the original Constitution. The government was based upon popular consent, yet that, too, was filtered so as to guard against precipitate action spurred by popular passions.

In short, and to return to the parallel with electricity, the power of government was insulated, grounded, transformed, and its use restricted, so to speak. Of course, the power of government is always potentially dangerous, as is that within electricity. Protections against these dangers always must be arrived at by compromises, compromises which will allow the power to flow with a minimum of danger to the beneficiaries. Something like that was attempted in the United States Constitution.

Since the time of the making of the Constitution the available knowledge about electricity has increased manyfold. Great generators have been devised to produce it in vast quantities. It has been transmitted over considerable distances in high tension wires, and is now distributed to virtually every home and place of business in the United States. We are so used to its being applied in so many ways for our convenience that we tend to take it for granted. Even so, except for occasional carelessness, we have not lost sight of the fact that it is dangerous and must be handled, if at all, with great care.

By contrast, there is much evidence that our knowledge of government, and particularly its dangers, is inferior to that of the Founding Fathers. We have, if anything, retrogressed in our understanding of its nature. A good case could be made that as the de-mystification of electricity has proceeded a re-mystification of government has occurred. Although new evidence of the dangers of government has accumulated in vast quantities in this century, as yet, it appears to have made little impact on the public consciousness.

Shifting the Blame

A part of the explanation for this lies in differences between government and electricity. Damages from electricity are readily attributed to properties inherent in electricity. By contrast, government always acts through human agents, and the blame for any harm done can be laid on them. Thus, policemen, jailors, judges, and other agents of government may abuse their powers. In such cases, it would be an error to blame their actions on government itself. But even the abuses heaped on peoples by dictators, who originated and caused the acts to be executed, have frequently been attributed to evil men rather than to unrestrained government. The differences can be sorted out usually, but it is a work of the imagination and intellect of a fairly high order.

There is this difference, too. Those who are made to suffer inconveniences and disabilities by law enforcement officials are usually blamed for their own difficulties. That is, they are held morally responsible socially for having come to the unfavorable attention of the government. True, a person who touches an exposed electric wire and is injured may have been negligent or careless, but his behavior is not reckoned to be morally reprehensible. Thus, the tendency to attribute moral culpability to the person harmed by government, however appropriate it may be otherwise, places the blame for damage at an even further remove from government itself.

Such differences do tend to obscure the dangers of government, but they do not explain the re-mystification of government. Much of this has been more or less deliberately accomplished. The notion has been spread that the way to make government benign so far as danger is concerned and wholly beneficial is by making it democratic. A pseudo religion of democracy has been promulgated in the schools and spread throughout the society. The people are good, according to this belief, and when the government becomes the agent of their will it is purified of all its dross. The powers of government have been applied ever more broadly and many steps taken to loosen the restraints upon it under the animus of democracy. Democracy has been equated with equality, and the power of government has been intruded into every realm in order to redistribute goods and take those actions which will move us in the direction of equality. The only danger, according to this view, is that government should lose its democratic character.

For more than a generation now students in schools have been inculcated with the notion of benign and benevolent democratic government. Their textbooks have hymned the praises of government activity in every field. Here is an example of the sort of thing they have often been assigned to read:

> To stimulate economic growth, an expanded public-housing program is advocated by those who believe that the greatest amount of employment at the smallest cost to the taxpayer can be obtained through public housing. One dollar spent for housing subsidies by the federal government will produce about forty dollars' worth of new construction. Immediate large-scale employment would be provided. Private enterprise would be stimulated to employ more people. Government agencies would direct the housing program while allowing local participation and responsibility. Standards of health and national morale would be increased by this type of public works. While helping to solve the problem of unemployment, it would wipe out slums and provide livable homes for those families.
>
> Millions of unsatisfactory houses in the United States today make more serious the problems of poor health, broken homes, crime, and juvenile delinquency. Private enterprise will need to work with the government in order to provide decent housing for every family in the United States.[17]

It would appear from the above that government is not only benign and benevolent but also capable of working miracles—"One dollar spent for housing subsidies by the federal government will produce about forty dollars' worth of new construction." Such claims are truly redolent of a mystique of government.

Of course, there have been those who never succumbed to the notion of benign and benevolent government. There have been those, too, who have called attention to the fact that government is force, and that its use is always pregnant with dangers. But for many years theirs were voices crying in the wilderness. There are some signs today of a reviving awareness of the dangers of government. If it should take hold and spread we might eventually advance to the level of understanding of the matter which many of the Founding Fathers had. If that takes place, it would then be possible to explain the dangers of electricity by comparing them to government. "Danger—High Voltage" signs might be attached to government buildings as well as to transformer stations.

—FOOTNOTES—

[1]John Dickinson, *Letters from a Farmer in Pennsylvania* in *Empire and Interest,* Forrest McDonald, intro. (Englewood Cliffs, N. J.: Prentice-Hall, 1962), pp. 72-73.

[2]Ralph L. Ketchum, *The Political Thought of Benjamin Franklin* (Indianapolis: Bobbs-Merrill, 1965), pp. 373-75.

[3]Edward Dumbauld, ed., *The Political Writings of Thomas Jefferson* (New York: The Liberal Arts Press, 1955), p. 138.

[4]*Ibid.*, p. 65.

[5]*Ibid.*, p. 74.

[6]Lester J. Cappon, ed., *The Adams-Jefferson Letters,* vol. I (Chapel Hill: University of North Carolina Press, 1959), p. 5.

[7]Jack P. Greene, ed., *Colonies to Nation,* 1763-1789 (New York: McGraw-Hill, 1967), p. 562.

[8]James Madison, *Notes of Debates in the Federal Convention of 1787,* Adrienne Koch, intro. (Athens, Ohio: Ohio University Press, 1966), p. 398.

[9]*Ibid.*, p. 48.

[10]*Ibid.*, p. 53.

[11]*Ibid.*, pp. 76-77.

[12]*Ibid.*, pp. 322-23.

[13]*Ibid.*, p. 332.

[14]Moses C. Tyler, *Patrick Henry* (Boston: Houghton Mifflin, 1887), pp. 288-89.

[15]Alfred Young, ed., *The Debate over the Constitution,* 1787-1789 (Chicago: Rand McNally, 1965), p. 49.

[16]Tyler, *op. cit.*, p. 290.

[17]Leo J. Alilunas and J. Woodrow Sayre, *Youth Faces American Citizenship* (Philadelphia: J. B. Lippincott, 1970, 4th edition), pp. 112-13.

Justice Louis D. Brandeis

IDEAS ON LIBERTY

EXPERIENCE should teach us to be most on our guard to protect liberty when the government's purposes are beneficent. Men born to freedom are naturally alert to repel invasion of their liberty by evil-minded rulers. The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning, but without understanding.

Todd S. Hultman

The Benefits of Trade

FREE TRADE affords benefits often overlooked. At the heart of free trade lies the law of comparative cost: an individual stands to gain by concentrating his efforts and exchanging with others rather than trying to produce all types of goods. This is why individuals of various abilities are able to trade peacefully for mutual gain.

For example, Jones lives next door to Smith. They have similar lawns and gardens. Jones mows his lawn in two hours and hoes his garden in one. Smith mows his lawn in three hours and hoes his garden in four. Thus, each Saturday Jones spends three hours working in his yard while Smith spends seven hours.

One Saturday Jones, observing these differences, offers to hoe Smith's garden if Smith will mow Jones' lawn. Smith agrees and both find they benefit from this exchange. Jones now works only two hours instead of three, while Smith works only six instead of seven. The same results are accomplished, but each man gains one hour of free time.

When Smith and Jones each focuses on his more productive skills, they are able to cooperate peacefully for mutual benefit. Each receives a free hour in his day he would not otherwise have had. Depending on their time preferences, the men may consume their extra time in enjoyment or use it to engage in further production and exchange. Smith may go for a walk, enjoy his family, or watch television while Jones may hoe another garden for more benefits. The goal is not necessarily to

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accumulate goods and services, but to enlarge the opportunity to engage in the peaceful activities of their choice (which often requires goods and services).

This example of comparative cost also shows that the unskilled, as well as the skilled, can benefit from free trade. Jones was the more skillful at both mowing and hoeing, yet Smith could still offer his aid to Jones for mutual benefit. Smith's lack of skill as a mower and hoer didn't make him subservient to Jones; both were dependent on the other to get the work done and acquire their free time. It is true that Smith would be working several hours after Jones was done, but both were better off after the exchange than before. Any attempt to force Jones to help Smith would have destroyed the basis for future exchange. This would have made it more beneficial for Jones to return to his self-sufficient lifestyle, leaving Smith once again with his long workday. Let the exchange take place free from coercion and both parties will gain.

Free trade also promotes a greater awareness of the needs of others. When Smith and Jones were self-sufficient, there was no need for communication or understanding; each was an island unto himself. However, that first Saturday when Jones was looking for a way to help himself by trading with Smith, he had to make a conscious effort to understand Smith's needs. As Jones continues to enrich himself by trading with others in society, he will become more useful to others, enhancing his cooperative ability. Smith, likewise, will grow.

As they become more aware of the needs of others and more dependent on trade for their higher standard of living, they will also tend to behave more peacefully toward their fellow men. When Smith and Jones were self-sufficient, it was of little concern to either of them what happened to the other. Now that they are exchanging labor and thus enjoying a higher standard of living, injuring one would also hurt the other. Just as peaceful exchange brought benefits to both, violence would bring injury to both. Thus free trade encourages peaceful cooperation and discourages violence.

The final lesson to be gleaned from this example is the importance of freedom for the increase and enjoyment of wealth. Obviously, had Smith and Jones been prevented from exchanging their services there would have been no resulting benefits. Nor can anyone else make exchanges for them. Only they know if an exchange will be beneficial since value and wealth are matters of personal judgment. What if Smith had enjoyed hoeing his garden more than anything else? It would have been wrong to force him into the exchange "for his own good." Both his freedom and his satisfaction would have been diminished, resulting in loss rather than gain. Mutual benefits can only occur when individuals are left free to exchange according to their own values.

These often overlooked benefits of free trade remind us: individuals can cooperate for their mutual gain; the unskilled, as well as the skilled, have the opportunity to advance; free trade promotes greater awareness of the needs of others; and freedom is necessary for this whole process of trading for mutual benefit . . . the ends of man not necessarily being in the pile of goods and services he accumulates, but in the opportunity to engage in the peaceful activity of his choice.

IDEAS ON LIBERTY

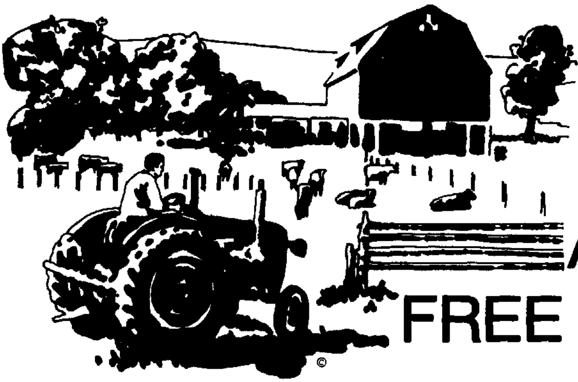
No Restrictions

FREE TRADE, as I would define it, can only exist when there are no restrictions on either side. Therefore, it is absurd to think of its existing in the world today with practically all countries operating under some degree of socialism. But, I would argue that it is to our own advantage to remove *our* restrictions, then trade as best we can under the restrictions imposed by other nations. It would be far from ideal, but their restrictions are basically their responsibility and not ours. My entire argument is based on what I think would be best for our own citizens, as producers and consumers, and I am not too much concerned with policies of other nations, however foolish I may think they are. Perhaps I should say I am concerned, but it is not within my province to try to force their reform. . . .

I believe that the principle most commonly lost sight of in our discussions of trade is that consumption is the sole purpose of production. We sometimes tend to think that the preservation of an industry or a particular firm or a man's job is the important thing to preserve. This leads to all sorts of uneconomic measures which adversely affect the consumer—the king.

W.M. CURTISS, "Removing Our Trade Barriers"

Kelly Ross



FARM LAND AND THE FREE MARKET

ONE OF THE ISSUES currently finding favor with the media is the fear that America's farm land is disappearing at a perilous rate due to urban sprawl. Sources as varied as *U.S. News & World Report, Saturday Review,* and NBC News, are reporting in vivid detail that four to twelve square miles of the nation's prime agricultural land are being lost every day. A booklet entitled *Where Have the Farm Lands Gone?* by the Federally funded National Agricultural Lands Study tells in words and pictures how Florida will lose virtually all of its unique and prime farm lands by the turn of the century if present trends continue. Farmers in New Hampshire and Rhode Island should be alarmed to learn that all of their farm land will also disappear in the next 20 years.

Those who are caught up in this panic argue strongly that the country's only salvation is a comprehensive effort by local governments, aided by state and Federal agencies, to preserve resource lands through land use plans. R. Neil Sampson, Executive Vice President of the National Association of Conservation Districts, goes even further to advocate a new "land ethic" brought about by "education and social evolution to change the way Americans think about land."

The discussion of a decreasing cropland inventory in particular and comprehensive land use planning in general often begins with a misunderstanding of economic principles and agricultural statistics. Land is a productive resource and as such is

Mr. Ross, a former aide to Senator Mark Hatfield, was elected in 1980 as a member of the Curry County Oregon Board of Commissioners.

also a commodity, subject as any other to the same free market pressures of supply and demand.

Before delving further into the economics of land use, it is worthwhile to debunk some of the statistics used to make the claim that prime agricultural land is disappearing. The figure quoted most often is that three million acres of farm land each year (or 12 square miles each day) are being lost. This assertion is derived from a study published in 1977 by the U.S. Department of Agriculture's Soil Conservation Service which found that during the eight years between 1967 and 1975, 25 million acres of *rural* land (not just farm land) had been converted to other uses. Only 700,000 acres of actual cropland, the agency concluded, went out of use annually. It is interesting to note the composition of this yearly three-million-acre conversion. Only 900,000 acres went into urban and transportation use; 800,000 acres were abandoned because of low soil fertility or a terrain unsuited for efficient use of modern machinery; one million acres were converted into additional wilderness recreation areas and wildlife refuges; and 300,000 acres were utilized for reservoirs and flood control.

The Soil Conservation Service's results have not found universal acceptance by the scientific community. The Regional Science Research Institute, for example, attempted to confirm the estimates by using independent estimates of rural land conversion. Their findings showed a substantially lower conversion rate since 1970 than that projected by SCS. In addition, there is the problem of the system by which SCS defines agricultural land. The Land Capability System had its roots in the Mid-west and Great Plains area following the "Dust Bowl" days of the 1930s. Developed to point out the hazards and limitations of using soil on a long term basis for cultivated crops, its main purpose was to help prevent soil losses which affect productivity. The system basically shows degree of hazard or limitation, but does not meaningfully address the productivity of different soils which is so important.

Creating Cropland

Those who raise the alarm about the loss of farmland always seem to ignore the other side of the issue. There is a large amount of land converted *to* agricultural use through irrigation or reclamation of previously unsuitable areas. In various parts of the United States cropland is being created at the rate of 1.25 million acres annually, resulting in an actual net gain. The increase can be seen in the latest Census of Agriculture conducted by the U.S. Department of Commerce showing that total cropland jumped from 441.9

million acres in 1974 to 460.1 million acres in 1978. Even the essentially anti-growth *Global 2000 Report to the President* expected this trend to continue into the next century when 513.8 million acres of arable land is projected to be in use. The statement by the National Agricultural Lands Study that Florida, New Hampshire, and Rhode Island will lose all their farm land in the next 20 years is contrasted with the fact as reported by the Census of Agriculture that the total number of farms have increased in Florida by 3.4% and by 5.6% for the entire New England region over the last four years.

The reasons for these gains bring the discussion back to economics. While many believe land to be a "special" resource requiring regulation to be preserved, in reality it is no different from any other resource subject to the creative genius of man. A relevant point made by Julian Simon, professor of economics and business administration at the University of Illinois, is that contrary to the popular conception, much of the valuable corn and soybean acreage of Illinois was once a "malarial, water-logged, unproductive swamp." The labor of pioneer farmers, motivated by a demand for their product, was responsible for transforming a useless bog into a fertile garden feeding not only America, but the world as well.

Use Allocated by Price

Very simply, in a free market system of allocation, the use of land is determined by whatever brings the highest value. It would be contrary to rational thought to put any resource to a use other than that for which it is most desired. To do so would be as foolish as relegating a prize race horse to pull a plow.

Some may grumble about seeing condominiums occupy soil from which green rows of crops previously grew, but this is an indication that the land is or will be more valuable to the developer than to the farmer. If it were not, the farmer would not wish to sell and the developer could not afford to buy. A series of such exchanges will reduce the supply of available farm land and, in turn, activate other market mechanisms resulting in an increase of its price. The higher price will enable the farmer to resist future offers from developers, give incentive to take the necessary measures to put other land into production, and spur technological and scientific advances.

There are statistics to confirm this chain of events. According to Stanley Miles, agricultural economist at Oregon State University, between 1950 and 1980 production of food and feed grain nationally more than doubled while using less land. Parallel to this increase in yield is the fact that even adjusted for inflation, the price of farm land more than tripled in many parts of the country from 1955 to 1977.

As a land use study group in Oregon recently concluded, "far from being random in the establishment of land use patterns, the market has performed with unsurpassed excellence by any standard of production or efficiency." This smoothly flowing efficiency can be quickly interrupted by the imposition of centralized planning and controls by government. According to Ernest Eber in *Urban Planning in Transition*, central planning is "based on the concept that the utilization and allocation of all resources would benefit from the establishment of deliberate goals by public authority to be achieved through systematic control of development by governmental agencies."

Paying for Mistakes

Whereas the market is constantly changing to achieve the highest value for land, the basic feature of the centralized planning system is to rely on a group of "planners" to determine the greatest need now and into the future for an area and to fit that need so as to conform with other surrounding property. The underlying assumption is that accurate information is available to produce a reliable land use plan which will be workable for many years to come. Public sector planners, however, do not have the same incentives of the private investor to attain a high degree of accuracy. If an entrepreneur makes a faulty judgment he will have to bear the full weight of his error, but the miscalculations of the planner are dispersed among all members of society. These miscalculations are usually translated into costs, and a unique set of costs is generated by government intervention in the free market allocation of land.

The State of Oregon is generally recognized to have the most comprehensive land use planning laws in the nation. The costs of these regulations, created by the state legislature in 1973, are now becoming evident. The Brookings Institution has projected a massive housing shortage in the state due to planning requirements that all future development must be confined within urban growth boundaries. Anthony Downs, a senior fellow at the Institution, has stated that Oregon's style of planning creates a "quasi-monopoly" for those who hold vacant land inside such a boundary. The result is a reduction of competition in the housing market, producing an increase in prices. "The only way to reduce cost is to increase the total body of housing units," observed Downs who predicted that the great demand for single-family suburban type dwellings would continue well into the 1980s as couples born during the baby boom of 1954–64 come of age. To corroborate this theory further, a recent comprehensive survey of literature on the impacts of government land use regulations by the Council of Planning Librarians concluded that "increased land use and environmental regulations have contributed to the rapid escalation of housing costs."

Considering the Costs of Options Curtailed

By definition, any discussion of ways to stop the conversion of farm land must reduce the power of a farmer to determine the fate of his own property and this must also be considered a cost. Although many farmers want to remain on the land, they also want to be free to sell their property at a handsome profit. One authority close to the subject has been quoted as saying, "All too often a farmer's land is his hospitalization plan, insurance policy, child's college tuition, or personal retirement fund. Consequently, farmers are concerned about compensation when land use controls are established that they perceive as limiting their options, including sale or development."

Limitations imposed by the California Coastal Commission, which also seeks to preserve agricultural land, have actually forced some farmers out of business. In the past when a bad crop made it difficult to repay debts, solvency could be maintained by selling a few acres of land. Now, however, regulations forbid the parcelization of cropland and force the farmer to sell all his property or go bankrupt.

A Supreme Court decision earlier this year serves notice to government bodies that extreme care should be exercised when enacting land use regulations which limit a property owner's rights. The case of San Diego Gas and Electric Company vs. City of San Diego, in which the utility brought suit against the city for changing 39 acres from an industrial zone to agricultural, saw the landowner claim that he had been deprived of the entire beneficial use of his property. A decision was withheld because of the technical error of a lower court, but Justice Brennan's dissenting opinion (joined in by Justices Stewart, Marshall, and Powell) concluded that downzoning or other forms of prohibitory regulation which deprive an owner of all or most of the beneficial use of his property could constitute an illegal taking even if the deprivation was only temporary. In such cases, the four justices ruled, compensation must be made. The majority opinion itself indicates that there may be other members of the court who agree that excessive controls can constitute taking when it ended by saying, "We are frank to say that the Federal Constitutional aspects of that issue (taking by regulation) are not to be cast aside lightly."

Several northeastern states have tried to solve the problem of compensating landowners by purchasing development rights (PDR). The purchase of development rights to a property is equivalent to acquiring an easement with the value being defined as the difference between the market value of the land and its value solely for agricultural purposes. There are two basic approaches to PDR programs: to acquire them directly through purchase or donation or to purchase the property in full fee, impose restrictions on its development, then sell or lease the land to a new user, subject to those restrictions. The one drawback to PDR programs is their high cost, a serious obstacle in an era of budget constraints. New Jersey abandoned its efforts after it became clear that significant amounts of farm land could not be purchased within a $5 million budget. New York's Suffolk County has to date spent $10 million on development rights for 52 farms totaling 3,300 acres.

Those who advocate government intervention to stop the imagined loss of farm land threaten to throw into confusion the very system that has enabled American agriculture to attain its present degree of excellence. Instead of placing the future of the nation's farm land in the hands of publicly employed planners, responsibility should be left with the individuals who know the land and its potential best. We have only to look to the Soviet Union for an example of what happens when central planning replaces farmers as stewards of the land. By law, no Soviet citizen can farm a private plot larger than one acre, but because of the gross inefficiency of the large collectives, private farmers working only 1.4% of the country's arable land produce 61% of its potatoes, 34% of the eggs, and 29% of the meat, milk, and vegetable output.

The theory expounded by Adam Smith over 200 years ago that the individual seeking his own economic benefit will also benefit society as a whole is just as applicable today to the farmer and the use of his land.

IDEAS ON LIBERTY

Sir William Blackstone

EVERY wanton and causeless restraint of the will of the subject, whether practised by a monarch, a nobility, or a popular assembly, is a degree of tyranny.

The Other Side of Racism

I first knew Anne Wortham as the King Features Syndicate librarian. She was competent and hard-working at her job, but occasionally she would take a minute to talk about our mutual concern for Leonard Read's freedom philosophy. She is a black, but race, as such, seemed to be the least of her preoccupations. She was confident in her own abilities, and certain that she was going to make it in the graduate school world which she proposed to enter.

Now, several years after her return to the academic scene, she has come forward with a book, *The Other Side of Racism: A Philosophical Study of Black Race Consciousness* (Ohio State University Press, 353 pp., $12.50) that has important libertarian implications. She approaches her study by asking herself certain basic questions such as "Am I free of government coercion?" and "Am I free of interference from my neighbor?" But most importantly she wants to be free of "irrational ideas and unjust actions" against her own human nature.

The result of her questioning will please such blacks as Thomas Sowell and Walter Williams, who are among the best of our free market—and free society—economists. But she will hardly find favor with those blacks who are willing to substitute group-esteem for self-esteem in their quest to make waves in a numerically white society.

It is not that Anne Wortham doesn't accept the anti-segregation aim of the Civil Rights Act of 1964 as a positive good. The right of a black to demand equality of service from State and municipally owned schools, conveyances and tax-supported public facilities seems to her to be incontestable. But, like Senator Barry Goldwater, she boggles at the idea that government should force private merchants to open their premises to any and all comers. The natural right of an individual to dispose of his property as he sees fit must, she insists, be protected even if it involves letting morally delinquent characters behave irrationally in their dealings with their fellow men.

As a libertarian Anne Wortham finds herself in the uncomfortable position of defending Lester Maddox, the owner of the Pickrick Restaurant in Atlanta, Georgia, who armed himself with a pistol and pick handle and ordered blacks to get off his property. She dislikes Maddox, but, as she puts it, "a businessman who cannot serve whom he pleases is not a businessman but a slave." Her preferred way of dealing with the Maddoxes in our society would be to persuade people to boycott private discriminators and to set up businesses to compete with them.

A Wrong Turn

The freedom movement in Anne Wortham's opinion took a wrong turn when it deserted the individual to focus on the demand for special treatment for ethnic groups. People who feel compelled to merge their identities in collectivities can never in her estimation achieve self-esteem. Martin Luther King did not go wrong in asking people to love one another, but it is in the nature of love that it cannot be imposed at group behest. The post-King history of the freedom movement has been filled in all too many instances with attempts to correct the wrongs of racism with still more racism. "Affirmative action," which leads to quotas, is simply discrimination in reverse. Preferential hiring is still preferential hiring when it is based on color instead of on one's kinship to the boss or on one's age category, sex or religious affiliation.

In her analysis of the post-King movement Anne Wortham identifies five different types who have led blacks away from the idea of achieving a self-esteem that is "beyond racism." There is the conventional integrationist who simply wants to conform. There is the power-seeking nationalist who believes in a group-imposed separatism. There is the spiritual separatist with the "black is beautiful" mentality that denies the possibility that whites will ever understand true spiritual superiority. There is the independent militant who says "if you can't lick them, destroy their world." And there is the ambivalent appeaser who says to himself, "if you can't join either group, don't let them know it."

In describing her five types Anne

Wortham cuts loose with some beautifully direct writing that lifts her book and propels the whole argument forward. Sociological lingo is forgotten. We see clearly the wrongs that are being done in the name of Affirmative Action. Anne Wortham quotes an illustration offered by Thomas Sowell of a young black woman with an IQ of 142 and grades to match who was told that she would have been eligible for financial aid in law school if only her test scores had been lower.

The record of Affirmative Action has been horrible. Thousands of black students who score in the top half of standard tests are condemned to attend the lowest level of southern Negro colleges where other blacks without academic qualifications make the top-level universities and are maneuvered through at a terrific cost to educational integrity.

The Wortham Declaration of Independence

In her own "statement of challenge" Anne Wortham objects to all "Negro and white egalitarians who would enslave us with ethnic mysticism and welfare statism." She does not want the result of any black action to be "equal" to everyone else's. She does not want private doors opened for her by the force of government intervention. She does not want a guaranteed livelihood paid for by the expropriated resources of others. She is against "assistance" given as blackmail paid to silence a militant's gun to prevent a looter's rampage. She has no desire to attend a university she is not qualified to enter, nor does she want "preferential treatment" in order to be spared the risks of competition. All she wants is to be free.

The Wortham Declaration of Independence will provoke many an argument. Anne Wortham is quite aware of the power of "anticoncepts" such as "black mind," "blackness," "black awareness," "black pride" and "black identity." They have become part of the conventional language, and are kept alive by politicians. But "anticoncepts" that rise from the "philosophical swamp of subjectivism" have no real validity. Anne Wortham asks some simple questions, such as: "What should determine pride in a person—any person—his biocultural ancestry or his achievements? What should determine his identity—his genetic endowment or the character and personality he creates?" Questions of this type answer themselves.

Quoting Brewton Berry, Anne Wortham says "we do not 'solve' race problems—we move in directions." Her book makes its own magnificent move—and in transcending "race" it strikes a real blow for individual human freedom.

THE FAIRMONT PAPERS (Black Alternatives Conference)
by Thomas Sowell and others
(Institute for Contemporary Studies, 260 California St., San Francisco, Calif. 94111)
174 pages ■ $5.95 paperback

Reviewed by Allan C. Brownfeld

ONE of the most interesting developments on the nation's intellectual scene is the turning away of many black Americans from the welfare state philosophy which so many embraced in the 1960s and early 1970s.

Black academicians and others have come to see that government intervention in the economy, rather than pointing in the direction of a solution to the nation's racial problems has, instead, locked many black Americans into a cycle of poverty. The best way to help minorities to advance, they argue, is through an expanding economy and an end to government regulations which make it difficult for those at the bottom to enter the market.

In December, 1980, the Institute for Contemporary Studies, a California-based public policy institution, sponsored a "Black Alternatives Conference" which brought together leading black conservatives, a number of white academicians, and representatives of a broad spectrum of black opinion. The papers presented at that conference, plus the ensuing discussions, make up the present volume.

In many respects, this is an historic document. It marks, at last, a break on the part of a significant number of prominent black Americans with the liberal orthodoxy.

Thomas Sowell of the Hoover Institute writes that, "One of the things we need to focus on are facts about results—not rhetoric about intentions. We need to look not at the noble preambles of legislation but at the incentives created in that legislation. Very often, legislation intended to help the disadvantaged in fact pays people to stay disadvantaged and penalizes them to the extent that they make an effort to rise from disadvantage . . . The issue is not that the government gives too much help to the poor. The problem is that the government creates too much harm for the poor."

Sowell notes that, ". . . the greatest single loss is that the minimum wage laws promoted by labor unions protect their members by pricing black young people out of the market."

Professor Walter Williams, a Temple University economist, cites another example of a government policy which impedes black economic progress—the licensing provisions of the Interstate Commerce Commission. Jim Ward of Omaha, Nebraska, a black trucker bid the lowest price on a contract to ship household goods of air force personnel. He was not awarded that contract, however, because he did not have an ICC license to move goods across state lines. The contract was awarded to another man who bid $80,000 more. Dr. Williams observes: "Jim Ward did not need any 'equal opportunity' program; he did not need Small Business Administration loans. What he needed was to have government get off his back."

Black attorney Maria Johnson, discussing the negative effect of rent control, described the case of Washington, D.C. In 1974, in the first four months of the year rent control was enacted, there were 5,247 building permits issued for multi-family dwellings. In 1975 in the same four-month period one year after the enactment of rent-control, 375 building permits were issued—almost 5,000 fewer. Miss Johnson declares: "Rent control is the classic example of treating symptoms. The cities are dying inside. The disease is a shortage . . . of housing that is affordable to both low-income and moderate-income tenants . . . Rent control . . . does not help poor people; it does not help black people . . . under rent control you have a decrease in the housing supply."

Professor Martin Kilson of Harvard, who is black, expressed what seemed to be the consensus of black participants in the meeting when he said: ". . . the left/liberal axis no longer has—if it ever did have—a monopoly on effective policy for black needs . . . It is now clear that there is too high a cost associated with black policy isolation from conservative initiatives in American political life . . . New coalitions are required by blacks."

The best way to bring minorities into the mainstream of American life is to remove politically sanctioned barriers that restrict market entry, thus permitting a genuinely free economy to flourish.

THE AMERICAN DEMOCRAT
by James Fenimore Cooper
with an introduction by H. L. Mencken
(Liberty*Classics*, 7440 North Shadeland, Indianapolis, Indiana 46250)
252 pages ■ $9.00 cloth; $4.00 paperback

Reviewed by Holmes Alexander

Cooper's treatise, happily made available with an introduction by H. L. Mencken, amounts to being the 86th Federalist Paper. Thus we now have expert analyses of the American Constitution with 85 essays in the 18th century by Hamilton, Madison and Jay; Cooper's 46 brisk chapters in the early 19th century (1838) and Mencken's 11-page commentary in the 20th century (1931). Our cup runneth over.

Cooper (1789–1851) looks at the American experiment with the advantage of hindsight and consular service in Europe (neither Hamilton nor Madison was ever abroad) and he sees that a number of the Founders were justified in their apprehension that the democratic republic would soon become a republican-type democracy.

Mencken finds this metamorphosis a near-disaster, with demagoguery riding higher than monarchy ever did, and boobosity as the national culture; but Cooper is more measured in his polemics against the mythology of equality. This bogus doctrine, of course, was nothing but a war-whoop of the Revolution. Cooper notes that the constitutional convention treated it as an absurd unmentionable. Nonetheless, politicians climb by flattering the people, just as courtiers butter up the kingly establishment; the common man, the epitome of mediocrity, soon dominated national affairs and has done so ever since.

While Cooper, a Yale graduate, naval historian and top man of American letters deplored the leveling effect of democracy's downgrading of intellectual excellence, he thought that democracy is the best of the worst, since all forms of government yet devised are tyrannical to some extent and hostile to individual liberty.

But Cooper goes far past any repetition of this established truism in exploring the short-of-perfection governance of man. He says that the United States is best styled as the Union. It comprises constituencies rather than people or population, and forms a confederation of communities which ideally merge into the American commonwealth or commonweal, the "general welfare" clause in its present application an example of how democracy debauches the constitutional intent.

Liberty is no more of an absolute than equality, but Cooper finds that the country is well-protected against majority rule and mob law, since minority opinion can always get a hearing through the right of petition, jury trial and *habeas corpus*. He dwells, as does no other commentator known to me, on religion as a factor of self-rule, seeing the American family ("honor thy father and mother") as our basic unit and the Tenth Commandment ("thou shalt not covet") as a wholesome inhibition against mankind's greedy nature which government has a duty to control.

Altogether, Cooper comes forth as the voice of common sense. There is, he writes, "no good without alloy. It is idle therefore to expect a system that shall exhibit faultlessness or perfection." All that government can achieve "is to remove useless obstacles and permit merit to be the artisan of its own fortune . . ."

None of the Founders said it better than that.