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Jane M. Orient

Criminal Liberty and Civil Liability: Can Free Enterprise Survive?

A lame, gray-haired contractor complains that a lumber company employee is dilatory in serving him. The burly young man thereupon shoves his customer down the stairs. The public prosecutor doesn't think it worthwhile to press assault charges, so the culprit remains unpunished.

A domestic employee decides on her own to go down to the cellar, and falls on the stairs. She claims she was not warned of some hazardous condition, and the court awards her a hefty sum, with a generous share for her lawyer.

A "sting" operation by the Tucson Police Department, costing $60,000, led to the solution of hundreds of burglaries and the conviction of 34 offenders. Fifteen were sentenced to prison; a few got short jail terms; thirteen received only probation, possibly with orders to pay restitution ranging from $20 to $1871, totalling $5129.[1]

A 22-year-old woman suffered and recovered completely from toxic shock syndrome in 1980, the first year in which this disease was widely recognized. A jury awarded her a $10.5 million judgment against Johnson & Johnson, manufacturers of OB tampons, although the only brand implicated in causing a higher risk of this condition was Rely, which was voluntarily withdrawn from the market by Procter & Gamble. The message was supposed to be that companies should "please test their products before marketing them."[2]

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The exact meaning of this admonition was not specified; since the incidence of the disease is approximately one in 100,000 population per year,[3] no economically feasible test would have detected it. The justification for the size of the award was "to slap Johnson & Johnson's hands real good (*sic.*)."[4]

Nonproductive Versus Profitable Risks

In 1912, Isaac Adler published a treatise on lung cancer, a previously rare disease, in which he speculated that tobacco smoke might be one of the causes. A controlled study in which cigarette smoking was shown to be associated with lung cancer was published in 1939. In 1964, the Surgeon General's report cautioned that cigarette smoking appeared to outweigh all other factors in the causation of lung cancer, increasing the risk by a factor of about ten, as well as contributing to other serious health problems.[5] No health benefits have ever been described. No suits are pending against the tobacco growers, but cigarette packages must now carry a warning on the label.

In 1907, the first report to suggest asbestos toxicity appeared, but the magnitude of the problem was not fully appreciated until the 1960s, due to the long latency period before diseases manifest themselves. Heavy asbestos exposure increases the risk of lung cancer in nonsmokers by a factor of five.[6] The material is widely used in construction and shipbuilding for its insulating and fireproofing properties. No completely satisfactory substitute is available. Synthetic mineral fibers proposed to replace this natural product may not be safe; they have been found to induce tumors in animals.[7]

Lawsuits against companies involved in any aspect of asbestos use (even just the paperwork) threaten many with bankruptcy. One small firm, which up until 1970 used asbestos in a few of its many insulation products, faces 13,000 suits.[8] If continued at the present rate, asbestos litigation will amount to $38 billion over the next 15 years, and may force large insurance companies to default, leaving their policyholders without coverage.[9] On the other hand, school districts, which compel children to attend school in buildings in which the decay of sprayed decorative and insulative materials exposes them to the carcinogenic fibers, are not similarly imperiled. Nor is the U.S. government, which ordered substantial quantities of the material for warships.

Identifying the Agent

In a criminal case, the prosecution must demonstrate beyond a reasonable doubt that the accused intentionally committed the act. Motive, means, and opportunity must be shown. So scrupulously are the rights of the defendant protected that if a police officer or the court makes a procedural error, even an obviously guilty prisoner may be released.

In a civil court, the defendant lacks the same advantages, and the standard of proof is far different. A property owner need have no motive for injuring a guest or employee, nor prospect of benefiting from the misfortune. Failure to prevent a calamity caused by the law of gravity and a lapse of attention on the part of the victim may be punished more severely than breaking and entering. Entrepreneurs are assumed to have a motive, the seeking of profit. An intention to do harm need not be present. That workers and customers also share in the compensatory benefits of a product appears to be irrelevant.

To prove that a certain product caused an injury may be straightforward in a few cases, such as septic shock resulting from bacterial contamination of intravenous fluids. However, guilt by association is more usual. Tampons do not directly cause toxic shock, nor do they carry the bacteria that are implicated. Probably, they facilitate in some way the growth of a strain of Staphylococcus, which became more prevalent in isolates from surgical wounds and burns around 1960. In 1979 or 1980, this strain underwent a genetic change, increasing its virulence. Men, children, and women who never use tampons can also be afflicted, but tampons were associated in about 85 per cent of the reported cases. The extensive publicity accompanying the discovery (partly sponsored by Procter & Gamble), alerted potential victims, but also biased researchers.

In a criminal case, if a hypnotist suggests to a witness that he might have seen a blue car, subsequent testimony about a blue car must not be admitted. A similar fallacy pervades the epidemiological studies, which rely heavily on human memory. A prominent statistician considers the case against tampons to be still the Scottish one: not proved.[10]

Evidence linking occupational exposures to disease is also statistical and largely circumstantial. For obvious reasons, one cannot do a controlled experiment, in which some human beings are deliberately exposed to a suspected toxin, and others not. One must look back on situations in which this has already occurred in a "natural" experiment. Many pitfalls await investigators. Important issues are the selection of an appropriate comparison group, elimination of bias, and proper handling of confounding factors (such as exposure to other carcinogens, notably cigarettes).

Establishing Responsibility

Even if an individual is known to have committed a criminal act, he cannot necessarily be held responsible for it. If psychiatrists testify persuasively that the accused was unable to exercise free will, due to mental disease, he must be acquitted. The criminal is often portrayed as the victim of society, perhaps through having unloving parents, or experiencing poverty or social discord. Compelled by his early influences, he is not really free to choose.

In civil law, it is not necessary to identify an act that directly caused injury. Omissions (negligence) rather than commissions are generally at issue. Presumably, a manufacturer is free to choose what he will make. One might argue that a worker is free to decline employment, but apparently his freedom is to be considered impaired if he is not fully informed of all the risks (even if they are not fully known). A court must inevitably try to evaluate risks in retrospect.

A worker afflicted with asbestosis would probably say he wouldn't have taken the job if he could have foreseen his present condition. Yet, at the outset, he might have made the same decision if he weighed the risk of lung disease 25 to 30 years in the future against the drawbacks of unemployment or the chance of early violent death faced by taxi drivers. Similarly, a woman who complains *after* her episode of toxic shock might still have elected to use tampons at the point when illness was a slight risk rather than a reality, just as 70 to 75 per cent of women in the most susceptible age group continue to do, despite the warning message in the box.[11]

Ability to Pay

Allocating responsibility is a treacherous task, but several principles seem discernible in court decisions. Ability to pay is a key qualification for assuming liability. Although hesitant to demand that lawbreakers take the consequences of actions which they perform, courts readily blame prosperous, well-insured individuals or corporations for forces over which they have little control. While the adjective "obscene" may be applied to profits resulting from useful production, it is not used in the context of profits from being a victim or representing those perceived to be unfortunate.

That the producer bears greater responsibility than the consumer, and the owner than the worker, is justified to some extent by the greater knowledge and capability of the former. However, the disproportion is increasing to the point that the producer is supposed to be omniscient, and the "little guy" feeble and stupid. For example, the desiccant in pill bottles is stamped "Do Not Eat," lest someone try to swallow it despite its large size and cylindrical shape. Although owners may be held liable for not warning workers of hazards of which even they were un-aware, workers and union representatives are not imagined to be capable of asking a reference librarian or a competent physician for information about the dangers of the workplace.

Who Pays?

The costs of crime are borne almost entirely by the victims. The law-abiding citizens may lose their property or even their lives, and yet must also support criminals in prison and pay for the safeguards to their rights. Less obvious is the fact that the penalties for the alleged misdeeds of corporations are also borne by society. Bankruptcy may be most painful for the stockholders who lose their investment (including retired people dependent on pensions), but also means fewer employment opportunities. The costs of litigation and of increased premiums for liability insurance must ultimately be paid by customers. An incalculable cost is funds lost to research and development. How much of the legal expenses of Johnson & Johnson will be diverted from its investigations of the Staphylococcus, a widespread and lethal bacterium?

Besides the financial impact, a more serious consequence of unlimited liability for corporations is the prospect of unlimited jurisdiction for government. Added to consumers' clamoring for protection is the corporation's plea for regulation. Compliance with a legislative standard neatly shifts the responsibility for disasters to the government. This dishonorable escape route may possibly be justified as self-defense. For who would voluntarily sign such a contract as is implicit in many court decisions: The employee agrees to work for a predetermined sum; but if some misfortune befalls him during his lifetime that *might* be related to the workplace, the corporation must pay whatever compensation pleases the court up to the limit of its assets.

Regulation naturally diminishes choice. The price paid for avoiding responsibility is forfeiting the right to choose. (The converse of this proposition applies in criminal law: the criminal who cannot choose is not responsible.)

Does Diminished Freedom Buy Security?

Loss of liberty might arguably be acceptable if traded for improvements in safety. Thus far, the intentions of government agencies have often had the opposite result. Herbert Spencer gives many examples: despite the exertions of the British Shipwreck Committee, the loss of lives and of ships worsened, as administrative expenses multiplied.[12] Since the legal system is designed to attribute blame, its ineptitude in analyzing the cause of problems should not be surprising. Though occupational hazards are in the limelight, "lifestyle" factors are of much greater importance.

While the federal government pays billions in compensation to coal workers whose minimal x-ray changes of black lung disease *do not* cause any impairment in lung function, the same government pays millions in subsidies to the tobacco industry, whose product *does* cause 30 per cent of the nation's cancer[13] and most of the disabling chronic lung disease. While the Nuclear Regulatory Commission keeps a relatively safe nuclear reactor shut down in order to investigate its psychological impact, power plants which are a hundred times more dangerous substitute for its output. While being protected by the testing requirements of the Food and Drug Administration, victims of asthma and coronary artery disease have waited a decade for excellent drugs widely used in Europe.

Criminal Acts

Though regulation and litigation have not been shown to save lives, they do assign taxpaying companies the status of criminals. One small business in Tucson was cited by the Occupational Safety and Health Administration (OSHA) for lacking a covered wastebasket in the restroom used by a single employee. However, OSHA has no jurisdiction over the most common causes of fatal occupational injuries, motor vehicles and firearms. In Maryland, 11 per cent of the work-related deaths were caused by shootings, mostly in holdups of small businesses and taxi drivers.[14]

Our society has frequently been characterized as risk-averse, but the label is not quite precise. Few of the people killed while driving vehicles on the job were wearing seatbelts.[15] People continue to use products known to be hazardous, if they believe that pleasure or convenience outweighs the risk. Many proposed remedies have the long-term effect of actually reducing safety, both directly and indirectly in discouraging innovation. Are they favored simply through shortsightedness, or do they appeal to a deeper motive?

Courts are reluctant to hold miscreants individually responsible for their deeds. Consumers and workers deny their responsibility for products or employment they select. If misfortune strikes, whether through carelessness or chance, the primary concern is right to compensation. Those able to pay are presumed to be guilty, in striking contrast to the criminal's presumption of innocence. Individuals in our society are best described as responsibility-averse, rather than risk-averse.

In the inevitable difficulties and dangers of life, people have often lost confidence and courage, and turned to authority. Today, they make their plea to the legislatures and the courts, despite the clearly visible consequences of surrendering their self-reliance, because not just security, but relief from responsibility, is the real goal. In the past, they referred their problems to the church, for the same reason. As the Grand Inquisitor understood: "They will be glad to believe our answer, for it will save them from the great anxiety and terrible agony they endure at present in making a free decision for themselves."[16]

—FOOTNOTES—

[1]Mark Turner, "Burglary 'Sting' Yields over 35 Convictions, Praise from Law," *Arizona Daily Star,* Dec. 25, 1982, p. 1C.

[2]Carrie Dolan and Paul Ingrassia, "Toxic Shock Victim Awarded $10.5 Million Injury Verdict Against Johnson & Johnson," *Wall Street Journal,* Dec. 24, 1982, p. 24.

[3]Arthur L. Reingold, Nancy T. Hargrett, Kathryn N. Shands, *et. al.,* "Toxic Shock Syndrome Surveillance in the United States, 1980 to 1981," *Annals of Internal Medicine,* vol. 96, 1982, pp. 875–880.

[4]Dolan, *op. cit.*

[5]Robert S. Fontana, *Lung Cancer and Asbestos Related Pulmonary Disease* (Park Ridge, Illinois: American College of Chest Physicians, 1981), pp. 2–5.

[6]*Ibid.,* pp. 23–27.

[7]Helen A. Dickie, "Asbestos and Silica: Their Multiple Effects on the Lung," *Disease-a-Month,* vol. XXVIII, Sept., 1982.

[8]Laurel Sorenson, "A Small Firm's Answer to Suits Over Asbestos," *Wall Street Journal,* Sept. 24, 1982, p. 27.

[9]W. Keith C. Morgan, "The Adversary System: Cui Bono?" *Annals of Internal Medicine,* vol. 97, 1982, pp. 919–921.

[10]Mary Harvey, Ralph I. Horwitz, and Alvan R. Feinstein, "Toxic Shock and Tampons: Evaluation of the Epidemiologic Evidence," *Journal of the American Medical Association,* vol. 248, 1982, pp. 840–846.

[11]Michael T. Osterholm, Jeffrey P. Davis, Robert W. Gibson, *et. al.,* "Toxic Shock Syndrome: Relation to Catamenial Products, Personal Health and Hygiene, and Sexual Practices," *Annals of Internal Medicine,* vol. 96, 1982, pp. 954–958.

[12]Herbert Spencer, *The Man Versus the State* (Indianapolis: Liberty Classics, 1981), p. 95.

[13]Office on Smoking and Health, "Smoking and Cancer," *Morbidity and Mortality Weekly Report,* vol. 31, 1982, pp. 76–80.

[14]Susan P. Baker, Judith S. Samkoff, Russell S. Fisher, *et. al.,* "Fatal Occupational Injuries," *Journal of the American Medical Association,* vol. 248, 1982, pp. 692–697.

[15]*Ibid.*

[16]Fyodor Dostoyevsky, *The Brothers Karamazov* (New York: Modern Library, n.d.), p. 269.

The Abandonment of Responsibility

IDEAS ON LIBERTY

In proportion as each individual relies upon the helpful vigilance of the State, he learns to abandon to its responsibility the fate and well-being of his fellow-citizens. But the inevitable tendency of such abandonment is to deaden the living force of sympathy, and to render the natural impulse to mutual assistance inactive.

WILHELM VON HUMBOLDT

Henry W. Vanderleest

Hong Kong's Future Uncertain

View of buildings in Central District (foreground) and the Kowloon peninsula from Victoria Peak.

THERE is presently much concern among those involved in international trade that the People's Republic of China will decide against renewing Great Britain's lease over Hong Kong when it expires in 1997. A decision by the PRC to reclaim a major portion of Hong Kong will undoubtedly lessen the Crown colony's premier status as a free port and world trading center.

Uncertainty surrounding the upcoming decision has already shaken the confidence of many Hong Kong business executives and governmental officials. Economic indicators, for example, as well as prices on the Hong Kong stock exchange have dropped markedly during the past year. In addition, property values in Hong Kong have declined on an average of nearly 30 per cent in the last twelve months.

Another indicator of Hong Kong's uncertain future is that private investors and government officials recently decided not to spend $8 billion on a badly needed new airport. Both corporate and public investors feel a sense of urgency for a final decision because most loans are arranged for fifteen years and would be jeopardized if signed after July 1, 1983. As the result of Hong Kong's uncertain financial climate, many local and international firms are channeling their investment capital to the United States as well as to

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other developing Asian trade centers such as Singapore.

Great Britain obtained Hong Kong, an area consisting of approximately 400 square miles and a population of about 5.5 million, from China after Opium Wars between the two nations in the early 1840s. Hong Kong Island and the tip of the Kowloon Peninsula on the mainland of China were ceded in perpetuity by China to Britain by the Treaty of Nanking in 1842. By 1895, the British had also obtained control over additional land on the Kowloon Peninsula, referred to as the New Territories, which also became part of the Crown Colony. It is only the New Territories section of Hong Kong which is scheduled to revert to the PRC under terms of a 99-year lease signed in Peking in 1898.

Complex Political Issues

Of critical concern to Hong Kong's current Governor who is appointed by Britain's Parliament is that the New Territories accounts for nearly 90 per cent of Hong Kong's land area and contains the commercial lifeblood of the colony. The area which would be left to Britain contains no airport, no agricultural land and virtually no industries. A related problem is that if the New Territories is reclaimed, the remaining part of Hong Kong would be largely dependent upon China for food and water.

Chinese Vice Chairman Deng Xiaoping has repeatedly told business leaders throughout the world that China would prefer to retain the *status quo* for the near future and deal with the Hong Kong problem when the "time is ripe," that is, when she is ready. The time is not yet ripe for two reasons. In the first place, China regards Taiwan as the "problem" which she wishes to settle before deciding on the Hong Kong situation. Secondly, and more important, is that the economic benefits generated by the existence of Hong Kong in its present form are immense. The British colony, for example, accounts for approximately 35 per cent of China's annual foreign exchange earnings. China also benefits from Hong Kong's financial services, port facilities, international contacts, and skills in marketing Chinese-made products.

The situation is made more bizarre by the fact that many of Hong Kong's leading businessmen, owners of ships, banks and department stores, for example, are Communists. What currently exists in a large sector of the Hong Kong business community is a massive paradox; administered capitalism in the service of the People's Republic of China. China would have everything to lose and little to gain by absorbing Hong Kong. PRC leaders particularly recognize the potential difficulty of having to govern and feed Hong

Kong's westernized Chinese residents who are long accustomed to British influences.

From a political standpoint, some Chinese leaders do not agree with Deng's *status quo* position. They believe that it is imperative that Hong Kong revert to the PRC in 1997 so it does not appear that modern China has "sold" out to foreigners as the Ching Dynasty did when the original lease was signed. It is feared that other Asian and African nations would look down upon any type of compromise, causing the Chinese to lose face. Many Chinese have never acknowledged China's relinquishment of Hong Kong and have always considered the colony to be a part of China. Others believe that the British are in Hong Kong to simply administer a part of China, with no more than a very technical sovereignty. There are also those who maintain that the treaties signed in the 19th century between China and Britain were "unequal" because the terms were dictated to a weakened China by an aggressive imperialist power.

Despite the fact that Hong Kong is spiritually and emotionally Chinese, the vast majority of its residents also support the *status quo*. Although most do not philosophically support their colonial status, they recognize the economics of the situation. Hong Kong residents have grown to appreciate that the fast-paced *laissez-faire* business environment that exists in the colony has allowed them to enjoy one of the highest standards of living in Asia.

Alternative Solutions Likely to Be Considered

Although it is expected that many formulas will be considered before Hong Kong's international future is determined on or before July 1, 1997, several alternatives short of a *status quo* merit attention:

1. London could acknowledge Chinese sovereignty over all of Hong Kong. It could do so by accepting the position that the original treaties were invalid. In return, China would agree to allow Great Britain to continue administering the territory. This alternative appears to be especially workable because it would save the political face of both Britain and China but still allow both nations to have a stake in Hong Kong's supercharged economy.

2. Short of reclaiming Hong Kong, China could declare the New Territories to be a special economic zone with British administrators hired to run it. Although this alternative is met with some enthusiasm by most Chinese leaders, the plan is unacceptable to Parliament because Britain does not want to be involved in mercenary operations. It is believed that Britain will not allow it-

self to be politically humiliated and would probably sever all ties to Hong Kong before agreeing to such an arrangement.

3. Perhaps the most radical alternative would be for China to include a clause in its new constitution that would allow for special administrative regions outside of the current boundaries of the PRC. Hong Kong, Taiwan, and the nearby Portuguese colony of Macau whose population is also predominately Chinese could fall into this category. This could be a politically expedient, although economically damaging, move since China would be able to incorporate all its "problem areas" simultaneously.

4. Possibly the most logical move would be for China to expand its newly created Western oriented Shenzhen economic zone across the border to absorb Hong Kong. This would be a logical extension of an experiment in capitalism that has proven to be phenomenally successful since beginning two years ago.

Hong Kong is presently a political pawn in the game of Chinese power politics. In fairness to both parties of the original lease agreement, however, it was extremely difficult to imagine what the situation might be a century later. For those who negotiated the lease in 1898 with a terminal date in 1997, future events were so far away as to be of relatively little concern. It is certain that there will be changes in Hong Kong's relationship with China after 1997. Although the specifics are not clear at this time, it is suspected that they will not be so drastic as to undercut Hong Kong's usefulness to China. Unless the colony's long term future is quickly settled, however, the confidence and trust that has made Hong Kong one of the most aggressive and successful trading centers in the world will disappear.

Rule of Succession

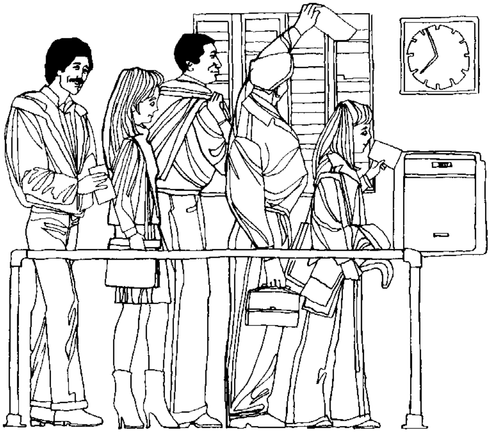
IDEAS ON LIBERTY

AN economic "rule of succession" prevails in states where competition is free. Imaginative and efficient managers are constantly rising to the top, and being elected by customers to larger constituencies, while less imaginative and efficient managers are voted out. But the management of a nation's economy by civil servants discourages imagination, and has no "built-in" mechanism for selecting the most efficient. The bestowal of honors, it is sometimes argued, takes the place of the money incentive of private gain. But there is a vast difference. Honors are bestowed from *above,* by the "ins." They favor the conformist "Organizational man."

HAROLD FLEMING, *States, Contracts and Progress*

Hans F. Sennholz

Minimum Wages



In simple language, a minimum wage law is nothing more than a government order that workers must not work unless they find jobs paying at least the stated minimum. It is an order to employers that they must pay workers the minimum, or not employ them at all. It is a direct order that is enforced by the coercive powers of the state.

The minimum wage movement came into existence, in concert with the union movement, as a consequence of severe criticism of "sweat shops" in the home-work system, which permitted employees to perform manufacturing services at home rather than in a factory. The system, which enabled women and children to participate in simple production, constituted a major threat to the union movement. To eradicate this threat and all other competition from low-cost labor, labor unions, since their very beginning, have called for government intervention.

Minimum wage legislation originated in New Zealand in 1894 and came to England in 1909, when Parliament established trade boards with the power to fix minimum rates. In the United States, the movement at first was confined to state legislation applicable to women and children only. The federal government entered the field during the 1930s when it passed labor laws with limited application, such as the Bacon-

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Davis Act of 1931, the Walsh-Healey Public Contracts Act of 1936, certain provisions of the U.S. Housing Act of 1937, the Sugar Act of 1937, and the Civil Aeronautics Act of 1938. In the same year, the Fair Labor Standards Act provided much broader coverage and established a minimum wage level of 25¢ per hour, covering employees of all businesses engaged in interstate commerce or in the production of goods for such commerce. Later amendments to the F.L.S.A. raised the minimum wage to the present level.[1]

There is an infinity of political errors which, once adopted and enacted, become principles of statesmanship. Labor legislation summarily disposed of the homework system and then set out to raise wage rates and improve working conditions by political force. To most political parties this is supreme statesmanship that takes precedence over all other considerations. But unfortunately, it is also the root cause of mass unemployment that is inflicting immeasurable harm on millions of innocent victims.

An unhampered labor market offers opportunities to anyone seeking employment. The pressures of competition by both workers and employers establish a wage rate at which everyone eager to work can find a job, and every employer eager to hire more help can find more workers. But when government sets out forcibly to lift wage rates above those set by competition, chronic unemployment emerges. It causes countless economic distortions, reduces economic output, lowers personal incomes, and aggravates the plight of the poor.

A wage rate set above a person's own productive contribution causes his unemployment, pricing him right out of the labor market. Surely, minimum wage legislation does not directly affect a worker whose training and skills earn him a wage in excess of the minimum. But it seriously jeopardizes the employment of all those unskilled workers who produce and consequently earn less than the minimum. In the United States, minimum wage legislation does grievous harm to millions of unskilled laborers, especially among the racial and ethnic minorities—Blacks, Puerto Ricans, Chicanos, Mexicans, and American Indians.

The Victims

Most critics of minimum wage legislation do not concern themselves with the propriety and morality of political intervention with the production process. They accept the rationale of political supremacy and government power, but lament the evil effects of unemployment on some highly visible groups of victims, such as young people, especially black teenagers. Therefore, they are designing special programs for teenagers and other groups, calling for massive government expenditures on their behalf. Unfortunately they are overlooking most of the affected population.

Recent research confirms that only about one-third of low-wage earners are teenagers, almost one-half are twenty-five to sixty-four years of age. Two-thirds of the low-wage population are believed to be female, and some ten per cent are individuals sixty-five years old or older. Altogether they comprise some ten per cent of American labor. Other estimates are even higher. Of course, these workers who are earning the minimum or near-minimum wages are the very workers who tend to be, or are in danger of being, displaced by wage legislation.[2]

It is an unfortunate fact that many minority youngsters with lower levels of education, training, and experience than white youngsters, are often less productive. In an unhampered labor market they would not be able to earn as high a wage as their more productive competitors, but would find employment at lower rates. When the minimum is raised above their productive ability, they are likely to be dismissed, or not to be hired. This explains why the unemployment rate of black youth in recent years has ranged between 40 to 50 per cent, which is double the rate of white teenagers. If we add those individuals who in frustration and desperation have given up their search for employment, the unemployment rate among black youth may, in our estimate, exceed 70 per cent.

Submarginal Workers

Other workers with similar limitations find it equally difficult to find employment at the minimum rate. Unskilled women, students seeking summer employment, and especially unskilled service workers in hotels, restaurants, hospitals, laundries, automotive service stations, are living continuously with the dangers of unemployment due to minimum wage increases. It is true, not every minimum wage worker loses his employment when the minimum rate is raised. Employers may seek to offset the boost with economies in other labor expenses or through exaction of greater effort and performance by the covered workers. Wherever such adjustments are impractical the submarginal workers are laid off, that is, all those workers whose costs exceed the anticipated price of the incremental goods produced or services rendered.

Obviously unemployment is more severe in industries employing a great many unskilled workers than in other industries relying mainly on professional and highly skilled labor. And it is more keenly felt in cities with concentrations of unskilled labor than in prosperous suburbs. For the South with its millions of unskilled black workers every minimum wage boost is a calamity. In Puerto Rico it is an unmitigated disaster.

But no matter how tragic the economic effects may be on certain groups of victims, we must not overlook the psychological harm and the moral wrong that are inflicted on them. Condemned to idleness and uselessness in a highly productive society and barred from making their own contributions, many in desperation are turning to vice and crime. The inordinate national crime rate attests to a moral decay that is working evil in the centers of unemployment and public assistance. And let us not forget the productive members of American society who not only must forgo the valuable services which the disemployed workers could render, but also are forced to support them through taxation and other exactions. In return, they are compelled to live in constant fear of crimes against their persons and property.

Benefits for a Few

It is true a few minimum-wage earners actually benefit from a mandated increase. The law that raises the minimum renders submarginal all those workers who produce and earn less than the new minimum. It withdraws them from productive employment and deprives economic production of their services, which affects the labor market just like the conscription of millions of young men into military service. Their withdrawal from productive employment raises the marginal productivity of the remaining workers and, therefore, increases their wages. It also lifts some submarginal labor above the threshhold of employability. If the minimum is raised from \$5 to \$5.50, the most productive among the excluded workers will be lifted to the new minimum in a declining order of productivity, that is, first workers who were earning \$5.49, then others earning \$5.48, \$5.47, and so forth. But consumer reluctance to bear the higher labor costs usually sets a narrow limit to the lifting process, which consigns most subminimum workers to the new army of the unemployed.

Political force may disrupt economic activity and forcibly benefit some workers at the expense of others. It cannot stimulate production and promote universal well-being by withdrawing millions of able workers from economic production. If by law or decree a government actually could raise the wages and improve the working conditions of all workers, it would be cowardly and irresponsible to be content with \$2, or \$3, or \$4 minimums. Let us make it \$10 per hour, or better yet, \$100 an hour.

If a minimum wage law actually could improve the working and living conditions of all people, let us urge the governments of undeveloped countries to imitate our example. Surely, it would alleviate the poverty and suffering of the masses of India, China, and many African and Latin American countries. Actually, it would create horrendous unemployment and jeopardize the very survival of the poor. Neither the U.S. government nor foreign governments can improve general working conditions by law or decree; only rising production can bring it about.

Fringe Benefits

Nor can a government grant social benefits that do not reduce the workers' take-home pay. The incidence of any and all benefits falls on the wage earner. For an employer the worker's take-home wage is just another component of the total price he must pay for the services of a worker. He would not be an employer for long if he were to ignore all other employment costs, such as retirement and pension costs, paid holidays and vacations, healthcare insurance, profit-sharing plans, welfare funds, or any other fringe benefits. And it does not matter to him whether he may deduct the fringe benefit costs from the worker's pay or must make direct payment to third parties. In both cases the burden falls on the employee. The employer is concerned only with the total price he must pay for the services of a worker.

The minimum wage as set by government must not be confused with the total employment costs of a worker, which in every case greatly exceed the former. Corporations that offer equal benefits to all their employees may grant fringe benefits that amount to 35 per cent of executive pay and to 100 per cent or more of a minimum-wage-earner's pay. But even without any such contractual privileges, the benefits mandated by government do add considerably to total costs. There are Social Security exactions and heavy levies for unemployment and workmen's compensations. The $3 minimum wage may actually amount to $5 minimum cost, and the $5 minimum wage to $10 minimum cost. It is, therefore, misleading to speak of a "small" boost of the minimum wage rate as if the mandated and contractual benefits would remain unchanged. The small minimum boost may actually amount to a sizable increase in total labor cost.

For an employer it is irrelevant whether he allocates 5 per cent of employee wages to fringe benefits or 95 per cent. His only concern is the total price he must pay to secure the services of a worker. If government forces him to pay more than the worker is expected to contribute to production he can be expected to dismiss the worker. And again it does not matter whether government mandates an increase of take-home pay or of fringe costs. A $1 boost in the rate of minimum wages has the same ill effect on employment as a $1 rise in the levies for Social Security and workmen's compensation.

Through their labor, workers pay for all of the fringe benefits they are receiving. They also make good for their on-the-job training by receiving low wages that allow for the expenses of their training. When the minimum wage is raised employers may react to the boost in labor cost by reducing their expenditures on benefits. In particular, they may respond by reducing the amounts spent for on-the-job training.

The Opportunity to Acquire Skills and Knowledge

For young people the most important fringe benefit is the opportunity to acquire new skills and knowledge, which enhances their productivity in the future. Most jobs offer an opportunity to learn through formal training programs or informal learning by experience. On-the-job training not only imparts basic skills, but also stimulates motivation, nurtures a sense of responsibility, and generally prepares young people for rewarding roles in productive society. If they fail to acquire the experience, training, competencies and credentials in their formative years, they will have difficulty holding regular jobs in their adult years. Any barrier to on-the-job training inflicts serious harm on them.

Millions of young workers who are disemployed by the minimum wage may never acquire the general training and specific skills that make them useful members of society. They may never learn the basic discipline and ethos of labor that are so essential in our society. Instead, prolonged unemployment so early in life may prepare them for a precarious and bitter existence on public welfare. More millions may remain employed at or near the minimum, but their on-the-job training may be reduced or eliminated as a result of mandated minimum increases, which may keep them marginally productive throughout life. And their more creative fellowmen not only must forgo their valuable cooperation, but may even be called upon to assist them and their dependents.[3]

Extension of Coverage

Federal minimum wage legislation had its beginning more than forty-five years ago as part of the 1938 Fair Labor Standards Act. From its very inception it erected insurmountable barriers to the employment of unskilled workers, especially in the South and in Puerto Rico. Since then it has grown into the most calamitous instrument of government intervention that denies productive employment to millions of willing and able Americans. No other policy conducted by the U.S. government has more tragic effects on the daily lives of so many people than does this legislation.

Several amendments to the Act not only pushed the rate to ever more restrictive levels, but also extended the coverage to include ever more employees. At the beginning the basic minimum as a percentage of average manufacturing wage was estimated at 41.7 per cent; for 1981 it amounted to 51.9 per cent. In 1938 the percentage of covered workers stood at 43.4 per cent; in 1981 it was estimated at 83.8 per cent.[4] If the coverage provided by various state laws is added to the federal coverage, the combined rate may exceed ninety per cent of all non-supervisory workers.[5]

It is rather natural for government to expand its sphere of control and power. If it is called upon to secure minimum wages for some workers it may want to extend the benefits to all workers. If government can serve the public good by setting the wage rates for some workers it may serve it better yet by setting the wage rates for all workers. The ninety-per cent coverage, therefore, can only be an interim step on the way to total coverage.

Unfortunately, this gradual extension of coverage tends to multiply the unemployment effect until, with full coverage, it invokes the maximum rate of unemployment. As long as the minimum applies only to a small number of occupations, the workers displaced from covered jobs can seek employment in uncovered production. They shift to uncovered industries and employers, which tends to depress those wages through increased job competition. When the coverage is extended, the shift accelerates from covered unemployment to uncovered jobs, which widens the wage differential in direct proportion to the coverage. A small coverage generates a small difference in wage rates, a large coverage brings forth a large difference. Total coverage obviously eliminates the difference, but creates maximum unemployment.

Minimum wage legislation provides a beautiful example of the principle that government intervention not only makes matters worse, but also tends to breed ever more intervention. The minimum wage covering a few workers causes wage rates to decline in uncovered employment, which invites the extension of coverage to more workers, which in turn brings forth ever wider wage differences calling for more coverage, until all workers are covered and the difference is eliminated. Unfortunately, total coverage guarantees maximum unemployment, which brings forth the greatest conceivable income difference—between the workers still employed and the army of unemployed.

Indexing the Minimum

Minimum wage legislation can be harmless if the rates are set below the unhampered market rates. But that, after all, is not the intent of its political sponsors who seek to interfere with the market process. And yet, the ominous effects of minimum wages set above the rates established by the market may be alleviated by two other factors: rising labor productivity which may lift more workers above the minimum barrier, and soaring inflation which lowers minimum wages in terms of purchasing power. The former may have lessened the impact of the legal minimum during the 1960s when labor productivity managed to rise a little. But it began to aggravate the restrictive effect of the legal minimums during the 1970s when U.S. government deficits consumed productive capital en masse and real labor incomes began to decline.

Throughout this period soaring inflation greatly lowered the real costs of labor, including the real minimums, which permitted the temporary employment of some workers who previously had been unemployable. The opposing effects of legislative mandates raising the minimum and the inflation depreciating it, is causing large swings in the effective minimum. According to Finis Welch, they ranged between 30 per cent of the manufacturing-wage average in 1949 and 55 per cent in 1968.[6]

Observing the depreciation of their mandated minimums the sponsors deem it necessary frequently to readjust the minimum to soaring goods prices. From 1961, when inflation began to accelerate in earnest, until 1981 Congress enacted eleven adjustments which raised the minimum from $1 per hour to $3.35 an hour. To simplify the adjustment process and prevent the silent nullification of Congressional efforts by inflation, some sponsors propose to index the federal minimum by tying it permanently to the average industrial wage. The 1977 amendment, which established a Minimum Wage Study Commission, therefore called for an investigation of minimum wage indexation.

Indexing wages, rents, interest rates, and goods prices obviously means government control over wages, rents, interest rates, and prices. It aims at freezing present conditions, preventing all future changes and adjustments unless approved by political authority. Minimum indexation would seek to preserve the Congressional effort by freezing the real minimum at 55 per cent and thus eliminating the inflation swings. This means, unfortunately, that unemployment would be stabilized at its highest possible rate determined by the minimum. It would permanently deny millions of unemployed workers a longed-for reprieve provided temporarily by inflation.

Offsets

In a sagacious monograph[7] Walter J. Wessels makes the cogent point that employers tend to react to minimum wage increases by seeking to offset the added expenditures through reductions in other labor costs. They may cut year-end bonuses, re-define the worker's share in profit sharing, and reduce commissions and work guarantees. They may moderate non-wage expenditures, commonly called "fringe benefits," such as paid vacations and sick leave, pensions and other retirement benefits, life, accident and health insurance, or training programs and educational allowances. They may even reduce expenditures on proper supervision and management, which tends to impair and aggravate working conditions. They may insist on more effort and application. As fewer jobs are available, employers may exact greater production from their minimum-wage workers. They may assign less desirable working hours and conditions for which they otherwise would pay higher rates. In short, they can be expected to react by making adjustments in order to offset the minimum-wage boost.

But even if some employers should be able to offset the higher costs of a mandated minimum, Wessels argues, it nevertheless impairs the conditions of all covered workers. They may have preferred the fringe benefits over the pay boost, the paid vacations or the major medical insurance over the cash payment mandated by Congress.

Where employers are unable to offset fully a minimum wage boost, which tends to lead to disemployment, the idled workers will seek jobs that are not covered by the minimum wage. Or they may join the "underground economy" where labor summarily ignores the law by working for wages below the minimum. But their appearance on the uncovered labor market or the underground market, which economists estimate to exceed 30 per cent of minimum wage labor,[8] tends to reduce further those wages. All affected labor, therefore, tends to be worse off than before.

Surely, employers do react to mandated minimum wage increases. But we must not underestimate the great difficulties they encounter in lowering other labor costs. Once benefits have been granted it is nearly impossible to rescind them. To reduce benefits is to invite universal resistance and hostility, which may impair labor productivity and thus raise production costs. Moreover, it is virtually impossible in the allocation of fringe benefits to discriminate against minimum wage labor. This is why most employers offer identical benefits to all their workers regardless of position and income. To ignore minimum wage labor, or even slash its given benefits, is to invite resentment, conflict and strife. It is generally much easier and also more economical to dismiss the labor made submarginal by the mandated minimum boost than to seek adjustment through fringe-cost economies.

Inspiring Performance

For superior management it may be possible to lead and exhort labor to higher productivity. There is an untapped reservoir of productivity even in the best-run office and plant. Brilliant management seeks to tap this reservoir through guiding and teaching by example. It imparts the love of work and inspires enthusiasm for work well done. And, above all, it exemplifies that there is no work so base that man may not exalt it, no work so dull that he may not enliven it. There is no minimum labor that may not lead to maximum position and income.

Most business managers, unfortunately, are incapable of exacting more effort and application from their employees, which is casting doubt on their ability to offset mandated wage boosts. But even if they were able to adjust, the number of affected workers would be rather small. Offsetting adjustments cannot create jobs for those millions of unskilled workers whose usefulness and productivity lie below the legal minimum. The high school dropout from The Bronx who may contribute one dollar per hour of work remains unemployable at $3.35 per hour no matter how diligently employers are readjusting their labor expenses.

Offsetting adjustments do not affect the vast majority of American workers who are presently earning more than the minimum. They may at best involve only a small number of people who are presently earning the legal minimum and are contributing an amount sufficient to cover this minimum and other employment-related costs. In many cases these other costs are also mandated, which clearly makes them unadjustable. In fact, they actually rise together with the minimum wage.

Employer contributions to Social Security and Workmen's Compensation do rise and further raise the costs of the minimum wage boost. They may also add to the administrative expenses of accounting, withholding, declaring and disbursing the additional funds to the appropriate government authority. While such costs may be negligible in a smoothly functioning accounting department, they are very burdensome and highly disruptive for a small businessman considering the employment of a few minimum-wage laborers.

The offset possibilities must not be overstated. They are narrowly limited to contractual benefits that may be adjusted by agreement between the contract parties. But in some cases these benefits are negligible. They may be less valuable than a mandated wage boost together with the mandatory fringe adjustment, which precludes any offset. If they are equal to the ordered raise, all contract fringes would have to be eliminated in order to effect any offset. But such a withdrawal of all contract fringe benefits would be even more detrimental to amicable labor relations than their mere reduction. It surely would impede labor productivity and raise production costs.

From the World of Politics

Every well-known economist has voiced his concern about minimum wage legislation,[9] and yet, it is surviving sober reasoning and cogent arguments and living on in the sphere of political incentives. Few Americans actually believe that minimum wage legislation is truly in the workers' interest, that it increases purchasing power and reduces poverty. And yet, many support it for political reasons. Labor unions and their members benefit significantly from a legal elevation of wages paid by competing industries using low-productivity, low-wage workers. It hampers their competition with union labor and limits consumer preference for goods produced and services rendered by low-wage labor. Similarly, capital-intensive industries using relatively skilled labor may want to redirect consumer choices by raising the costs of low-wage industries.

Most of the support for minimum wage legislation comes from groups that are fully aware of its unemployment effects. Many Americans in the industrial states of the North and Northeast use it knowingly as a barrier to the industrial migration from their states to the South. Since World War II many companies have left the North to take advantage of lower labor costs and other advantages in the South. To prevent this industrial migration and to stifle emerging Southern competition the Northern politicians usually favor high minimum wages.

Other supporters who are aware of the harm done to unskilled workers are convinced that the beneficial effects, as they see them, tend to outweigh the ill effects. Their blind faith in political action leads them to believe that the ill effects can be alleviated by new governmental efforts, such as neighborhood youth corps, job corps, public works programs, and the like.

But the most vociferous support of minimum wage legislation comes from the professional spokesmen of the poor. Some may actually welcome unemployment among minorities because it breeds other political and economic effects and, above all, creates a political power base for the minority champions. When jobs are scarce they are likely to be rationed and allocated according to government plans and programs. Rationing bestows benefits to political constituents and thus confers prestige and power to the program proponents.[10] Some are also aware that unemployment tends to give rise to new demands for radical government intervention, for central control and planning, which may pave the way for an all-round political command system, called socialism. Mass unemployment, they are hoping, will lead voters to support their ultimate objective.

—FOOTNOTES—

[1]For a detailed chronology of minimum wage legislation from thirteenth century France to the 1930s in the U.S., cf. E. R. Nichols and J. H. Baccus, *Minimum Wages and Maximum Hours,* H. W. Wilson Co., New York, 1936, p. 41 *et seq;* for an American history, cf. U.S. Dept. of Labor, *The Development of Minimum Wage Laws in the United States, 1912 to 1927,* Washington, 1928.

[2]Cf. Finis Welch, *Minimum Wages,* American Enterprise Institute, Washington, D.C., 1981, p. 13; also Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment and Family Incomes," *Brookings Papers on Economic Activity, 2,* 1976, pp. 409–451.

[3]Cf. Masanori Hashimoto, *Minimum Wages and On-the-Job Training,* AEI, Washington, 1981.

[4]Cf. Finis Welch, *ibid.,* p. 3.

[5]Most states have complex minimum wage legislation of their own, with rates typically below the federal rate. In a few states—Alaska, California, the District of Columbia, and New York—the rates usually exceed the federal minimum. In other states the differential has been shrinking in recent years.

[6]*Ibid.,* p. 6.

[7]Walter J. Wessels, *Minimum Wages, Fringe Benefits, and Working Conditions,* American Enterprise Institute for Public Policy Research, Washington, 1980.

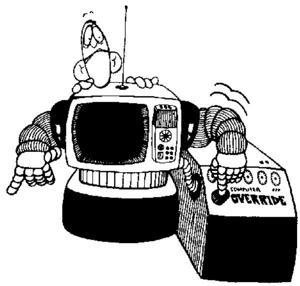
[8]Orley Ashenfelter and Robert S. Smith, "Compliance with the Minimum Wage Law," *Journal of Political Economy,* April 1979, pp. 333–350.

[9]Ludwig von Mises, *Human Action* (1949), 3rd ed., Henry Regnery Co., 1966, pp. 769–777; Arthur Burns, *The Business Cycle in a Changing World,* National Bureau of Economic Research, New York, 1969, pp. 216–219; Martin Feldstein, "The Economics of the New Unemployed," *Public Interest,* Fall 1973, pp. 14–16; Milton Friedman, *Capitalism and Freedom,* University of Chicago Press, 1962, pp. 180, 181; George J. Stigler, "The Economics of Minimum Wage Legislation," *American Economic Review,* June 1946, pp. 358–365; Walter Williams, *Youth and Minority Unemployment,* Report for the Joint Economic Committee, July 6, 1977; even Paul Samuelson must admit that minimum wage rates "often hurt those they are designed to help." Cf. *Economics,* Eleventh Edition, McGraw-Hill Book Co., New York, 1979, p. 369.

[10]Keith B. Leffler, "The Unanswered Question: Why are Minimum Wages Popular with the Poor?" in *The Economics of Legal Minimum Wages,* AEI, Washington, 1981, pp. 531–534.

Russell Shannon

ROBOTS



Along many modern assembly lines, agile arms reach deftly out to solder metal parts, hang heavy doors on slowly moving auto frames, and accomplish a myriad of other tasks required to fabricate an automobile. One can readily imagine Henry Ford looking proudly on, observing with a smile that the process he began nearly 80 years ago still flourishes.

But, of course, one element has radically changed. Those arms performing intricate assembly operations are not all human; more and more they are mechanical. Steel has replaced sinew; electricity substitutes for blood. Where once men and women toiled and perspired, gleaming robots now hum and whirr.

Managers may rejoice that their robots don't take coffeebreaks, strike, or go on vacation, but others take a different view. They lament the plight of workers whose jobs have all been "lost." High and rising unemployment rates seem to demonstrate that many loyal workers are being ruthlessly replaced.

So people start to wonder, as the machinery is oiled and dusted, who will feed and clothe American workers and their families? Just as we've already done with women, blacks, and other smaller groups, will it now become necessary for us to institute an affirmative action program to assure equal employment opportunities for human beings?

President Mitterrand of France addressed concerns about technological displacement at last year's economic summit at Versailles. And Hobart Rowen, economics writer for the *Washington Post,* has stressed the "need for governments to play a major role in integrating new technology with the working population and society in general."[1]

For those who worry that robots may ultimately eliminate our chance to work, it is worth noting that the word "robot" itself became pop-

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ular largely due to a play called "R. U. R." (for Rossum's Universal Robots) written in 1920 by the Czech playwright Karel Capek. And "robota" is the Czech word meaning work.[2]

In the play, Rossum's robots—which are rather more human than their current counterparts—become overproduced to the point that they rise up to overthrow human civilization. During the last act, the managers of the robot factory, contemplating their plight, manifest their motives.

One character, the clerk of the plant, blames science and engineering. But they are benign, inanimate tools, as incapable of purposive, malicious designs as assembly-line equipment. The underlying fault, the clerk suggests, is surely human greed. "We're all, all guilty," he cries. "For our own aggrandisement, for profit . . ."[3] In this charge he echoes Karl Marx, who saw the lure of profit as a fatal peril.

Such profit—which Marx called "surplus" and which he believed rightfully belonged to workers—was spent by capitalists to acquire more and more equipment. It would inevitably be used, Marx forecast, to replace labor, so it engendered a growing "reserve army of unemployed" which spelled capitalism's doom.[4] Not anticipating a robot rebellion, Marx predicted that the exploited, alienated, and unemployed workers would rise up to overthrow the capitalist system.

Of course, Marx, while perhaps partly perceptive about the purpose of profits, was largely a flop as a prophet. Certainly, today we do have increasing numbers of machines. But we also have more and more jobs, as shown not only by the general growth of population but also by women's spectacularly increased participation in the labor force.[5] Whatever its defects, the pursuit of profit by "greedy" entrepreneurs has demonstrably not been detrimental to the overall level of employment.

In fact, another character in Capek's drama takes a dramatically different view. The managing director of the robot plant asks: "Do you suppose that the manager controls the output? It's the demand that controls the output. The whole world wanted to have its Robots. Good Lord, we just rode along on this avalanche of demand . . ."[6]

The manager sees producers such as himself simply as servants. True enough, profit may be their personal goal and gain, but don't they earn it by satisfying the expressed desires of society? If they are guilty of anything, isn't it that they are just responding to the wishes of their customers? This is what Adam Smith meant back in 1776 when he said an "invisible hand" causes each producer "to promote an end which was no part of his intention."[7]

In an equally perceptive but less publicized remark Smith wrote in *Wealth of Nations,* "It is not the multitude of ale-houses that occasions a general disposition to drunkenness among the common people; but that disposition arising from other causes necessarily gives employment to a multitude of alehouses."[8] One may well question the social desirability of having people purchase ale or robots—or handguns or abortions, for that matter. But one must also grant that, just as it takes "two to tango," it takes both buyer and seller to make a voluntary transaction. The motive of the seller is but one element. Concert pianists and brain surgeons may be wracked by greed, while pot peddlers may believe they provide humanity noble services. We should neither condemn nor applaud an act based on the seller's motives alone.

Relief from Drudgery

In fact, so far as robots are concerned, the motives of both producers and purchasers may be very high, indeed. Though it was Adam Smith himself who touted the virtues of assembly-line production, he also recognized specialization's drawbacks. Toward the end of *Wealth of Nations* he laments that "the man whose life is spent in performing a few simple operations . . . generally becomes as stupid and as ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life."[9]

Seen from this perspective, robots become a boon. They are relieving us from unwelcome work. Women are no longer slaves to their households nor men to their machines. That is the beneficent view of a central character in Capek's play. "It was not an evil dream," he says, "to shatter the servitude of labor. Of the dreadful and humiliating labor that man had to undergo. The unclean and murderous drudgery."[10] Who can argue with that? Any person who would abolish robots to assure work suggests implicitly that we would also be better off without vacuum cleaners, refrigerators, and toasters! Or without lathes, ladders, and linotype machines.

It is also enlightening to recall that, after all, robots aren't free. Their prices run well into the thousands of dollars. What justifies their cost to producers? Labor's cost has risen, so workers have now become relatively even more expensive. Why did that occur?

Obviously, workers now find more and more that they can escape assembly-line drudgery and move to more meaningful and remunerative work. They are no longer tied to jobs that induce "torpor" in their minds. So employers discover they must pay more to retain their workers—or else resort to robots.

There is, of course, the possibility that the use of robots may induce some technological unemployment. But John Maynard Keynes, in his essay on "Economic Possibilities for Our Grandchildren," predicted in 1930 that such unemployment would be "only a temporary phase of maladjustment."[11] He foresaw that, in the end, the new machines would so enhance our productive capacity that mankind would eventually solve the fundamental economic problem of scarcity. Then, Keynes said, people would have to worry only about how to use their leisure. Keynes clearly did not foresee the advent of video games!

Perhaps Keynes took too blithe a view. But the characters in Capek's play, along with the arguments of Smith, Marx and Keynes, all make one fact abundantly clear. The attitude we take toward our metal workers depends very much on our mental framework. Rather than attack robots for making work impossible, why not welcome them for making it unnecessary? Instead of being doomed to engage in endless drudgery, men and women have become increasingly free to cultivate their artistic talents and enjoy more and more of what we call the "finer things in life."

The assembly line that Henry Ford inaugurated may have undergone a radical change. But the end result of its process is basically the same. It is a machine which replaces both horse power and human power. Rather than rickshaws, we ride in Reliants and Renaults. Instead of Conestoga wagons, we cruise in Capris and Caprices. Next time you're driving to your job in an air-conditioned, automated office, or rolling along the highway toward a weekend at the beach, think about that!

—FOOTNOTES—

[1]Hobart Rowen, "We Need to Deal with Technology," *Greenville News,* June 10, 1982, p. 4A.

[2]Robert W. Corrigan (ed.), *Masterpieces of the Modern Central European Theater* (New York: Collier Books, 1967), p. 217.

[3]Karl Capek, "R. U. R." in Corrigan, p. 276.

[4]Karl Marx, *Capital* (New York: Modern Library, n.d.), Chapter XXV, esp. pp. 689ff.

[5]Civilian employment as a percent of our total noninstitutional population rose from 54–56 percent in the period 1950–1960 to 59.3 percent in 1979. *Economic Report of the President* (Washington: U.S. Government Printing Office, 1981), p. 267.

[6]Capek, p. 279.

[7]Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), p. 423.

[8]*Ibid.*, p. 343.

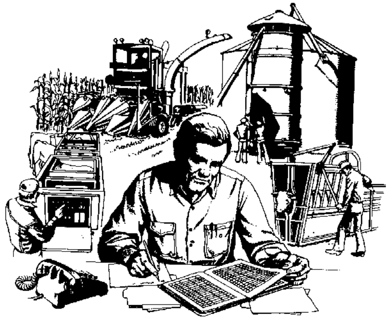
[9]*Ibid.*, pp.734–35.

[10]Capek, p. 274.

[11]John Maynard Keynes, "Economic Possibilities for Our Grandchildren," reprinted in *Essays in Persuasion* (New York: W. W. Norton & Co., 1963), p. 364.

Clarence B. Carson

THE TROUBLE WITH FARMING



THIS past December, I traveled with my family through north central Mississippi and across the river northwestward into south central Arkansas. The portion of the trip that made the deepest impression on me was that which took us through what is called the Mississippi Delta.

The Delta stretches for the better part of 100 miles inland on either side of the Mississippi river in this area, though somewhat wider on the Mississippi than the Arkansas side. The land is table flat, and the road we were on was arrow straight, bending only so much as was necessary to put it through the next town.

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The road was raised three or four feet above the surrounding countryside, which was fortunate for us. The countryside was flooded by unusually heavy winter rains, and the flooding was enhanced by a blinding rain squall as we drove through one of the more remote regions. When the ground is too full to soak up the water, there is no place handy for it to go.

This is farming country, though it was dormant at this season. More, it is row-crop farming country. Few, if any, cattle or hogs were to be seen, and woodland was rare. Twenty-five or thirty years ago, it was predominantly cotton country. Cotton is still grown extensively—many stalks were still standing, with traces of lint hanging from the empty bolls—but the growing of grains, especially soybeans, has widely supplanted cotton.

The Mississippi Delta belongs geographically to a much vaster farming region, extending from Minnesota in the north to Louisiana in the south and from western Ohio in the east to eastern Colorado in the west. It is a vast fertile region, much of it low lying to flat country with deep soil, well-suited in this age to commercial farming.

It is the Mississippi valley, the low lying area through which the waters which begin in the western Appalachians and the eastern Rockies flow into the Mississippi, and thence to the sea. The region of the valley narrows from north to south as the mountains recede in height and fan out into foothills which channel the water along other courses to the Gulf of Mexico. The Mississippi valley is sometimes called the heartland of America. It is certainly the breadbasket, for most of the grain that feeds America is grown there.

The Mississippi Delta through which I traveled has undergone a major change in the past two or three decades, a change that was very nearly completed by 1970, say. Although vast acreages of land are under cultivation now, the country is sparsely inhabited. Houses are usually located a considerable distance from one another; often, they are separated by a mile, or more, of farmland. Usually, a single family dwelling sits alone, with the mechanical equipment for farming nearby.

An Agricultural Revolution

Twenty-five or thirty years ago it would not have been possible for such a small number of farmers to till these great acreages. This Mississippi Delta was one of the major centers of cotton growing in the United States. Cotton required intensive cultivation—it had to be hoed several times by hand—and many human hands to harvest any considerable amount of it. Two major developments altered these requirements. One was the development of herbicides to get rid of unwanted weeds and grass. The other was the development of a mechanical cotton picker. Along with this, there was increasing use of mechanical planters and fertilizer distributors which could be extended across a wide carrying frame to plant many rows. There also were larger cultivators. The reduction of hands used was further accelerated in the 1960s by the extension of the minimum wage to cover farm laborers.

So it is that a countryside once dotted with houses of small landowners, tenants, and dwellings for hired laborers is now sparsely settled by farmers who rely almost exclusively upon heavy equipment to do the work. I looked in vain for relics of these buildings. I noted none.

There were reports in the 1960s that they were burned to be rid of them.

A similar change or transformation has occurred in farming throughout the United States, though less dramatic than in cotton farming in most instances. Here and there are still enclaves of farming which require intensive human care and human hands and decisions in harvesting, such as in tobacco growing or in the production and harvesting of some fruits and vegetables. By and large, though, the extensive use of machines, the shift away from intensive use of labor, and the cultivation of large acreages by single farm families has been the trend throughout most of American agriculture.

Fewer Farms—and Farmers

Statistics tell much of the story in abstract terms. According to census figures, the total number of farms in the United States has declined from 6,102,000 in 1940 to 2,808,000 in 1980. The most drastic decline for any decade was in the 1950s, when the number of farms dropped from 5,388,000 in 1950 to 3,962,000 in 1960. The number of farms appears to have stabilized over the past decade or so.

The total farm population declined from 30,547,000 in 1940 to 8,864,000 in 1980. Again, the largest drop in farm population occurred in the 1950s, when it declined from 23,048,000 in 1950 to 15,635,000 in 1960. The number of hired farm workers (average) in 1920 was 3,391,000; in 1940, 2,679,000; in 1980, 1,303,000. The largest drop in hired farm workers occurred in the 1960s, which coincides with the application of the minimum wage to them. Farms have been increasing in size over the same period, of course, and it might go without saying that they have generally been increasing precipitately in value.

The main conclusion to be drawn from these facts is that fewer and fewer people are farming more and more land (per farmer) by the use of more and more equipment. Or, in formal economic terms, there has been a dramatic shift away from labor in the economic mix to land and capital, especially capital.

Moreover, not only are fewer people farming more land with more equipment, but also they are producing more of many commodities than ever before. For example, here is a description of production in 1981:

> The corn crop of 8,080,000,000 bushels, or 205 million metric tons (t), was the largest on record and 22% greater than the 1980 crop. All feed grain production . . . was 240 million t, up 21% from . . . 1980. Also the soybean crop of 2,110,000,000 bushels was the second largest crop on record and . . . 18% larger than the 1980 crop. The U. S. wheat crop was a record 2,750,000,000 bushels . . ., 377 million bushels more than in 1980.

Cotton production of 14.8 million bales was 33% greater than in 1980. Hay production increased 5% over 1980, while pasture and range conditions were 22% better than in 1980. Due to lower livestock prices during the first half of 1980, the number of hogs raised, the number of cattle fed for beef, and the number of chickens raised were down slightly. (*American Annual* [Grolier, 1982], p. 78)

The production achieved by American farmers by way of this heady shift to capital is surely little short of being one of the wonders of the modern world. Moreover, the prices of farm products to consumers should generally be reckoned as a bargain, compared to the prices of many other goods in an era of rising prices.

Signs of Distress

But there is a rather large worm in the apple of this farming Eden, which brings us to the subject of this essay, the trouble with farming. Discontent among farmers has been widespread and, perhaps, increasingly strident in recent years. There have been tractorcades to some state capitals and to the national capital, confrontations with sheriffs at foreclosure sales, and dark threats of violence if something is not done to help farmers.

The most common complaint is that farm prices are so low that large numbers of farmers cannot make ends meet. Stories surface after each crop year of farmers who lost large sums of money. Nor are the difficulties restricted to farmers in any one section of the country or producers of particular farm goods. They range from dairy farmers to chicken and egg producers to grain and fiber farmers to cattle growers.

Farmers are not noted, of course, for boasting about their great profits. Who is? Those who work and produce rarely complain that they are overpaid or admit that they are adequately compensated for their efforts. It could be, too, that when farmers gather in the winter, bragging rights sometimes belong to the farmer who had the largest losses during the year. But there is naught of exaggeration or humor in the inability of farmers to make payments on their debts or the ensuing bankruptcies and foreclosures. These last are widespread and increasing by all accounts. Moreover, precipitately mounting farmer indebtedness signifies something of the extent of the difficulties.

Total farm real estate debt outstanding stood at slightly over $7 billion in 1953. At the end of 1981, it stood at over $92 billion. There was a steady, though not particularly dramatic, rise in farm real estate debt during the 1950s and 1960s. It began taking off in the 1970s and almost doubled between 1975 and 1981. Closer analysis shows, too, that the least well secured—most precarious—portion of the indebtedness was increasing even more rapidly. Indebtedness to the Farmer's Home Administration, the lender of last resort for farmers, almost doubled in the period 1979–1981. These figures do not include the indebtedness for shorter terms secured by farm equipment or "rollover" debts, not completely retired from year to year because the proceeds from the sale of produce were insufficient. These add substantially to the overall debt.

Contributing Factors

A good many contributory reasons can be enumerated for short term difficulties of farmers in general and those of individual farmers here and there in particular. Most likely, some farmers who go bankrupt or have their farms foreclosed are ineffective managers. Some are what economists call marginal, or on their way to becoming sub-marginal, farmers.

More broadly, there have been fluctuations and changes which had an impact on farmers generally. One was the oil embargo of the Arab countries and the subsequent steep rise in oil prices. This development not only drove fuel prices up but also the prices of such things as fertilizer, pesticides, and herbicides. Another development has been the sharp rise in interest rates in recent years. Embargoes on grain shipments to communist countries have aggravated the situation for grain growers also. It can be added that, of course, farming is a risky business, and the vagaries of weather, of pests, and diseases contribute to the fluctuations in farm production.

These, and like, explanations might suffice if the trouble with farming were temporary or episodic. But some of the signs, especially mounting indebtedness, point to persistent and increasing difficulty. Moreover, if it were simply a market phenomenon, we might expect that farmers would make the necessary adjustments of production to demand to get prices that would enable those who stayed in the business to prosper. But it is not simply a market phenomenon, certainly not of the free market anyway. None of the developments discussed above were simply responses to the free market: not the dramatic shift from extensive labor toward capital, not the enlargement of farms, not the buying of ever larger and more expensive farm equipment, not the mounting indebtedness.

All these occurred in a framework of government tampering, intervention, restriction, subsidization, and tacit inducement. Farmers have been propelled, as it were, in the direction they have taken, including producing more than could be profitably sold, by government programs over the years. That is not to say that some of the developments, such as the shift toward capital by the use of large and specialized machines, would not have taken place, sooner or later, without the intervention. But it is most unlikely that the changes would have occurred so swiftly, so dramatically, or so extensively if the market had been the sole prompter of them. That is a way of saying that it is most unlikely that farmers would have been caught in their present bind by the workings of a free market. At any rate, that is *not* the way it happened.

Although there have been many government programs over the years which affected farming more or less in a variety of ways, I want to focus on three categories of programs which have the most direct bearing on the present situation. They are: price supports, crop and production restrictions, and easy credit. While easy credit is at the heart of the present farmer difficulties, other programs provide an essential part of the background and highlight some of the fallacies which underlie them.

Price Supports

Farmers have long and often believed that their problems, when they became acute, were caused by low prices for their production. Over the past century, they, or those who claimed to speak for them, have identified a number of villains who either contributed to or caused the low prices. Among these were high transportation costs, extortionate rates for storage facilities, money shortage, the fact that farmers often sold their crops at the time when prices were lowest, protective tariffs on manufactured goods, middleman profits, and, belatedly and occasionally, their own overproduction. Coupled with this has been a sentimental attitude toward farmers and farming, which goes back at least to Thomas Jefferson and was vigorously intruded into the political scene by William Jennings Bryan in the late 1890s. There were sporadic political attempts to "aid" the farmer by making easier money available and regulating rail rates over the years.

However, it was not until the 1930s that the federal government made a concerted effort to raise farm prices. The New Deal devised a variety of programs designed to accomplish this result. Among them were programs to increase the money supply, make loans on crops stored in warehouses until prices rose, subsidies, government guarantees, and government bidding up of prices. Some one, combination, or all of these efforts did succeed in raising farm prices, or some of them.

It happens, however, that one of the most important economic functions of price is to signal what is wanted. Higher farm prices tend to spur farmers to produce more of the goods for which prices are rising. (Not all farm products had price supports.) If the New Dealers did not know this at the beginning, there would soon be bountiful evidence to prove it. In any case, they were intent on raising prices, and they did understand that the way to do that was to reduce the supply on the market. Sometimes, they, or their successors in government, limited the amount of particular crops that could be sold at support prices. But the main device by which government tried to limit production over the years was by acreage restrictions on controlled crops. Farmers were assigned crop allotments for crops that had price supports, usually for their commercial or "money" crops.

Distorted Signals

The combination of price supports and acreage (or production) restrictions bent or distorted the market in opposite directions. On the one hand, price supports, so far as they succeeded in raising prices above what they would have been on the market, signaled farmers to increase production. On the other hand, acreage allotments limited the amount of land that could be planted to those crops. That did not mean that farmers gave up in their efforts to increase production of supported crops. It did mean, however, that they would have to shift the economic mix from labor toward capital. In theory, they might have cultivated the commercial supported crops more intensely in the hope of increasing production. But that was hardly possible, even if it would have worked.

The government program was set up in a way that discouraged the concentration of labor on the controlled crop. Allotments were based on the total amount of land under cultivation on a given farm. (Government favored diversified farming.) Thus, on a farm, only an established percentage of the land could be planted to the controlled crop. In order to get his maximum allotment, a farmer had to keep a maximum amount of his land in cultivation. He could, of course, concentrate his capital expenditures for fertilizer, improved seeds, pesticides, and the like, on the commercial and controlled crops. Many, probably most, farmers did. More, when they could, farmers increased their capital expenditures for these over what they had done, for it was a route to increasing production.

Beyond that, however, farmers who survived generally had to bring more land under cultivation, rent it or buy it (or buy allotments, as was sometimes done in the 1950s and 1960s) to make a living. The record is clear that most of those on small farms could not make a go of farming. The mass exodus from farming got under way in earnest in the mid-1930s and continued to the late 1960s, when farm population tended to stabilize.

The main path taken by farmers was to increase farm holdings. Since the number of hired farm workers was generally declining during this period, the main approach taken to the cultivation of these larger acreages was to buy mechanical farm equipment, i.e., tractors, trucks, planters, cultivators, and harvesters. Thus, the shift from labor toward capital was completed, so far as it has been.

From Whence the Capital?

Where did the farmers get the capital? More bluntly, where did they get the money to buy the machines, the fertilizer, the pesticides, the herbicides, the improved seeds, irrigation systems, and the like? In addition, where did they get the money to buy or rent additional land? There is no need to generalize too broadly here.

Most likely, there have been farmers who financed their expansion over the years in a businesslike and sound financial way. They extended their land holdings from profits, savings, inheritances, and so forth, and bought additional land only as it became available at attractive prices. Such people might well have bought new and larger equipment from similar sources, supplemented by prudent borrowing. If so, and if they have managed well, they are probably succeeding in farming even today. In any case, we are looking for the sources of the difficulties of farmers in trouble. More, we are looking for what, in addition to support prices, has enabled farmers to get the capital to produce in such quantity that they cannot survive in farming with such price supports as still exist.

The source of much of the money for farm capital and land is no great mystery. It has been borrowed. It has been made available by *easy credit.* The easy credit is a result of the policies and programs of the United States government. The farm movement that got underway in the latter part of the nineteenth century was early penetrated with the idea that easy money, or inflation, was a panacea for the problems of farmers.

This easy-credit idea achieved political expression in the Greenbacker and silverite movement, was propounded by the Populists in the 1890s, and entered the Democratic party by way of William Jennings Bryan and his followers in 1896. It began to bear fruit when the next Democrat, Woodrow Wilson, was elected to the presidency in 1912. The Federal Reserve Act was passed in 1913. The banks authorized under it were to become engines of inflation, for they were empowered to issue currency on the security of commercial and *agricultural* paper. That is, they could expand the credit by rediscounting notes held by banks, thus making more money and credit available.

The Federal Reserve system, then, has been the main fount of easy credit in the United States generally since that time. It is important to emphasize, however, that farm credit is a breed all its own. Otherwise, it might be supposed that farm financing is done in the same way as for other businesses. True, commercial farming is a business, and farm enterprises are often referred to as agribusiness. But much of farm financing is not done under such restraints as apply to business concerns. Farming is an especially risky business, yet much of the risk capital is obtained as loans rather than from investors who knowingly share in the risk. Also, much of farm land is financed by borrowing.

The Farm Credit System

How has this come about? Mainly by the operation of what has come to be called the Farm Credit System. Since little is known about this system generally, and since those who know of one or more of its agencies may not be aware of the government connections or the strange organizational modes, some little explanation of it may be in order.

First, the Farm Credit System was government inspired, government authorized, has had initial and occasional government financial help, and is government controlled! The basic system was authorized by the Federal Farm Loan act of 1916. The Federal Land Banks, probably the best known of the organizations, were first organized in 1917, pursuant to this act. There have been changes in the system from time to time by congressional acts. The following remarks are about the system as it was authorized by the Farm Credit Act of 1971.

According to the U.S. Government *Manual,* the system is organized in this way:

> The Farm Credit Administration, an independent agency, supervises and coordinates activities of the cooperative Farm Credit System. The system is comprised of Federal land banks and Federal land bank associations, Federal intermediate credit banks and production credit associations, banks for cooperatives. Initially capitalized by the United States, the entire System is now owned by its users.

Some of the above information could be misleading, however. The Farm Credit Administration is "independent" in the sense that it does not fall under the authority of any regular department of the government. Otherwise, it is a government agency, as are all the others under its authority, and the governing board is politically appointed: 12 members by the President of the United States and one by the Secretary of Agriculture.

This is a nationwide system of credit for farmers, the central banks being distributed about over the country in much the same way as are Federal Reserve banks. The Federal Land Banks make long term (5 to 40 year) loans to farmers secured by real estate. Although portions of the loans may be used for other purposes, they are made basically for the acquisition of farm land. The Intermediate Credit Banks are discount banks, serving mainly Production Credit Associations. Their main purpose is to discount intermediate term notes, such as would be needed for the purchase of farm equipment. Production Credit Associations make mainly what should be called risk capital loans to farmers. The loans may be for periods of up to 7 years. Banks for Cooperatives are, as the name implies, banks for associations of farmers.

Specialized Loan Companies

None of these organizations are banks in the usual meaning of the term. They are neither depositories of money nor issuers of currency. They might better be called loan companies, for that is their function, loan companies established by the United States government. But the word "company" may be misleading, if by that term we mean an organization owned and operated by investors for profit. The organizations in the Farm Credit System do not fit that description. The investors have no control over the organizations; investment is separated from ownership; hired managers operate them; and the profits, if any, go to the borrowers. Basic policy is set by political appointees or by law. Financing came initially from the Federal government, and ongoing financing comes from consolidated bonds sold to investors and backed by the notes from borrowers. (The United States government does not guarantee these bonds, but that may be only a technicality.)

The borrowers hold the voting stock in the basic organizations for the duration of their indebtedness. They are required to purchase the stock in order to obtain loans, and when the loans are repaid they must either relinquish the stock, or, in some cases, accept non-voting stock in return. The voting stock serves basically as a means of choosing the members of the committee which approves or disapproves loans. Such profits as may be made are, in effect, paid out as reductions of interest rates to current borrowers.

The point of these arrangements may be easier to get by conceiving the matter in figurative language. The government has contrived to bring into being and caused to be planted and grown a vast cabbage patch, i.e., credit, for rabbits, i.e., farmers. The rabbits have been placed in charge of distributing the cabbages under guidelines laid down by politicians or their appointees. My point is that a vast system of easy credit to enable farmers to buy land and get risk capital has been made available by government. But to round out the account of credit institutions one more needs to be included. It is the Farmer's Home Administration (known as the F.H.A. in rural circles).

The F.H.A.

The Farmer's Home Administration is a backup organization to provide easy credit, mainly for farmers, who cannot meet the requirements of other lenders. (Applicants for loans are usually expected to submit evidence that they have been turned down by other lending institutions.) Its basic authority stems from an act of Congress passed in 1921. It operates within the Department of Agriculture, and it is financed by proceeds from the sale of Treasury certificates. It makes loans to "pay for equipment, livestock, feed, seed, fertilizer, other farm and home operating needs; refinance chattel debts; provide operating credit to fish farmers;" for the purchase of land, houses, and other sorts of things for rural inhabitants and farmers. Terms of repayment and interest rates are adjusted to the financial situation of the borrowers.

None of this is meant to suggest that farmers borrow exclusively from government agencies. They, or some of them at least, borrow from regular banks, from insurance companies, from equipment dealers, and from private as well as other public sources. But there is every reason to believe that the major source of the easy credit which has many of them now swamped with debts are the government agencies.

While I was in the midst of writing this article there was an account on television of a farmer in Ohio who was trying to prevent the auctioning of his farm to pay his debts, or at least those secured by it. According to the television announcer, the man had 199 acres of land, and he owed $400,000 to a Production Credit Association and $200,000 to a Federal Land Bank.

Much more generally, the breakdown of the lenders to whom were owed the more than $92 billion outstanding farm real estate debt in 1981 confirms the preponderance of these agencies. The largest portion, nearly $36 billion, is owed to the Federal Land banks. Nearly $8 billion is owed to the Farmer's Home Administration. Life insurance companies had loaned nearly $13 billion, and commercial banks somewhat under $9 billion. The other lenders were not enumerated.

Here is a synopsis of an Associated Press release (published in the Birmingham *News,* January 2, 1983, p. 21A) which illustrates the ease with which farmers could borrow money and the consquences of debt for one man. It is about a man who was a farmer in Missouri. He began farming in 1965 with 68 acres of land and $600. By 1970, he was planting 900 acres and feeding several hundred hogs. This expansion was built upon a mountain of debt; it eventually totaled nearly $400,000. Drought, a disease which decimated his hog population, and inadequate prices drove him to the wall. The Production Credit Association, which had been supplying the risk capital for his operation, could carry him no longer. He turned to the Farmer's Home Administration, but that aid did not last long. His farm was sold at auction, but many of the debts remain unpaid.

In retrospect, this farmer understands what happened to him this way. He believes

> he still would be farming had he not expanded with such zeal. Had his appetite for money not been so voracious. Had that money not been dished out so readily.
>
> "They made a feather bed for me to lie on . . .," [he] said of the lenders. "You know, I could basically sit down at my kitchen table and write out a loan. It was just too simple."

"The road to hell," it has been said, "is paved with good intentions." The road to trial and tribulation for farmers is paved with government programs. Undoubtedly, farmers would have a full quota of trouble if there were no government intervention. Commercial farming is a business, and it is beset with all the pitfalls of other businesses. Some businesses prosper, others fail. That is the story of all business in good times and bad, and especially in bad. Beyond that, farmers face some risks peculiar to their undertaking. Thus, however unfortunate it may be, farming is unlikely ever to be a universally prospering undertaking for all who venture into it.

Conclusions

But the conclusions toward which this article has been moving are these. Government intervention has greatly aggravated the lot of the farmers. Price supports induce farmers to produce more. That, plus crop restrictions, promoted the expansion of land holdings and the shift from labor toward capital. Despite the fact that this was risk capital, the government set up a vast credit mechanism to supply much of it.

Price supports, crop restrictions, and easy credit sent misleading signals into the market. The crop restrictions have generally been abandoned over the past couple of decades, not, however, before millions of people had been driven from farming and the pattern had been set for those who remained to expand their land holdings and rely more and more on capital. Price supports, while not so obtrusive as they once were, still serve to stimulate production. Meanwhile, farmers go deeper and deeper in debt in a desperate effort to produce more and more in the hope that they can pay off the debts which are threatening to crush them. Many are falling by the way. Others, perhaps most, are having a hard time due to the lower prices resulting from the increasing production.

Many farmers are raising the cry for government aid once again. But the hair of the dog that bit them will no more solve their problems than it will cure alcoholism. Neither economic theory nor historical experience support any such notion. It is government intervention which has bent, strained and distorted the market to produce the current mess, as well as a number of earlier ones.

The unhampered market provides the guides for how much to produce in order to survive in an undertaking. The free market price is the surest guide to what to produce and in what quantity. When credit is only available from those who hope to profit from lending the scarce money available, there is little likelihood of overexpansion of landholdings or overcapitalization. Not so long as these are dependent on credit. And the farmers who are in desperate straits today are those being crushed by a mountain of debt.

IDEAS ON LIBERTY

Government Lending

In the sense that each borrower undertakes to repay out of the revenues produced by his work, all government lending is lending to finance enterprise. Where there is no enterprise, there is no prospect of repayment. In this broad sense, where enterprises and enterprisers are discussed in these general comments, the terms are used to apply to farmers and working people as well as to businessmen, partnerships, and corporations.

The theory of government lending is that it produces economic activity which otherwise would not occur. This means that if the government offers to pay the bills, now or later, homes will be built, factories will be constructed and outfitted, minerals will be mined, crops will be grown, electric power and telephone lines will be erected, goods will be exported for sale abroad, employment opportunities will be created, and many other business transactions will be undertaken, even if in each case it would have been unattractive or financially impossible for the people concerned to undertake the transaction unassisted.

(Extracted from the February 1955 report by the Task Force on Lending Agencies, prepared for the Hoover Commission on Organization of the Executive Branch of the government.)

Dennis L. Peterson

From the Mouths of Babes

I sat at my desk in the classroom, mulling over a stack of bills written by the students in preparation for our Mock Congress. As I glanced at each one, checking for proper format, neatness, and appropriateness of the action proposed, a wave of discouragement swept over me.

Only two units earlier we had spent several days discussing the principles of the Declaration of Independence. I had tried to explain in simple terms the formal writing of Thomas Jefferson. I had placed special emphasis on the importance of the truths deemed "self-evident to all men."

Even as the discussion proceeded, I had begun to detect that these self-evident truths and inalienable rights were indeed foreign to many of the youngsters. The very idea that the main purpose of government was the defense of individuals' lives, liberties, and properties seemed entirely new to many of them. This was confirmed when I rhetorically asked, "What is the purpose of government? Is it to provide jobs? Set prices? Build homes?" The overwhelming response was, "Yes, that is government's job."

The explanation that followed corrected their fallacious thinking—or so I thought. They even did well on the test, parroting back the freedom philosophy I had so expertly taught them.

Now, as I read the bills they had proposed for their Congress, I realized the truth—they had not really learned the philosophy of freedom. The big brother philosophy was firmly and unmistakably embedded in their young minds.

Two bills proposed severe international trade restrictions. Two others demanded long-term, low-interest loans for farmers and students. Another mandated involuntary auto seat restraints. Still another recommended a guaranteed annual in-

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come. One even suggested that the government enter the fruit-growing business.

It is true that one could simply dismiss such proposals as the unthinking work of junior high school students. But it is not that simple. From these bills I quickly realized that the students were learning well the philosophy of government so prevalent today. Their bills merely reflected proposals they hear discussed on television. Their bills, with a little spit and polish, refinement, and professional legal terminology, are the very issues being debated in the halls of Congress.

These students knew of nothing else to propose. Throughout their lives they have been hearing adults, especially the government "experts," discussing the efficacy of government regulation and intervention. Practically every proposal offers some form of government control. And usually such proposals are designed to benefit some unfortunate individual or group, thus appealing to their desire to help others in need.

Many of the students had attended public school for several years, where they had received the government's philosophy of control under the guise of preparing them for freedom. Those who had attended private school had either not been exposed to the freedom philosophy or had not truly come to accept it for themselves. None of them had read literature written by proponents of limited government.

As I sat at my desk, dejected and defeated, I thought back to my own early schooling. Even then several social studies teachers had espoused collectivist ideas. The literature was filled with them. But at home I saw in my parents hard work, rugged individualism, sound personal economy, and a fear of government interference. It was about that time that I began receiving *The Freeman* and "Notes From FEE." I still recall my excitement when a book written by Leonard Read arrived in the mail and the elation I felt upon turning to the dedicatory page and reading, "To Frederic Bastiat. . . ." Hand-penned following these printed words were, ". . . and Dennis L. Peterson." It was autographed by Mr. Read. At that time I knew of no greater honor. It encouraged me in learning more fully the freedom philosophy.

Slowly I have realized that the freedom philosophy is not something that can be taught in a few class periods. It cannot become a part of one's life through a mere introduction in school. It must be constantly nurtured, strengthened, and sustained. It must be shown to work on a day-to-day basis. It must be reinforced in real life in the home, in the church, and in the very halls of government. In short, it is something that can be discouraged and destroyed or encouraged and strengthened by others, but it must be learned through self-discovery.

The way of freedom must be taught, not by deriding the socialistic fallacies, but by accentuating the righteousness of freedom. As Mr. Read so clearly stated in *Accent on the Right,* "When we accent what is right, we put ourselves in the realm of the positive; our message becomes attractive, for it is one of hope rather than despair. This approach also strips the wrongdoing of its plausibilities and without any declamation on our part—leaves it bare, naked, and exposed."

A Lifetime Challenge

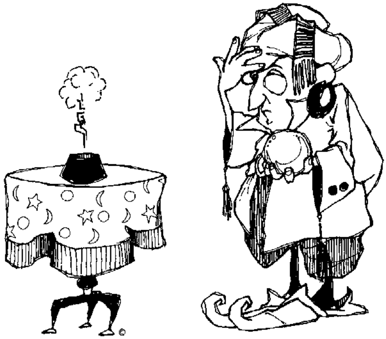
In reflecting on the lessons learned from my students, I now understand that teaching freedom to others is not the work of a semester, but rather the work of a lifetime. It will require many lessons, not one lecture; much reinforcement, not mere regurgitation.

A proponent of freedom should be a perpetual student. No one can be a teacher who is not at the same time a student himself. "Everybody is ignorant," Will Rogers said, "only on different subjects." Students will advance in their learning only to the degree their teacher is advancing in his own education. Samuel Smiles summed up this point in his book *Thrift* when he wrote, "Every man's first duty is to improve, to educate, and elevate himself, helping forward his brethren at the same time by all reasonable methods."

He should live his life in such a way that others will see the desirability of individual freedom. He should beware of developing a reputation as a ranting fanatic who is always negative in his attitude. Rather, he should be an exemplary proponent of the positive, emphasizing the benefits of freedom. He should illustrate how good freedom is, not how bad collectivism is.

Now I am asking myself what others are seeing in me. Will my young daughters learn the freedom philosophy from my life the way I learned it from my parents? If they do not, I have only myself to blame.

Lawrence W. Reed



Economists and the Future

In September, 1981, an economist from a major university in Michigan made known his economic forecast for 1982. His prognostications were widely publicized; perhaps some business or government decisions were based on them. According to the economist, the sluggish conditions of 1981 would give way to recovery early in 1982. Auto sales would improve to an annual rate of 9.7 million vehicles by the second quarter. Unemployment would "stabilize" at about the 8 per cent level. Economic expansion would spread to all major sectors, with the overall "rate of growth" doubling by the end of the year. Price rises would remain about as strong as they were in 1981. Many of his predictions were expressed in precise mathematical quantities.

What a difference a few months can make! Anyone who was awake last year knows that this particular forecaster entirely missed the mark. And yet, he employed one of the most sophisticated mathematical models money can buy.

What does an economist do, having erred so grievously? Quietly retreat into the shadows of academe? Not at all! Undaunted, he will wipe the egg from his face, resume his place in the crowded fraternity of economic soothsayers, and begin work on next year's prediction for Gross National Product—to the nearest tenth of a per cent. In the welter of fallacious forecasts, hardly a soul will single him out anyway.

The dismal record of the forecasting profession led one economics professor at the State University of New York to conclude recently that

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non-economists on balance are better at seeing the future than are the professional forecasters. Perhaps it is time for the professional soothsayers to re-examine their premises and methods.

What is it about the future that makes it so hard to describe? The answer is at once both simple and profound: *it hasn't happened yet*!

Human hindsight is often "20-20" but it is beyond human mental limits to really know with much precision what tomorrow will bring. No palm reader, no fortune teller, no astrologer, no forecaster, not even an econometrician, can ever dispel the uncertainty of the future. Austrian economist Ludwig von Mises, in *Human Action*, tells us:

> If it were possible to calculate the future state of the market, the future would not be uncertain. There would be neither entrepreneurial loss nor profit. What people expect from the economists is beyond the power of any mortal man.[1]

So it is that the existence of uncertainty is a commentary on the nature of the human condition itself. It is what Murray Rothbard terms "a fundamental implication derived from the existence of human action." In his monumental work, *Man, Economy, and State,* Rothbard expounds:

> This must be true because the contrary would completely negate the possibility of action. If man knew future events completely, he would never act, since no act of his could change the situation. Thus, the fact of action signifies that the future is uncertain to the actors. This uncertainty about future events stems from two basic sources: the unpredictability of human acts of choice and insufficient knowledge about natural phenomena. Man does not know enough about natural phenomena to predict all their future developments, and he cannot know the content of future human choices. All human choices are continually changing as a result of changing valuations and changing ideas about the most appropriate means of arriving at ends. This does not mean, of course, that people do not try their best to estimate future developments. Indeed, any actor, when employing means, estimates that he will thus arrive at his desired goal. But he never has certain knowledge of the future. All his actions are of necessity *speculations* based on his *judgment* of the course of future events. The omnipresence of uncertainty introduces the ever-present possibility of *error* in human action. The actor may find, after he has completed his action, that the means have been *inappropriate* to the attainment of his end.[2] (emphasis Rothbard's)

There Is a Need to Judge What the Future May Bring

To say that the future is uncertain, however, does not mean the end of the matter. Surely, *entrepreneurs* who assemble the tools of production today, as Rothbard points out, must make decisions based upon what they *think* the future will hold. They make it their business to grapple with questions such as: What will the general state of business be next year? How much will materials cost and will they be available? What wage rate will be required to attract and keep the kind of employees we need? What will be the effect on sales if we change our prices? What are our competitors likely to do? Where will the best markets for our products be? Is this a good time to seek outside financing or will interest rates decline in coming months? Should we be working down our inventories? What will the politicians do that might affect our business?

Consumers, securities investors, government policymakers, and, of course, economics professors on the lecture circuit, join businessmen in the search for information about the future. The real question is, what *can* we reasonably say about tomorrow and what methods enable us to say it? A review of the more prominent methods of economic forecasting is now in order.

A. Simple Trend Projection

This approach relies upon pure extrapolation of previous trends in some economic activity and as such offers little more than a pretense to being scientific. It works only insofar as current trends continue. It does not begin to account for, let alone incorporate, any significant changes or turning points. Professor James B. Ramsey terms it "naive prediction" and offers this critique:

> Either the predictor estimates some relationship and *assumes* that the same results will hold in the future; or he predicts values by using currently observed trends in economic variables over time, for example, he says next year's income will be equal to this year's plus 5 per cent. There is no attempt to provide a theoretical model in order to understand the observed relationships. There is no concern for identification and little for separating out the individual effects of exogenous variables.[3]

Thomas Malthus, early in the nineteenth century, used a kind of simple trend projection to forecast starvation and over-population. More recently, the so-called "Club of Rome" relied on the same approach to predict the same thing. In Malthus' case, the Industrial Revolution interfered with his projection rather decisively. The Club of Rome's projection did not foresee the decline of birth rates in industrialized countries.

To the extent that forecasters employ simple trend projection (and many of them do), they are walking on ice so thin you can hear it cracking as they go.

B. Gross National Product Models

The concept of GNP purports to express the total value of all goods and services produced during a given period of time. It is the consummation of "national income accounting"—the process of identifying and adding up all the components which comprise the economy.

Basically, GNP is "determined" either by (a) summing the total expenditures on the "final product" goods and services produced during a period or (b) summing the total cost incurred as a result of producing the goods and services applied during the period.[4]

GNP is probably the most widely used "measure" of total economic activity and is the statistic which most conventional analysts use to express their predictions of business performance. Its many components supposedly comprise a "model" of the economy which can be a foundation for economic forecasting.

What on the surface appears to be massively profound turns out to be something much less. GNP, being the most "aggregate" of statistical aggregates, is riddled with problems and errors and, what's worse, *problems and errors of unknown magnitude*.

Those problems and errors stem from both the complexities of statistical measurement and the difficulties of basic conception (what to include). What follows is an accounting of just a few.

1. Errors of estimation. Simon Kuznets himself, the "father" of GNP, suggested once that assuming an average margin of error for national income estimates (a prime component of GNP) of about 10 per cent would be reasonable! Yet, some economists routinely predict quarterly GNP figures in tenths of one per cent. Congress often makes public policy based upon those computations which, even if accurate, conjure up what Roger Garrison describes as "the vision of a dietician who weighs a locomotive both before and after the crew boards it, then uses the difference between the two weighings as the basis for prescribing a diet for the whole crew."[5]

2. Incentives for collectors of the data to fabricate or twist the statistics for personal or political advantage. We know that economic statisticians in communist and Third World countries are notorious for this. Is it really unreasonable to assume that some twists or fabrications happen here too? In a recent, rather blatant example, the government decided to quietly start counting the 1.7 million members of the armed forces in this country as part of the work force for the first time. That at least will make the official unemployment figures look better for those in public office.

3. Incentives for individuals providing the statistics to report incorrect figures. Such distortions occur as individuals attempt to guard trade secrets, evade taxes, or mislead competitors.

4. No account is made for the activities of the "subterranean economy." Giving Caesar the slip has become common practice as Americans are called upon to dig deeper in their pockets for what Caesar claims is his. Underground transactions, which totally escape the tax and data collectors, probably amount to hundreds of billions of dollars and probably are rising.

5. Things not exchanged for dollars are not included. Paint your own house and the value of the work performed is not calculated by the statisticians; hire a painter and his wages become a part of GNP. Likewise, if a man divorces his wife and then hires her as a cook for $100 a week, GNP will increase by $5200 annually.

6. Government spending raises GNP. When government spends more, it diverts funds away from more efficient allocation by the market. One economist suggested—with some sincerity—that it might be more in line with reality if government expenditures were *subtracted* from GNP!

7. Inappropriate depreciation allowances. These are determined by often unrealistic assumptions underlying the tax laws. Inflation in recent years, for instance, has rendered depreciation allowances quite inadequate.

8. Changing quality of goods not reflected. GNP would not rise if an improvement in a product did not result in a higher price.

9. Exclusion of leisure. Leisure is very much an economic good (subjectively valued and incapable of quantification) and people often opt to "consume" more of it and to consume less of the more "traditional" goods and services.

10. Frequent revisions. This shortcoming is related to the first one cited above. GNP statistics are constantly subject to revision. Those adjustments are often significant and sometimes come months or years after the initial calculation. In short, by the time we have a statistic which we can reasonably assume is "final," it may have long since lost any forecasting value, if indeed it had any in the first place.

Reliance on Gross National Product models as tools for accurate forecasting has repeatedly led economists astray. It seems that, at best, such models say something about the past, and nothing about the future. Professor Kenneth Boulding's reference to GNP as "one of the great inventions of the twentieth century, probably almost as significant as the automobile,"[6] goes down as a grotesque exaggeration.

C. Econometrics

Many of the problems of simple trend projection and GNP models are present in the more sophisticated, heavily quantitative, econometric models. These constructs, which many once thought to be quite promising, often comprise hundreds of mathematical equations that purport to represent relationships among the major aspects of economic activity. Expensive, high-speed computers churn out the meticulous forecasts of the econometrician.

The record of these models has been dismal indeed. Mistakes in econometric forecasts have often been so bad that merely changing their signs from positive to negative or negative to positive would have put them significantly closer to the mark. *Business Week* for March 30, 1981 provides a case in point:

> The big econometric models began signalling a downturn early in 1979 and construed the second-quarter dip as the onset of a potentially serious recession. After the third-quarter recovery, they kept betting that the next quarter would turn negative. Then, when last spring's drop was already under way, they turned briefly optimistic until the worsening statistics convinced them that their initial pessimism had been correct. They were wrong once again, because the economy picked up during the summer and was still running strong at the end of the year. "They were not only consistently wrong, they constantly changed their forecasts in the wrong direction," notes Stephen K. McNees, an economist at the Federal Reserve Bank of Boston whom the econometricians themselves rely on as an arbiter.[7]

These errors certainly do not occur because the practitioners of this method do not try. They are simply employing inappropriate assumptions—assumptions that if rejected would lead to the virtual termination of econometric models as we know them.

Economics as a science is best analyzed *qualitatively,* not *quantitatively.* There are no truly constant relationships in human action, which means that most of the relationships postulated in the equations of econometric models are invalid. "Garbage in, garbage out," as they say in computerese.

Economists have acknowledged for decades that the function of the entrepreneur is to anticipate changes in the marketplace. Once the entrepreneur has made a decision, he then exposes his wealth and income by arranging factors of production in such manner that he may satisfy future consumer demand. If he anticipates correctly, he will earn entrepreneurial profits; if his judgments are wrong he will incur losses. Any number of variable and unforeseen elements may arise to affect the out-come: changes in fashion and technology, government policy, labor union activities, competition, prices, and even the weather. None of these elements is entirely predictable; none can be accurately determined by past performance. Attempts to mathematically estimate these elements in advance or to attach numerical significance to the subjective judgments of the entrepreneurs themselves are pure folly. They are doomed to suffer the failure which lies in gross simplicity and imprecision.

Not a Precise Measure

It is ironic that econometrics strives for the exactness of numbers and yet bogs down in static equations which necessarily cannot begin to account for all the relevant factors and their interrelationships. Economist Henry Hazlitt tells us that if a mathematical equation is not precise, it is worse than worthless; it is a fraud:

> It gives our results a merely spurious precision. It gives an illusion of knowledge in place of the candid confession of ignorance, vagueness, or uncertainty which is the beginning of wisdom.[8]

Perhaps Mises said it best when he wrote:

> The fundamental deficiency implied in every quantitative approach to economic problems consists in the neglect of the fact that there are no constant relations between what are called economic dimensions. There is neither constancy nor continuity in the valuation and in the formation of exchange ratios between various commodities. *Every new datum brings about a reshuffling of the whole price structure.*[9] (emphasis mine)

The equations of econometric models profess complexity, yet they really represent a feeble, simplistic, and futile effort to mirror the infinitely more complex network of human actions we call "the economy." They fail to account for many unforeseen economic variables and make little effort to recognize the interaction between economic and *noneconomic* variables. Their static, impersonal, and aggregative approach leaves acting man out of the picture, replaced by lifeless equations of often dubious value. The one way they could be reliably predictive would be if people ceased changing and became robots; then the econometrician could "get a handle" on them.

One observer recently commented that to predict economic events, one must first predict political events. Unfortunately, there is much truth in that statement. Today, it is not enough to consider endogenous market forces when contemplating the future. One must reckon with the exogenous influence on the market of colossal, erratic government. Politicians and their bureaucratic foot soldiers throw their weight around like bulls in a china shop. Predicting the outcomes of the political process is like trying to forecast which vases the witless bulls will break next. Econometric models are incapable of foreseeing such events.

The failure of econometric forecasting should come as no surprise. But it would be surprising were its practitioners to admit failure.

D. Statistical Indicators

This approach utilizes measurements of economic activity which supposedly "lead," "coincide with," or "lag" the business cycle.

A list of leading indicators generally includes the money supply, housing permits, stock prices, raw materials prices, inventories, and corporate profits.

Roughly coincident indicators include industrial production, factory capacity, retail sales, and personal income.

Unemployment, bank rates on short-term business loans, labor cost per unit of output in manufacturing, and new capital appropriations are considered key lagging indicators.

Obviously, the group which is supposed to have the most predictive value is the group of leading indicators. The Commerce Department compiles the monthly "Composite Index of Leading Indicators," a widely followed statistic. Just how reliable is it?

The index's lead time in signalling the onset of recessions has ranged from four months to nearly two years, which makes it a shaky guide for anyone trying to plan for economic swings.

The index's performance in calling the upturns is only marginally better. On several occasions, it has signalled booms or busts which never materialized.

Statistical indicators, regardless of their category, often have substantial inherent weaknesses. Many of those weaknesses are akin to those described above with regard to GNP, itself viewed as "roughly coincident" to the business cycle.

The Producer Price Index, for instance, measures changes in charges by firms that make goods. It is based largely on returns from sellers, who tend to report list prices. Not recorded are the many trades that take place at discounts or at premiums.

The Consumer Price Index is the most-watched "cost of living" figure. It assumes that families buy items in the same proportions as they did in the base year of 1972–73, even though changes in lifestyles have since taken place. For one thing, it seems that an increasing number of Americans today are keeping their cars longer than they did ten years ago, so the purchase of a new car carries much less weight in a family's budget.

Also, the CPI vastly overweights average housing costs and does not take into account the fact that people tend to buy more of a substitute when the price rises on their first choice. They buy more chicken, for example, when beef prices go up.

Official figures on unemployment are an important factor in government planning. But the figures, based on household surveys, are deceiving. For example, some able-bodied people cannot get certain types of welfare unless they are actually looking for work, so they may facetiously tell survey takers that they are job hunting. They then become officially unemployed.

Assuming it possible to assemble accurate statistics which indicate what they are supposed to and do not require later revision, we might have a sketchy picture of where "the economy" *was* or perhaps where it *presently is*. But we still couldn't say for certain, based on the figures, *where it is heading*.

Educated Speculation

Having said all that, it nonetheless stands to reason that if we are to be able to say anything at all about the economic future, we probably should know something about the economic *present* and *past*. That's where reliable statistics might play some part, not as a basis for simple trend projection, but merely as descriptions of economic activity already behind us or underway. Even the finest and most accurate statistics, though, should only be ingredients in a more fundamental approach now to be examined. For want of a more descriptive title, I shall call it *Educated Speculation*.

This approach is characterized by the following:

1. A clear recognition of the uncertainty of the future with no "leaps of logic" or mindless extrapolations.
2. Careful use of only the most meaningful statistics, understanding all of the limitations of such aggregates discussed above. This implies a task of "de-aggregating" aggregates—of analyzing economic activity as it results from acting, decision-making, welfare-maximizing individuals.
3. A sound understanding of basic economic principles and of the political process.
4. A thorough grasp of the causes and consequences of the business cycle.

With these tools, an economist can proceed to say something about the future and have some reasonable grounds for saying it. He still must be wary, though, of how far he can go. Brian McAndrew, writing in the Cato Institute's *Policy Report* for November 1981, clarifies this point:

> If forecasters recognized the limitations of economic theory and empirical information, they would realize that the most an economist can hope to do is explain the likely consequences of different policies. An economist can show, for instance, that a minimum wage tends to

cause unemployment because it alters supply and demand conditions in the labor market. An economist cannot say exactly when, where, and by how much unemployment will rise (i.e., he cannot forecast the unemployment rate), but he can say that if a minimum wage law is instituted unemployment will tend to increase. In addition, he can, by combining theory with empirical information, get a rough idea of the amount of unemployment caused by the minimum wage at different times in the past, but he cannot say what this amount will be in the future.[10]

The Austrian Theory

In this world of radical interventionism, correct business cycle theory is crucial to our ability to say anything about the future. Cycle theories abound, but the one which fully integrates an explanation of the cycle and its features with an analysis of the entire economic system is known in various circles as the "Austrian malinvestment theory."

Propounded first by Ludwig von Mises and later enlarged by Nobel laureate Friedrich von Hayek, the Austrian theory holds that the source of the cycle lies in money and credit expansion orchestrated by central authorities and proceeds to explain its effects. It is the theory which enabled Mises during the subtle inflation of the 1920s to warn of a coming depression. Few believed him until it happened. I direct the interested reader to more detailed accounts found in the works of Mises, Hayek, and Rothbard.

In the final analysis, the art of *entrepreneurship* is the art of "educated speculation." It is upon the shoulders of the entrepreneur in the market economy that the burden of "educated speculation" rests. For him, it is, in the words of Rothbard, "a matter of intuition, 'hunch,' and deep insight into the slice of the market that the entrepreneur knows and is dealing with."[11] Entrepreneurship remains a vital, creative talent which economists would do well to spend more time examining. (See two works by Israel M. Kirzner: *Competition and Entrepreneurship* and *Perception, Opportunity, and Profit.*)

"Educated speculation," as I have termed it, is really economics brought down to earth. It may not be as fancy as econometrics or GNP modeling, but neither is it as pretentious. It says simply that an economist should be an economist, not an aspiring prophet.

The reader who began this essay hoping to discover a crystal ball may be disappointed that I have really offered nothing of the kind. Instead, what I have attempted to show is that much of what is commonly referred to today as "economic forecasting" goes far beyond the real abilities of economists to predict the future. Rothbard offers us this sobering reflection:

As Ludwig von Mises used to point out to those who were tempted to succumb to the razzle-dazzle of economic forecasting: If someone were *really* able to forecast the economic future, he wouldn't be wasting his time putting out market letters or econometric models. He'd be busy making several trillion dollars forecasting the stock and commodity markets. Let it be a reminder to anyone tempted to partake of, or give credence to, this modern form of soothsaying.[12]

—FOOTNOTES—

[1]Ludwig von Mises, *Human Action: A Treatise on Economics* (3rd revised ed.; Chicago: Henry Regnery Company, 1966), p. 871.

[2]Murray Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing, 1970), pp. 5–6.

[3]James B. Ramsey, *Economic Forecasting—Models or Markets?*, Cato Paper No. 10 (San Francisco: Cato Institute, 1980), pp. 37–38.

[4]James D. Gwartney and Richard Stroup, *Economics: Private and Public Choice* (2nd ed.; New York: Academic Press, 1980), p. 116.

[5]See p. xii of Garrison's Foreword to *National Income Statistics* by Oskar Morgenstern, Cato Paper No. 15 (San Francisco: Cato Institute, 1979).

[6]Gwartney and Stroup, p. 128.

[7]"Where the Big Econometric Models Go Wrong," *Business Week*, March 30, 1981, p. 70.

[8]Henry Hazlitt, *The Failure of the "New Economics"* (Princeton, N.J.: D. Van Nostrand Company, Inc., 1959), p. 99.

[9]Mises, p. 118.

[10]Brian McAndrew, "The Failure of Econometric Forecasting," *Policy Report*, November 1981, p. 6.

[11]See p. xi of Rothbard's Foreword to Ramsey's *Economic Forecasting*.

[12]*Ibid.*, p. xii.

National Income

IDEAS ON LIBERTY

WE can raise our national income to any figure we want simply by depreciating the dollar enough to raise prices to reach that income.

In Germany, in 1923, the national income (in marks) actually rose to hundreds of billions of times higher than its previous level, because the paper mark was depreciated to one-trillionth of its former purchasing power.

To be sure, when explicitly taxed with the point, economic planners will say that their goal is a national income of *x* billions "in dollars of present purchasing power." But they forget this qualification in actual practice. They are always citing the latest national income figures in terms of the latest and most inflated dollar. They do not stop to remind us, or even themselves, how much the national income would have to be written down to reflect the price level of, say, twenty years ago.

"The national income approach" has become one of the important incitements to inflation. For the easiest and surest way to get constantly bigger national income figures is not by increasing output and consumer satisfactions, but by constantly shrinking the measuring rod, by constantly depreciating the dollar.

HENRY HAZLITT, *The Failure of the "New Economics"*

The Strategic Metals War

WHEN the fates, in the guise of whatever forces guide the shifting of the earth's tectonic plates, picked the southern African plateau and Soviet Siberia as the home sites of at least fifty rare metals, they acted with little regard for either social or ethnic realities. The results confound morality, make a mess of industrial choreography, and guarantee a schizophrenic dimension to whatever passes for statecraft both inside and outside the UN.

The whole big blooming mess demands some intricate charting if we hope to make a stab at predicting future world history. Seemingly, we are caught between two inexorable movements. The capitalist West, with its "hi-tech" economy, depends on a steady flow of all sorts of hardening alloys. The Big Four of cobalt, chromium, platinum and manganese are absolutely essential. The West needs cobalt for jet aircraft, for computers, for space shuttles, and for most electronic equipment. It needs chromium for roller and ball bearings, for automobile connecting rods, for high speed drills and dies. It needs platinum for catalytic action in automobile exhaust systems. And it needs manganese—the remaining rare metal in the Big Four—for the simple reason that no one knows how to make steel without it.

The Soviets have their own chrome and other rare metals. But the western world must have Zaire and Zambia for cobalt. It must have Zimbabwe (Rhodesia) and South Africa for chrome. Some of the platinum group of metals come from Canada, but South Africa is the big supplier. The fates were more liberal with their distribution of manganese (there is a lot of it on the floor of the oceans, and Brazil has been a big source of it). But, again, it is South Africa that is the world's leading supplier of highly processed ferromanganese.

So the "Z's"—Zambia, Zaire, Zimbabwe—have it, along with their ethnic enemies, the beleaguered white rulers of "apartheid" South Africa. If economics, the economics of the market, ruled men's minds, the "Z" problem would bother nobody. But African politics, with many a nudge from the Soviet Union and its sidekick of Castro's Cuba, threatens the market. A race war in South Africa, coupled with an OPEC-type price conspiracy of the "Z's" and an invasion of Southwest Africa (Namibia) by the 20,000 Cubans now stationed in Angola, would bring all the high-tech nations of the western world to their knees.

A Study in Political Economy

In a book that was originally projected as an investment guide, *The Strategic Metals War,* authors James E. Sinclair and Robert Parker (New York, Crown, 185 pp., $17.50) found so many warning signals that what they started as a compendium for stock market advisers becomes something else again. This is not only an investment guide, it is a prime work in modern political economy.

The authors are inevitably compelled to be geopolitical experts. They raise all sorts of inconvenient questions. With Admiral Mahan (*The Influence of Sea Power on History*) looking over their shoulders, they indicate the importance of control of the oceans around the Cape of Good Hope at the southern tip of Africa. Ships carrying oil from the Persian Gulf to North European and Caribbean-Gulf of Mexico destinations need support from safe harbors in South Africa. So do the ore freighters that bring fifty rare metals from the mines of the South African plateau (including the "Z" nations) to the unloading points for factories in the West German Ruhr and in Pennsylvania.

It is easy to scoff at those who think that politics can permanently overwhelm markets. The libertarians who trust markets to prevail have a point when they tell us that recent oil discoveries in Mexico, Alaska and the North Sea have helped break the back of OPEC and so made the Persian Gulf less important to the West than it was in 1973. But frantic search for cobalt, chrome and platinum (along with germanium, tantalum, vanadium and antimony) hasn't resulted in strikes with a distribution comparable to the new sources of oil all around the world. The three "Z's" and South Africa, along with Siberia, still maintain their near monopoly of the more important rare metals.

Wars Over Cobalt

The history that is recounted in *The Strategic Metals War* is one of narrow escapes. In 1978 some 3,000 men of the Marxist-leaning Congo National Liberation Front based in Angola (where they were trained by Cubans) passed through Zambian territory and took over the mining center of Kolwezi in the Zaire province of Shaba. The invaders encountered no resistance from the army of Zaire. They first ordered the closing of the Kolwezi mines. Then they herded the white women into a hotel and forced them to dance on a small stage before being raped and shot. More than 90 whites and 750 Africans were murdered by the invaders.

Meanwhile the price of cobalt in world markets started jumping. The Soviets, who had advance notice of the invasion, had been buying up available cobalt at the pre-invasion price of $6.85 a pound. When the invasion hit the world headlines cobalt went all the way up to $49 a pound.

With cobalt mining in Shaba totally suspended, President Mobutu of Zaire put in a hurry call to President Valery Giscard d'Estaing of France. With help from U.S. military aircraft a rescue force of French foreign legionnaires and Moroccan troops were flown into Shaba. The Marxist invaders, who had flooded the mines, were quickly driven over the border into Zambia and Angola. It took fifty days to restore normal operations in the mines. In 1979 and 1980 cobalt had to be ferried out of Shaba by air at a cost of $1.50 a kilogram.

What the West must face is that it may take force to keep supplies from the three "Z's" moving. It certainly takes a nimble diplomacy. The railways running from Zaire and Zambia direct to the Atlantic and Indian Oceans are only intermittently operative. The "Z" nations are compelled to cooperate with the hated South Africans in order to get their metals to market by way of Cape ports.

In Zimbabwe, at the moment, tribal troubles are threatening mining operation. There is no reason to suppose that the tribal rivalries will completely disrupt the chrome market—after all, South Africa has chrome to sell, too, and there is no immediate difficulty in getting blacks to do the mining. But Mr. Sinclair tells us that, since the Shaba troubles in Zaire, it has become increasingly difficult to attract western capital into African mining. Mining equipment is wearing out.

And so the metals war goes into a "cold" stage. It could get hot again tomorrow. Stockpiling in the West is in order. ®

JOHN DICKINSON: CONSERVATIVE REVOLUTIONARY

by Milton E. Flower
(University Press of Virginia, P.O. Box 3608, Charlottesville, VA 22903), 1983
338 pages ■ $27.50 cloth

Reviewed by Gottfried Dietze

THIS attractive volume contains a well-written biography of one of the great founders of the United States, known as the "penman of the Revolution," and a symbol of that event.

In the New World, the American Revolution was another dimension of the English Revolution of the preceding century. After Montesquieu had classified Britain as republican in substance, Americans made their government republican also in form. The United States became the only country founded in the year of the publication of *The Wealth of Nations,* in which Adam Smith urged free enterprise for the good of mankind. After the adoption of popular forms of government, Americans soon became aware of the major problem of democracy, namely, to what degree the ruling majority should be restricted for the sake of the rights of the individual, among which those of property ranked highly. All this shows that the American Revolution was a conservative revolution.

John Dickinson was a conservative revolutionary. According to Mr. Flower, "Dickinson's approach was a crystallization of the whig theory that dominated the thinking of American leaders." Dickinson, whom Voltaire compared to Cicero, was born in 1732 in Talbot County, Maryland, and died in 1808 in Wilmington, Delaware. He studied law at the Middle Temple in London and had an outstanding career, as a lawyer and a public figure. This corresponded with the words of Tacitus he had recorded in his commonplace book, "To despise fame is to despise the Virtues by which it is acquired."

Aside from occupying important positions in Delaware and Pennsylvania, Dickinson played a major role on the American level. He represented Pennsylvania in the Stamp Act Congress of 1767 and drafted the Declaration of Rights and Grievances. In 1767–68, he published the *Letters from a Farmer in Pennsylvania, to the Inhabitants of the British Colonies.* They reached a wide audience so that prior to independence, Dickinson, with the exception of Benjamin Franklin, was probably the American known to more colonists than any other. They helped turn public opinion against the Townshend Act, under which new duties were to be collected to pay for the salaries of British officials in the colonies.

Flower writes that Dickinson was "the first native political hero: the outstanding harbinger of American protest against arbitrary British measures and a true defender of liberty," who up to the convening of the Second Continental Congress was recognized as the chief spokesman for American rights. Dickinson was a delegate from Pennsylvania in the First Continental Congress. In the Second Continental Congress, he was the principal author of the Declaration, setting forth the causes and necessity of taking up arms. He helped in the preparation of the first draft of the Articles of Confederation. A signer of the United States Constitution, Dickinson worked for its adoption and defended it in a series of letters signed "Fabius," the mastery and dignity of which won the praise of George Washington.

Dickinson's concept of freedom was a comprehensive one. "Men cannot be happy," he declared, "without freedom; nor free without security of property; nor so secure, unless the sole power to dispose of it be lodged in themselves." He feared big government and denounced governmental regulations from unfair taxation to restriction of manufacturing to the control of the shipment of goods, and so forth. He wanted liberty to be protected not only from the English, but also from representatives Americans had elected. In 1769, Dickinson wrote that he had been incensed at the Pennsylvania Assembly's permitting "the vilest acts of despotism." Similar fears were voiced by Dr. Benjamin Rush, who founded Dickinson College in his honor.

His love of liberty did not make Dickinson favor anarchy or political turbulence. He was convinced that "the Cause of Liberty is a cause of too much dignity to be sullied by turbulence and tumult." He believed in the rule of law, which to him was the guardian of the individual's rights from arbitrary government as well as the protector of these rights from infringements by fellow men: "The law delights in certainty and quiet because, without these, there can be no liberty." A contemporary of Adam Smith, Immanuel Kant and Thomas Jefferson, Dickinson had a strong sense of morals and virtue. When in 1782 an old friend had voiced strong approval of his gubernatorial proclamation against vice and immorality, Dickinson replied that he was convinced "that the happiness of men in this life as well as in the next depends on the prevalence of piety and virtue among them."

The penman of the American Revolution believed that "every friend to mankind must rejoice, in contemplating the actual and probable consequences of our revolution to other nations." Never bending to public opinion if he felt it to be wrong, Dickinson urged Americans to favor free government; "As for me, I will assuredly contend for that glorious plan of Liberty handed down to us from our ancestors; but whether my labors shall prove successful or in vain, depends wholly on you, my dear Countrymen."

Mr. Flower's work furnishes a detailed description not only of the political life of Dickinson, but also of his private life. It is a well organized scholarly study, supplied with a careful bibliography and a long index. When Charles J. Stillé published his biography of Dickinson in 1891, less than a quarter of the Dickinson Papers had been available to him. Mr. Flower was fortunate to draw on a vast collection of sources and write what in all likelihood will be the definite description of the life of a great American. It makes good reading.

STALIN'S SECRET WAR

by Nikolai Tolstoy
(Holt, Rinehart and Winston, 383 Madison Avenue, New York, NY 10017), 1981
463 pages ▪ $18.50 cloth

Reviewed by Bettina Bien Greaves

In his 1944 classic, *The Road to Serfdom,* Nobel Laureate, economist F. A. Hayek explained "why the worst get to the top." And now in *Stalin's Secret War,* Nikolai Tolstoy shows how "the worst" stay on top once they get there. Dictator of all the Russias for almost three decades, Joseph Stalin was certainly one of "the worst," and the tactics he used to stay on top were brutal and barbaric.

Nikolai Tolstoy describes Stalin as physically unattractive—short, "only five feet four inches high, . . . thin, swarthy and heavily pock-marked." As he aged, "his hair greyed and thinned considerably and his belly began to hang within the loose-fitting uniforms he affected. His pock-marked features appeared more lined and pitted than hitherto, his moustache was scrawny and streaked, and his teeth blackened and stained." He spoke in a "monotonous" tone and "with a harsh Georgian accent."

However, physical appearances are not crucial. It is character that influences action. Stalin was ruthless, a characteristic his predecessor and idol, Lenin, apparently appreciated. He helped to finance the "revolution" by robbing banks. When imprisoned by the Tsarist regime, he associated, not with the "politicals," but with the common criminals. He was vicious and crude. Nikita Khrushchev, Stalin's successor as Soviet dictator, described him as "brutish . . . harsh . . . coarse and abusive with everyone." Yet he felt insecure; he had an inferiority complex, and this, according to Nikolai Tolstoy, led to fear and paranoia. He became obsessed with the belief that he was surrounded by enemies. The methods he used to stay on top, therefore, are explainable by his character—his ruthlessness, his respect for gangster types, his fears and his paranoia.

Ambition plus ruthlessness enabled Stalin to rise to power over Trotsky and all other contenders. In time he came to hold sway over millions and "virtually owned the Soviet Union in as absolute a sense as property can acquire." The country's fairly proper constitution, code of laws and regulations were largely ignored by Stalin and his gangster-type associates; they were above the law. "No real property rights existed in the Soviet Union except Stalin's; he could literally do as he chose with anything." Any who dared to hint, or who was suspected of hinting, at opposition was effectively silenced by the secret police. Yet these very police-state methods added to Stalin's fears for his own personal safety. He trusted no one.

Stalin admired his fellow-despot, Adolf Hitler. He was apparently delighted when the German-Soviet Non-aggression Treaty was signed (1939), leading to the partition of Poland between their two countries. Stalin considered Hitler a friend. It was with complete disbelief that he learned, on June 22, 1941, that German military forces had attacked Russian soldiers stationed along their common border in the middle of Poland. Warnings of a possible German attack had reached Stalin from U.S., British and Russian intelligence sources, but he had chosen to ignore them. As a result, the Russians were utterly unprepared and chaos reigned. When his men at the front reported to Moscow they were under fire, they were told, "You must be feeling unwell," or "Do not give in to provocation, and do not open fire!" According to Nikolai Tolstoy, "There was in fact no battle-plan; only Stalin could issue instructions." And Stalin apparently panicked. His Foreign Minister, Molotov, announced the German attack to the Russian people.

Stalin had become a prisoner of his own paranoia. It was not until two weeks after the German attack that he came out of seclusion to broadcast to the Soviet nation. According to Tolstoy, Stalin appeared more fearful of assassination, an uprising in Russia and the possible overthrow of his own government than he was of the German invasion. These fears led to his "secret war," the war against his own people. In one chapter, "War on Two Fronts," Tolstoy describes Stalin's two bitter struggles—one against the Germans at the fighting front and the other against the Russians behind the front.

As Stalin trusted no one, his secret police were ordered to arrest anyone suspected of opposition to him or his government. He especially feared persons with leadership qualities. Purges were carried out in Russian-occupied territories, and also in Russia, against military officers, professionals and intellectuals. To forestall a Polish uprising, thousands of Poles were arrested shortly after partition; many were executed, often after having been cruelly tortured. His henchmen were no less ruthless in their treatment of Russian nationals.

Stalin's insecurity persisted even after the fighting stopped. He was still fearful of domestic uprisings and determined to liquidate all potential opposition before trouble could start. In his view, anyone who had observed life outside the Soviet Union might have acquired foreign ideas and thus become a threat to the Soviet regime. As the Yalta Agreement called for the repatriation of "Soviet citizens," that Agreement became the grounds for the Soviet government's demand that the thousands of refugees from the east who were in Allied hands at war's end be "repatriated." With Allied help and without adequate screening, therefore, many thousands, including many non-Soviet citizens, were tricked into railroad box cars and lorries and then forcibly carted off to imprisonment, torture and death in the U.S.S.R. One important chapter in this book is devoted to this sad event in history.

This post-World War II forced-transport of refugees to Russia was not without precedent in Russian history, a precedent which drew it to Nikolai Tolstoy's special attention. Petr Tolstoy (1645–1729), an ancestor of Nikolai's, was an ambitious and unscrupulous aide to the Russian Tsar, Peter the Great. When the Tsar wished to change the succession, he commissioned Petr Tolstoy to bring the Tsar's son, Alexius, back to Russia against his will. Petr deceived Alexius, returned him to Russia, where his father had him imprisoned, tried and eventually tortured to death.

Shakespeare wrote of Henry IV, "Uneasy lies the head that wears a crown." Although Stalin wore no actual crown, his power was more absolute and his reign more ruthless and cruel than that of most kings. So his uneasiness was more profound and his position more precarious. This insight makes Stalin's fears, his paranoia and his ruthless tactics comprehensible. It helps us to conclude with Nikolai Tolstoy that "Stalin was not mad." As Adam Ulam wrote in *Stalin: The Man and His Era:* "The madness lay in the system that gave absolute power to one man and allowed him to appease every suspicion and whim with blood."

Stalin's Secret War is a remarkable book, not a pleasant one, but one that reveals a great deal about the nature of one-man government.