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Unemployment

UNEMPLOYMENT is one of the most senseless and unnatural phenomena ever to descend on man. Any improvement in the arrangement and use of resources in the world depends on human labor. Man must sustain his life through labor. That is as certain as day and night. And yet millions of people are unemployed.

The news media announce it, the educators lament it, politicians condemn it, and governments allocate public funds to eradicate it. No other economic phenomenon receives as much public attention as unemployment. Despite such popular condemnation, unemployment persists, holding millions of Americans in its deadly grip.

Unemployment is a political disease which springs from the primitive but popular notion that government can improve everyone's income and working conditions by legislation and regulation, and that labor combinations can exact higher incomes and better conditions through collective bargaining. It is an affliction that stems from misinterpretation and misinformation about work and income and from an undaunted faith in collective force and coercion. As such, it clearly reflects the spirit and mentality of our age.

The rate of unemployment is directly proportional to the force applied to raise the cost of labor. Force may be applied by the victims themselves acting collectively through properly certified labor unions, or by governments enacting laws and imposing regulations that raise labor costs. But in final analysis, unemployment descends from the vague supposition that collective force is capable of improving the economic conditions of working people.

There are no "instant" solutions to the phenomenon of unemployment, no painless recipes or political prescriptions. There are no coercive cures or remedies that create jobs for the jobless. Labor will be fully employed when its application is profitable and adds value to production.

The way to alleviate unemployment is to reduce the coercion of minimum wage legislation, fringe benefit mandates, and union rates and rules. It is to restore freedom in the labor market, which permits the cost of labor to readjust to the true level of productivity.

—*Hans F. Sennholz*

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Perry E. Gresham

NATURAL LIBERTY: *A New Version*

WHEN Good Queen Bess defended her realm from powerful and gold-rich Spain by means of a superior Navy and a powerful fleet of merchant adventurers, she gave out monopolies to certain traders and exemplified, thereby, the mercantilist system. As time went by, the astute practices of Sir Thomas Gresham, my distant kinsman, kept her modest empire solvent, even though her kingdom was always on the brink of disaster. The Low Countries with which she traded were in even more desperate circumstance. The Spanish and Portuguese explorers lived with the mercantilist presumption that precious metal is wealth.

However, contradictions and excesses inherent in government monopoly of trade administered through cartels and licensed subordinate monopolies soon brought disenchantment to those involved. The tyranny of the governments and their plundering agents left many people in penniless squalor. The urgency of change became a drumbeat.

At just this moment came the wise intellectual leadership of Adam Smith. He was a quaint and charming absentminded professor who formulated a new approach to political economy. He called it "natural liberty." He saw wealth not as bullion, but as a prospering economy which gave hope to the poor and liberty to the common person. His classic benchmark volume, *An Inquiry into the Nature and Causes of the Wealth of Nations,* published in 1776, marked the end of mercantilism and ushered in the new order which was soon known as "liberalism."

This somewhat slippery designation for a particular approach to political economy was intended to emphasize the freedom of the individual to act without restriction of state monopoly. While supply and demand are as old as any form of human commerce, it received its most adequate presentation in Adam Smith. In a somewhat desultory fashion, Smith covered such issues as the division of labor, the formation of capital, and the self-regulating nature of the market which made its own allocations, set its own prices,

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developed its own labor force, and brought on amazing prosperity without the interference of government intervention.

The natural liberty of Adam Smith meant freedom of initiative and resourcefulness to find economic opportunities and lift the common people out of their poverty. The market worked so well that the industrial revolution ensued.

Webster's Unabridged Dictionary defines "liberalism" as "A theory in economics emphasizing individual freedom from restraint, especially by government regulation in all economic activity, and usually based upon free competition, the self-regulating market, and the gold standard (the decline of mercantilism produced a period characterized notably by the ideas and policy of liberalism)—called also economic liberalism."

The free market, however, is not merely economic. Among other things, it is political. Economic considerations imply political activities of a certain kind. In all Scotland there is no university course in Economics and none in Politics; it is always Political Economy. Only the politics of limited government with an inclination toward *laissez faire* made possible the liberalism of Adam Smith. John Stuart Mill wrote his essay on liberty as a sort of political equivalent to *The Wealth of Nations*. While Mill got himself confused into some proposals of socialist economics, he was crystal clear in his demand for liberty in government.

Critics of natural liberty appeared in spite of the obvious success of its drive toward prosperity. Thomas Malthus, demographic genius who served as a priest at the Cathedral of Bath, worried that people would grow thrifty and savings would destroy the economy. David Ricardo, the stock broker who was a friend of the poor, fretted about rents and formulated his iron laws. But the real challenge to Adam Smith came with that angry curmudgeon who was writing endlessly in the British Museum. The *Das Kapital* of Karl Marx gave the name of "capitalism" to the economy of the free market. He used the word as a pejorative term; nevertheless, it gained respectability in spite of him. Capitalism powered the amazing development of that nascent republic which we call The United States of America.

In the first half of the 20th century, the winds of opinion changed. The 1930s were marked with a very different attitude toward liberty. The whole meaning of the word changed. John Maynard Keynes was a true genius at investments who tripled the endowments of King's College at Cambridge by studying its portfolio each morning before he finished his tea and dressed for the day. An ardent patron of the arts, he was President of the Covent Gardens Society.

Bertrand Russell called him the greatest mind he had encountered. Keynes became interested in economics and wrote some books about money and about economic theory. He had great confidence in the government to manage the economy by stimulating aggregate demand. Much of the Pandora's box of government intervention was opened by John Maynard Keynes. His advice to the American leaders involved in the Great Depression resulted in the New Deal.

Contemporary American Liberalism

John Kenneth Galbraith has become an apostle of the contemporary so-called "liberal" tradition with its emphasis on the public sector of the economy and its high regard for government as arbiter, manager, and in some respects, even owner. He is a bold proponent of government planning, a defender of transfer payments to promote equality, an exponent of government regulation for business, industry and finance. He argues that high taxes are necessary for civilized living. He has described the liberalism of Adam Smith as "the conventional wisdom." Some of the facts add plausibility to his argument. Businessmen have run to government to reduce competition, to find protection from foreign trade, and to gain monopoly, if possible. Some of their rhetoric in favor of free enterprise is rhetoric and nothing more. They talk of individual liberty while cozying up to government for their own advantage. Galbraith was right in calling their free enterprise "conventional wisdom."

By standards of contemporary American liberalism, as exemplified by some public figures such as Senator Edward Kennedy, Presidential candidate Walter Mondale, House Leader Thomas P. "Tip" O'Neill, or most of the media gurus such as John Chancellor or Jack Anderson, equality as an ideal for our society is viewed as absolute, rather than "the equality of opportunity" as mentioned by Thomas Jefferson. Quite oblivious to the fact that people are not equal and cannot be so, they make strong egalitarian appeals that are powerful vote-getters. They would pass laws that would take from some and give to others in order that all might be equal, or as much so as possible.

The contemporary American liberals, whether they are professors, news people, authors or politicians, argue that the present world economy is much too complicated to operate without planning and management. They believe in big government and high taxes. Economist Allan Meltzer has observed, "Governments grow because the benefits are concentrated and the costs are diffused." Large interest groups organize to win special favors for themselves and the cost is so widely distributed that the voters do not organize to oppose the special interest legislation. In line with this effort, some leaders favor socialized housing and transportation. Intellectuals are slow to learn what has long been known as economic truth—that not everybody can live at the expense of everybody else.

The New Deal

The Franklin Delano Roosevelt New Deal marked the effective finish of the free market economy in America and brought in the arrangement which I have described as "interest group interventionism." The state has taken on a vital role in all economic affairs, even though the relationship is less than socialism. The politicians and the bureaucrats feel responsibility to regulate industry and commerce, protect consumers, provide safety regulations, spell out the basis for economic action by controlling mergers, protect the environment and provide for the general welfare by means of transfer payments. Government grows, taxes become onerous, and individual liberty erodes.

The contemporary "liberal" in America is inclined to look to the government for solutions to national problems such as unemployment or highway safety. He is liberal in contradistinction to conservative. The earlier meaning of freedom from state interference and control is completely lost. The pejorative use of the term "liberal" by religious fundamentalists may have contributed to the New Deal meaning of the term. The name "liberal," is worn with pride by those who wish to be progressive; they describe conservative in such disparaging terms as "rightest," "old fogy," "fundamentalist," "reactionary," and "ultraconservative." By the irony of language, the word has been transformed to mean something more akin to mercantilism than to the liberalism of 1776.

"New Deal socialism saved capitalism in America" is a common remark by those who are conscripts of the contemporary American conventional wisdom. There are several variations on this remark, such as "President Roosevelt saved capitalism" or "Keynes was the economist who observed the self-destructive tendency of capitalism in The Great Depression and provided a theoretical basis to restore the economy." Such efforts at explaining change in political and economic theory are naive. The New Deal dash of socialism did not end the depression, nor correct the conditions which brought it on. The Great Depression ended only when that dreadful war lashed the economy into a fury of production. The conventional "liberal" wisdom contributed to the failure of capitalism rather than to its salvation. Government intervention spawned a whole new batch of problems. Muddled legislation and bureaucratic excess were pronounced good and baptized both liberal and humane. The stark facts are that liberty was diminished, production repressed, inflation stimulated, and taxes multiplied to oppressive proportions. For documentation see *Business, Government, and the Public* by Murray Weidenbaum.

Natural Liberty: A New Version

Sometime around 1975, a new awareness began to sweep the world. Walter Lippmann much earlier had foreseen this effect when he wrote of the sickness of an overgoverned society. Higher and higher taxes with more and more loss of individual liberty began to catch the attention of world leaders. In countries where opinion can make a difference, the electorate was ready to accept more freedom in the political economy. Margaret Thatcher came into power in Britain; Ronald Reagan was elected in the U.S.A.; and the Scandinavian countries took a sharp turn to the right. France elected a socialist who seems to be leaning toward capitalism because of the failure of his nationalization efforts. The world seems to be ready for a rebirth of freedom.

As a political economist, I do not presume to evaluate Mrs. Thatcher, Mr. Reagan, Mr. Mitterrand, or any other political leader. It is my function to point out the mood of the people with regard to the role of government within a particular nation state. It is my opinion that Mrs. Thatcher and Mr. Reagan were swept into office because they represented more liberty in the political economy of their respective countries. The modification of the socialism of Mitterrand in France derives, likewise, from the interests of the people who cherish liberty.

The dominant public philosophy, however, continues to be government-centered interventionism. The planned and regulated political economy is the new "conventional wisdom." Labor leaders expound this theory, but the rank and file are disenchanted with it. The members have begun to move with the drumbeat of a new liberty. There are stirrings toward the liberation of individuals all over the world—even in tightly controlled nation states such as Russia and China. The people are beginning to reassert themselves and to rediscover their individual needs, wants and ideas. Weariness with being a mere cell in some collective society is losing its appeal.

The arrival of Aleksandr Solzhenitsyn in America was a massive blow to the Socialist mystique. The almost lyrical appeal of Marxism to many contemporary American liberals had a rude shock when it became apparent that socialism has a very high record of abysmal failure almost everywhere. Indira Gandhi is trying to move India back from left to center. Chile is in turmoil, but has had enough of Allende. Many Canadians are sick of Trudeau. Mainland China is adopting capitalistic methods and ideas. Even Russia is showing more and more inclination toward capitalist ways in domestic matters.

Nor is economic theory lacking for the new forms of natural liberty. John Maynard Keynes once said, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood." New and different intellectuals are emerging who give thought and structure, as well as respectability, to the freedom philosophy. Theodore Lowi, political scientist at The University of Chicago, came forth with a new book called *The End of Liberalism.* Writing at the very end of the 1960s, he outlined in lucid terms the failure of the state-centered liberalism of the American mid-century. He marked the inability of the bureaucracies to deal with the problems of human action. He wrote a convincing chapter on the subject, "Why Liberal Governments Cannot Achieve Justice." He notes the failure of the welfare state in its effort to deal with poverty. He notes the tragedy of efforts at urban planning. He notes the breakdown of the law in dealing with human issues when the law itself attempts to make policy.

Lowi is not alone. A whole flood of contemporary books of quality show the disenchantment that comes with too much government. The experience of one thoughtful journalist who has interviewed and dealt with almost every person of prominence in this 20th century describes his pilgrimage away from contemporary American liberalism to the free market, the free individual, and the free enterprise. I refer to John Chamberlain's exciting book titled *A Life with the Printed Word.* A guru from Boston, named Warren Brookes, who wrote *The Economy in Mind,* comes down hard on the side of the new liberation from statism. The amazing popularity of the Friedman book, *Free to Choose,* is a great boost to the new public philosophy of liberty. In his book, *The Spirit of Democratic Capitalism,* Michael Novak has touched capitalism with a spiritual wand which renders contemporary American liberalism obsolete.

The Austrian Influence

All these writers build on a solid base laid by Ludwig von Mises in his great book *Human Action.* Comparable to it, and even more widely circulated, was the first alarm sounded by Friedrich Hayek with his more popular book, *The Road to Serfdom.* These two notable scholars were part of the Austrian school of economics which has growing support in all intellectual circles. Liberty is no longer out of fashion.

This new variety of liberalism is not just Adam Smith *redivivus*. It is something completely new and appropriate to the present position of life on this little blue planet. For example, George Gilder has correctly pointed to the benevolent nature of capitalism. This is a phase of Adam Smith which is frequently overlooked. It was present in his book, *Theory of Moral Sentiments*, but omitted from *The Wealth of Nations*. Gilder sees capitalism as a sort of exemplification of the Biblical injunction, "Cast thy bread upon the waters."

The new political economy of liberty and hope takes full account of the benevolent nature of this system, whether it be called the market economy, capitalism, free enterprise, or by some other name. When Henry Ford was building black automobiles and amassing a huge fortune, his primary concern was better transportation for less expense to the American public. I have known his family well. Many of his original colleagues in the enterprise testify to the fact that he thought of himself primarily as a benefactor. I have just finished serving as chairman of a committee to write the history of the John A. Hartford Foundation. As I study the lives of John and George Hartford, I realize that these founders of the Great Atlantic & Pacific Tea Company were primarily motivated by a consuming desire to provide the people of the world with better food for less money.

Profit Rewards Service

The beauty of the free market is that service to humanity is rewarded by profit almost in direct proportion to the quality of the service rendered. The truly successful entrepreneur of our times is a person of social awareness, compassionate concern for the people around him, and fully aware of the fact that the pursuit of money for its own sake is self-defeating. The beauty of the free market is that the person who correctly perceives the needs of other people, and meets this need in a resourceful fashion with the necessary disciplines of good management and the marketing genius of a successful promoter, finds himself rewarded for the effort. Profit can be a major motive, but it is only possible when worthy goods are produced and valuable services are rendered. The entrepreneur or the corporate executive who cares and serves can live up to his own inner hero image.

The great founders of American business have been lampooned and pilloried as robber barons. Some were robbers indeed, but many were motivated by true benevolence, and practically all of them thought of themselves as heroes. The late T. V. Smith wrote a chapter in his book, *Live Without Fear,* which begins, "No man is an s.o.b. to himself. In fact, each person is a sort of hero to himself."

This new approach of a redefined natural liberty tends to reduce the adversarial relationship between labor and management. I was greatly pleased to hear Douglas Fraser speak approvingly of the employee stock ownership plan at Weirton Steel. A few years earlier, no union leader would have dared consider any arrangement that would reduce union power, even though it had obvious benefit for the people involved. While labor leaders make loud declarations of the conventional wisdom which lingers as contemporary American liberalism, the rank and file of the people who do the work of America are enchanted by the possibility of individual initiative and freedom which might enable them to improve their own position. People like the possibility of doing things on their own without too much dependence on unions and government.

Union influence is waning, and the popular enchantment with government to solve all human problems has begun to fade into disillusionment. Many workers are willing to work with their companies on realistic terms to prevent bankruptcy and insure continuity. They have rediscovered the wisdom of Samuel Gompers who said, "The company that does not make a profit is the enemy of the working man." The new natural liberty will require more cooperation between management and labor.

An End to Protectionism

This new cooperation is essential to successful foreign trade. The tired solution of protectionism is not adequate to deal with contemporary issues. Technological advance in the fields of transportation and communication has reduced the size of the world until the public philosophy must be aware of its global implications. Those who advocate barriers against foreign competition make no mention of the price rise for the American public which is implied. More and more people are rediscovering the correctness and pertinence of David Hume, who more than two centuries ago declared for international free trade. Those who try to make a moral issue out of "buy American" should consider the moral imperative to build better products at less cost. The philosophy of liberty requires that people be free to buy wherever they get the best product for the least investment. If American production costs are too high and the products are inferior, the market is sending its inevitable signal that we must learn to produce better products at less cost.

The new natural liberty differs from past liberalism in that we have more and better information and more technological facility than ever before. We are beginning to understand the nature of life on this little planet. We have become aware of the intricate ecology of everything around us. The interdependence of everything in our ecological world has reached the level of poignant awareness—and all of this in the recent past. When one natural condition is altered, all the others are somewhat affected. Some of us have learned, also, that the economic and political world is quite as interdependent as the world of nature.

The contemporary American liberal argument that our world system is too complicated to be trusted to a free market is a contradiction of patent fact. Like the ecosystem, the political economy of the world is too complicated to be placed in the hands of planning politicians and bureaucrats. The new natural liberty recognizes this fact and cries out for relief from the notorious failure of socialist solutions. The blindness of our conventional wisdom is evident in the fact that it has taken us so long to learn that the market is much more able to deal with vast and intricate problems than is any bureaucratic genius or pretentious political planner. Everybody knows better than anybody. No one person is wise enough, or strong enough, to think, plan and prescribe for everybody else.

The principal factor in bringing on the political economy, which I have called "the new natural liberty," is the realization that our conventional wisdom of turning to the government for everything has betrayed us. Our experiment with the war on poverty turned out to be a war on the poor. Our benevolent effort to provide free health service has sent the health costs soaring so that the system is in jeopardy. The political attempt to bring about equality by the Robin Hood method of taking from the rich to give to the poor has helped the rich and hurt the poor. Our attempts to regulate our industries have priced us out of the world market and injured everybody. The gray dawn of hope is enabling us to discern the procedures that will free us to work with the natural laws of the political economy instead of against them. Nobody is wise enough to plan for everybody. "The miracle of the market," to quote Leonard Read, is that the market reflects the initiative and imagination of everybody.

Hardening of the Attitudes

Those who repair to government for everything suffer from hardening of the attitudes. They seem to be unaware of government as an instrument of coercion which has a monopoly on violent force. Enchantment with government obscures the meaning of voluntary action and association which flourish under liberty. Those who prate of partnership of public and private sectors fail to recognize the difficulty which inheres in partnership between those who believe in freedom and those who believe in coercion. Government has an important role, but it does not consist of running everybody's life and making subjects out of citizens. The new natural liberty calls for fewer laws, less bureaucracy, less presumption that Washington knows best, and more reliance on free individuals working to improve their conditions and fulfill their lives.

The findings of the Club of Rome show a grim future for humanity. The Malthus specter of limited resources and burgeoning population reappears. The one resource which is never in short supply is the creative imagination, the individual initiative, and the resourcefulness of individuals in a free society. The liberalism of Adam Smith's day freed the people from the cartels and monopolies of the state which were a lingering influence of mercantilism. The new natural liberty could free people from the burdensome government and stifling regulation of the conventional wisdom which I have subsumed under the title, "Contemporary American Liberalism." This paper is a call for a new birth of liberty.

The Skeletal Remains

One of the most notable murals of America is located in the dining hall of Dartmouth College. José Clemente Orozco was the artist. Orozco had lost a hand in a chemistry explosion when he was a student, but he had an enormous reservoir of talent. His feeling for humanity was profound. The Dartmouth mural has the title "Epic of Culture of the New World." He shows Christ chopping down his cross with an axe as a protest to the human rejection of his gift of peace. He shows Quetzalcoatl, the Mexican god of arts and crafts, turning away from his own country which had rejected him. In a most shocking and striking fashion, he shows the modern world rejecting its great opportunity for peace, prosperity and happiness.

The scene is the operating room of a modern hospital. The doctors in attendance are attired in academic robes, rather than the usual white gowns of physicians. A woman is lying on the operating table and giving birth to a baby. These, also, are in academic attire. But the most shocking fact is that the doctors, the nurses, the mother, and the stillborn child are all skeletons! Outside the window, the revolution flames red.

This mural exemplifies the reluctance with which the intellectuals, especially those of the academic community and those who man the media, cling to the socialist-tinged theory of political economy, which I have called "contemporary American liberalism." Joseph Schumpeter correctly pointed out the fact that intellectuals show antipathy toward capitalism and the free market. The intellectuals feel somewhat dispossessed and lacking in power. They, therefore, identify with those who are aspiring to power, such as labor union leaders, some politicians, and the powerful revolutionaries. They tend to look on business with envy, and therefore, hate. They have lost their identity with the free market centers of power, capital and promise.

A Life Without Hope

The conventional wisdom of contemporary American liberalism is, therefore, a skeleton mother bringing forth a stillborn skeleton child. The promise of a truly free world in which, in the poetic language of The Old Testament, "each could sit under his own vine and his own fig tree" is dismissed. Instead, some intellectuals write of zero sum economics and a tightly-controlled society which distributes the rapidly depleting resources of the planet. They are blind to the hope that lies in the inexhaustible supply of creative individuals who have imagination and resourcefulness.

This spell of Marxism will continue in some academic halls and among some news people. The government-centered theories of John Maynard Keynes, offered only for a special situation, will persist with those who look to government for everything. But the flaming red of a new moral revolution is just outside the window. It is the red sky beginning of a new period in which individuals are free and the market operates. This new natural liberty radiates benevolence. It trusts the creative initiative of each individual person. It speaks to the depths of the human nature, with its love of liberty which is as old as the human race.

G. K. Chesterton challenges humanity to a courageous reappraisal of our human predicament when he wrote a sort of prayer for our time:

From all that terror teaches,
From lies of tongue and pen,
From all the easy speeches
That comfort cruel men,
From sale and profanation
Of honor and the sword,
From sleep and from damnation
Deliver us, Good Lord!

An audio-cassette of this article is available at $10.00 from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533

Henry Hazlitt

The Early History of FEE

I've been invited to share some recollections about the early days of the Foundation for Economic Education. It must have been sometime in 1944 or 1945 that a handsome man dropped in to see me at the *New York Times,* where I was then writing the economic editorials, and introduced himself as Leonard Read, general manager of the Los Angeles Chamber of Commerce.

The free-enterprise philosophy had already become almost a religion with him. He told me he was looking for a wider audience to which to explain that philosophy, and was thinking of setting up a libertarian foundation of his own.

In 1946 Leonard had raised the money, set up the Foundation for Economic Education here at Irvington, and invited me to become one of his original trustees and officers.

It is astonishing how soon Leonard's action began to produce important results. Friedrich Hayek, in London, impressed by Read's initiative, raised the money the next year, 1947, to call a conference at Vevey, Switzerland, of 43 libertarian writers, mainly economists, from half a dozen nations. The group of ten of us from the United States included such figures as Ludwig von Mises, Milton Friedman, George Stigler—and Leonard Read. That was the beginning of the still flourishing and immensely influential Mont Pelerin Society, now with several hundred members from dozens of countries.

Another effect of Leonard's initiative soon followed. Other libertarian foundations were set up in emulation. Baldy Harper, who had been working as economist for FEE from its first year, left in 1958 and started his Institute for Humane Studies in 1963 in California. Soon Antony Fisher set up like organizations in England, Canada, and eventually here. I recently learned from Antony that he is now watching over eighteen institutions in eleven countries. Manuel Ayau in Guatemala established his libertarian Universidad Francisco Marroquín. Groups in other Latin American countries have set up their own equivalents of FEE. It would take too long to name all the present institutions here and abroad, even if I knew of them all, that owe their

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origin directly to Leonard Read's example.

Let me return to the early days of the Foundation. The original officers were David M. Goodrich, chairman of the Board (he was then also chairman of the board of the B. F. Goodrich Company); Leonard Read, president; myself, vice-president; Fred R. Fairchild, professor of economics at Yale University, secretary; and Claude Robinson, president of the Opinion Research Institute, treasurer. There were sixteen trustees. They included H. W. Luhnow, president of William Volker & Company; A. C. Mattei, president of Honolulu Oil Corporation; William A. Paton of the University of Michigan; Charles White, president of the Republic Steel Corporation; Leo Wolman, professor of economics at Columbia; Donaldson Brown, former vice-president of General Motors; Jasper Crane, former vice-president of Du Pont; B. E. Hutchinson, chairman of the finance committee of Chrysler Corporation; Bill Matthews, publisher of the *Arizona Star;* W. C. Mullendore, president of the Southern California Edison Company; and the officers of FEE.

You can see from this list what Leonard Read's persuasive powers must have been.

FEE opened its doors on March 16, 1946. Most of the spring and summer was spent in the library, as renovation continued on the main building. The staff, as of September 1946, consisted of Leonard Read as President, Herbert Cornuelle as assistant to the President, W. M. Curtiss as Executive Secretary, "Baldy" Harper as Economist, Orval Watts as Editorial Director, and A. D. Williams, Jr. as director of public relations.

Leonard's first move was to publish an outline of the aims of the Foundation and its proposed activities. He listed no fewer than fourteen of these that would be "among those to be considered for program inclusion" as the resources of the Foundation would permit. I condense them here: (1) encouragement, including financial assistance, to scholars, (2) special studies of current economic or political issues, (3) pamphlets applicable to "hundreds of economic problems," (4) leaflets for mass distribution, (5) a journal (this was realized in mid-1954 when FEE took over *The Freeman*), (6) books: the abridgment, publication, and distribution of classical works such as, for instance, *The Wealth of Nations* and *The Federalist Papers,* (7) the promotion and publication of satisfactory textbooks, (8) a "pamphlet-of-the-month club," (9) a radio program, nationwide, (10) organize advisory and study groups in every state and in every community in America—*not* political action groups, (11) analysis of collectivistic trends so that new interventionist proposals can be examined and refuted before they have been adopted, (12) a lecture institute, (13) arranging for graduate students in economics and potential instructors to accept short-term positions in industry to acquaint them with actual production problems. And finally, (14) a study of the methods of financing and integrating all these activities.

And then in an amazingly short time a stream of publications began to pour forth. There were more than a hundred in the first few years. Some of these were one-page leaflets, some small folders, some moderate-length pamphlets, and some were in effect short books. I must confine myself to mentioning only a few of these, in their order of publication. The earliest I find is *Profits and the Ability to Pay Wages,* by Professor Fred Fairchild of Yale. This came out in August, 1946; it ran to 64 pages. A month later came a 22-page pamphlet called *Roofs or Ceilings?,* an attack on rent control, sent in by two young fellows from the University of Chicago, Milton Friedman and George J. Stigler, both destined to become future recipients of the Nobel prize in economics. FEE distributed 36,000 of these, plus a special condensed version of 500,000 copies for the National Association of Real Estate Boards.

Next, still in 1946, came a 74-page reprint of Andrew Dickson White's famous monograph, originally written in 1876, on *Fiat Money Inflation in France.* FEE eventually distributed 52,000 copies of this. In January, 1947, FEE published an 88-page study called *Wages and Prices* by Professor Jules Bachman of New York University.

Next, in 1947, came *Planned Chaos,* a 90-page pamphlet by Ludwig von Mises. Lu had been put on the payroll by Leonard from the first year of the Foundation. Next in 1947 FEE began to publish Henry Grady Weaver's *Mainspring of Human Progress,* and to date has distributed 670,000 copies of it. The edition I have runs to 287 pages.

Late in 1947 a short book of mine—95 pages—was published called *Will Dollars Save the World?* in paperback and hard-cover. Appleton-Century printed the hardback edition at $1.50.

I'd like to say a few words about it, becauses it illustrates a disheartening consequence—or lack of consequence. By pre-arrangement with Appleton, Leonard ran off a first printing in paperback of 80,000 copies. (This was over my protest, because I thought he would get stuck with them. But he sold out practically the whole edition.) Then in January, 1948, the *Reader's Digest* reprinted a 6,500-word condensation of the book not only in its American but in all twenty of its foreign editions, a total circulation then of about 13 million copies. One immediate consequence is that FEE's own sales of the paperback came to a halt. Another was that I was asked to testify first before a Senate and then before the corresponding House committee on the then pending foreign-aid bill. But with all this undreamed-of publicity, I haven't a shred of hard evidence that my book or the *Reader's Digest* condensation of it saved the American taxpayer one slim dime in our foreign-aid outlays.

For that matter, I see no evidence that the Friedman-Stigler pamphlet did anything to slow down rent control. Nor can I think of any other of FEE's publications that had any direct effect on actual legislation.

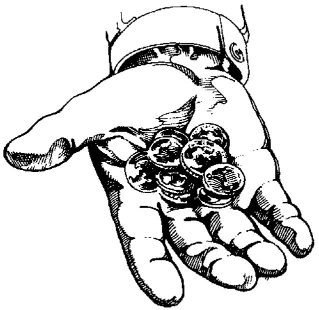
On the surface, as I have said, this seems dreadfully disheartening. But it must be acknowledged that the American ideological situation is much better than if FEE had never come into being. Our institution has inspired the formation of dozens of others. Increasing numbers of people now know what is wrong. True, we have inflation everywhere, but few countries now try to combat it with general price controls. FEE has provided precisely what its title promised—economic education. Even Adam Smith's *Wealth of Nations,* let us remember, did not begin to change actual legislation until many years after its original appearance.

Let me resume our history. In 1948 FEE published F. A. Harper's 71-page pamphlet on *High Prices,* and in 1949 Harper's 159-page book *Liberty: A Path to its Recovery.* Frederic Bastiat's 75-page pamphlet, *The Law,* was translated by Dean Russell and published by FEE in 1950. So far, the Foundation has distributed 344,000 copies.

I come to one final item. It was in December, 1958, that Leonard first published his essay entitled "I, Pencil." The theme of that article, as most of you will remember, is that "no single person on the face of this earth knows how to make a pencil." It is a little classic—the essay of Leonard's that is certain to be long, long remembered.

But now, in recalling this impressive history of FEE publications, I must express just one regret. Leonard was long eager to have FEE publish a monthly magazine. His ambition was fulfilled in 1954 when he took over *The Freeman,* which John Chamberlain and I had been editing as a fortnightly. Since then *The Freeman* has published many admirable articles, and has become an imperative part of FEE's activities. But it seems to have displaced some of those special studies of current economic issues which I regard as an indispensable part of the program of a truly effective libertarian institution. I hope that this activity can soon be restored.

Ridgway K. Foley, Jr.



Our Fair Share

A constant cry peals across the land: "give us our fair share." A variety of results is expected by these claimants. For example, advocates may seek "a fair share" of manufacturing profits or insured employment for the workers, a reduced rate for utility users, "tenant rights" for inhabitants of rented premises, subsidized bus fares and public transit systems, guaranteed health and medical insurance coverage, and a whole host of other demands. This essay proposes an analysis of the meaning underlying this clamor.

Initially, reflect upon the contention that the public or a segment thereof deserves "a fair share." First, the call presumes that the speaker merits a different or additional right. Second, the proposition presupposes that such right belongs to the seeker as a matter of entitlement and as a principle of fundamental justice. Third, the appeal posits the propriety of limiting the corresponding rights of other persons in favor of the orator, or fails to recognize that such an exchange necessarily takes place in the stated situation. These three presumptions generally prove incorrect.

Stripped to bare essentials, proponents of the concept of "a fair share" rely upon the doctrine of entitlement to justify transfer payments and transferred rights. The foundation of entitlement rests upon what Dr. Gary North so aptly describes as "the politics of envy."[1] "A" desires something possessed by "B." The strictures against coveting seem less enforceable than those condemning theft, so "A" dreams and schemes for a method of relieving "B" of his liberty or his property.[2] The modern method is disarmingly simple: "A," alone if he possesses sufficient power, or in league with companions similarly situated if he does not, effects his dreams and realizes

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that which he covets by force of law. He converts his desires into edicts, secures the stamp of official approval upon them and enjoys the fruits of someone else's labors.

Unfortunately for "A," the human creature contains innate social-moral-psychological responses against wrongdoing, even when sanctioned by law. At least some of the "A's" of the world feel uneasy about their gains achieved at the benefit of others. To alleviate these symptoms, they turn to the medicine cabinet for some doctrinal relief. There they discover "entitlement" which, if not possessing the curative powers of penicillin, at least offers the temporary relief of aspirin.

The Doctrine of Entitlement

Entitlement refers to the postulate, expressed in varying ways and with differing degrees of intensity, that in addition to the propriety of state-mandated transfer payments to achieve egalitarianism or some other purportedly good end, both the state and the creative segments of society owe these distributions to the recipients as a matter of right. One can debate whether the term "right" is connotative or conclusive in nature. Whatever the outcome of that controversy, those who benefit from the productive efforts of others tend to demand continuation and increase of these payments in the grand names of fairness, justice and equality. Reduced to essentials, this justification translates into a concern for their own position with no consideration for "fairness and justice" to the unwilling donor.

The doctrine of entitlement contains two conceptual errors: It assumes propriety of the transfer and it presupposes the right of one to take from another. Neither assumption proves valid upon reflection and analysis.

First, contemplate propriety. What analysis deems it proper to take from a producer a portion of the value he has created for transfer to another? The concept of propriety conjures up notions of justice or fundamental fairness. One cannot condone such a taking or label it "fair" when viewed in light of the position of the producer except in situations where the producer has breached a voluntarily-entered agreement, carelessly caused a calamity to occur to another, or initiated aggression against some peaceful person. If fairness connotes equal and proper treatment of all parties to a transaction,[3] then the creator becomes the victim, and loses his property (created value) and a part of his freedom to boot. One can only conclude that the egalitarian wealth-spreader employs fairness and propriety in quite a one-sided and unreal sense reflecting his own social value judgment coercively applied to others.

Second, examine the concept of the overpowering right of the donee to deprive his victim of the product of the latter's labors. Propriety concerns the appropriateness of governmental action; right relates to the appropriateness of individual action. No convincing argument can be offered in support of deprivation under the doctrine of entitlement in the absence of a consensual bargain or a negligent or intentional prior initiation of force by the current transferor.

Transfer Payments Deny Property Rights

Transfer payments consist of "property," a brief means of expression defining value created by the efforts of the producer-owner. Property thus represents an extension of one's very life, his power to create, his ability to choose his own destiny. Elimination of the potential to create and to retain human output necessarily enslaves an individual and reduces his humanity, his essential nature, which consists in part of the ability to make meaningful choices. The essence of all entitlement contentions must rest upon the proposition that the taker is more properly entitled to goods, services, and ideas than is the creator of those products.

What possible reason justifies a coerced transfer? In the lexicon of the modern egalitarian, equality as a principle mandates transfer payments to even out existing natural or artificial differences. Passing for the purposes of this essay the possibility of achieving enforced equality by any system of redistribution,[4] focus upon the philosophical aspects of the equation reveals the barrenness of the purported analysis.

The fair share advocate perceives the inequality of appearance and talents naturally attendant upon the human condition; he decries this individuality, which he views as unfair disparity, and urges dull and desolate sameness, the absolute of reduction to the lowest common denominator. Down with Haydn and Monet, with Voltaire and Confucius! Seek the gray identity of those creatures who contribute little or nothing to creativity and culture. Unconsciously or intentionally, his every action leads necessarily and convincingly to this cheerless end.

At the base, two aspects undergirding egalitarianism appear: a presupposition to power and a denial of essential humanity. First, the seeker after enforced equality wishes to impose an orthodoxy upon everyone about him to fit them into his subjective mold. He knows only power; persuasion and rationality dissatisfy him because they lead inflexibly to consequences contrary to his preconceptions. Second, the egalitarian dislikes what he sees when he looks at humanity. He wishes not to alter those things within his puny power, such as the uplifting of man's material and spiritual existence by the development of new labor-saving devices or the composition of a beautiful work of art. Instead, his quest is to achieve the opposite, by beating down those about him who display any degree of innovativeness or originality. Yet reflection reveals that the egalitarian position amounts to a stubborn denial of the essence of humanity: the awe of unique creation and the mechanism of meaningful choice which unavoidably leads to differences in outlook, ability, goals, and appearance.

The Statist Position

A root misconception colors the fair-share approach to entitlement: the belief that individual differences derived from the nature of man and by virtue of his individual choice-making attribute constitute a malevolence demanding eradication by collective coercive action. The statist presumes to know the course of action best suited for each person in society. He assumes the role of modifier of human nature, he imposes his own subjective standards upon unwilling citizens who fail to conform to his view, and he decides who in society deserves (is "entitled to") a given share of production or created value. Nevertheless, he displays no special knowledge or training which qualifies him for this momentous task of decision-making which, in final analysis, should be better left to each individual actor as it affects his destiny.

Reduced to fundamentals, the traducer exhibits the modern tendency to elitism. No longer does mankind seek a Jeffersonian aristocracy of talent and virtue; the current aristocrat seeks power to the end of control of human lives. He understands the political and practical means of communication, manipulation, and subjugation, and he applies this knowledge to direct others to do his bidding. Whether well-or ill-intentioned, the elitist, a "dictocrat" in Leonard Read's phrase,[5] reduces people entitled to a counting choice to pawns on a giant chessboard or puppets on a Pyrrhic stage.

The egalitarian becomes the elitist precisely because he pretends to possess the ability and the right, in addition to the power, to quell creativity and to channel human conduct into prescribed forms and institutions—and he does so by application of charged code-words such as entitlement which lend a degree of justification, authenticity, and validity to his endeavors. Entitlement is the mask, egalitarian is the appearance and the elitist is the reality in the play we witness today.

Those who quest for a fair share opine that they are entitled to something more and greater than that which they have produced—they wish to control part (or all) of the fruits of the labor and ingenuity of others. Thus, witness the teeming hordes who envy the entrepreneur who constructs a power plant, transformers and distribution lines in an effort to bring the wonders of electricity within reach of a fingertip. The multitudes convert this envy into a shrill or harsh insistence that they—the consumer—deserve special favors in the sense that they should pay less than market prices for the output generated by the dint of effort, stored labor and native genius of other individuals.

Or consider the prattle of renters who summon landlords to the dock in an effort to change the nature of the place of habitation without paying the price. Natural law decrees that every price must be paid, either by the buyer or the seller, by the producer or the user, by the owner or the tenant. Fair share advocates shunt the payment to the shoulders of others by employment of a juridical talisman.

Distributive Justice

The legal amulet employed consists of the distributive theory of social justice, the dogma devoted to effectuating entitlement in the satisfaction of envy. The distributive theory of social justice supplies the rationale "explaining" why income and value should be redistributed among members of a community. It suffers from the same root fallacies as the doctrine of entitlement and it partakes of the identical mistakes as the current corruption of equality into egalitarianism.

Whatever the intention of the purveyors of the doctrine, "distributive justice" cannot be classified properly as "neutral"—it implies to the reader or the listener that distribution of income, assets, resources, or things of value must take place by means of market intervention, and it further implies that some such distributive scheme relates to a concept of justice.

Society—that informal consensual grouping of persons—always determines the distribution of things of value. The propounder of the distributive theory uses force to mold recipients and their destiny; the believers in natural justice (respect for free nonaggressive choice) prefer the voluntary antics of the market. Under any term employed, the political-economic concept of distributive or social justice carries with it a meaning which implies both a power and a right residing in actors who do not produce a product to determine its ultimate use and enjoyment.

Even some avowed supporters of liberty needlessly "concede" that no rational method allows determination in the abstract of a superior method of distribution.[6] To the contrary, both abstractly (rationally) and empirically, a market system of creation, production, and delivery proves superior to any other scheme.[7] Really, only two possibilities exist:

(a) A market system wherein each participant "votes" his subjective value structure in a dollar democracy, by bidding the excess value he has created for the excess value he desires which someone else has produced, thereby determining not only what is produced but also how assets (incomes) are distributed;

(b) A command economy, wherein some or all choices are made by persons other than the producers and users, thereby artificially distributing or deflecting choices, assets, and income from those directly affected to those in power under the political apparatus.

Fair share egalitarians suffer from a dilemma which follows from two central facts: (1) Economic distinctions in an open society occur as a result of differences in aptitudes, motivations, and circumstances, but (2) government action to eliminate the differences entails such exclusive coercion that society ceases to be free:[8]

> In an open society, attempts to eliminate, or even substantially to reduce, income differences extend coercive power, i.e., inequality of power between rulers and ruled. This also implies politicization of economic life, a situation in which economic activity depends largely on political decisions, and in which the incomes of people and their economic *modus vivendi* are prescribed principally by politicians and bureaucrats. How far-reaching is the required coercion and politicization of economic life will depend upon the degree of economic equality the rulers intend to achieve; they will depend also on the various aptitudes, motivations, and circumstances of the groups and individuals among whom economic differences are to be reduced.[9]

Thus, the egalitarian faces two counterproductive forces: first, political programs designed to level incomes or assets generally do nothing of the sort; instead, they shift income and assets from the productive to the politically powerful; second, redistribution of income and assets necessarily entails the use of force—because it contra-indicates the natural tendencies of human beings—to such a degree that it destroys the free society which makes possible the production of excess goods, services, and ideas to permit life at levels above poverty or mere existence.

Equality of Opportunity

Some thinkers supporting the "fair share" position rail against an inequality of opportunity. Such a contention merits attention despite its ambiguity and intended emotive appeal. By and large, human beings seize their own opportunity; it cannot be conveyed to them by an omnipotent government, any more than a loving father can insure that his progeny will perform well in business or the arts. In many instances, inequality of opportunity merely restates the natural and necessary uniqueness of human beings in ability, desire and other features.

In some instances, the challenge to inequality of opportunity conceals a dislike for inherited assets. Assets merely represent labor which has been stored and capitalized (made productive of future goods, services, and products) rather than consumed. The modern leveler, much like his seventeenth-century forebear, desires elimination of such differences so that each person in each generation starts afresh. Such a scheme presents a superficially appealing charm obscuring quite a wicked interior.

First, consider the absurdity of an extension of the leveler position: Would such a theorist require each individual to develop all machinery and all ideas from scratch, without building upon the accumulated wisdom of the past? If so, who among us could reinvent the wheel or even a pencil?[10]

Second, consider the necessary practical implications of the artifice: Would the egalitarian destroy all accumulated wealth (a great waste of costly and finite resources) or would he transfer it to someone else? The obvious answer, and one reflecting actual practice, is the latter alternative. Inheritance and estate taxes generally shift saved assets from the object of the producer's affection to other, unrelated members of society who often do not create but do consume and, more importantly, vote for the political officials who undertake distribution. The doctrine justifying this social distribution of property: entitlement.

"Might Makes Right"

A more salient inquiry arises regarding the transfer of accumulated or inherited wealth to effect a leveling and "equality of opportunity," when one considers the propriety of these transfers. Only one justification exists for a transaction which takes created value from the producer against his will and gives it to another more favored by the law—the doctrine of power or might-makes-right.

One accumulates wealth in one of two ways: by coercion or by contract. If a thug steals one million dollars from an individual or an enterprise, he has acquired great wealth by force of plunder.[11] If a creative man or woman renders services or produces labor-saving devices desired by many others and thus acquires one million dollars in trade value, he or she has acquired great wealth by contract—by bargains freely entered between individuals, each seeking to satisfy his desires according to his particular subjective value structures. The law can justly demand the return of loot to its rightful owner; it should not affect an involuntary transfer of freely, fairly, and nonfraudulently accumulated property to someone who did not create it.

Seemingly, the traducers of the market decry the *entitlement* of creators of value to their own creation. Instead of recognizing that accumulated wealth derived contractually usually results as the product of better choices, these myopic transfer agents attribute foul and malevolent deeds to the creators or their descendants. Yet the creation of wealth occurs precisely because man must predict what his fellow man will subjectively value, and some individuals prove more able predictors than others.

The person who makes the best usage of a finite resource, who offers the surest service, or thinks of the most innovative idea, by and large, will receive more trade goods ("money") from his consumers (traders) than will someone less motivated and lacking in some qualities of prescience. While someone may suggest, subjectively, that a certain scion of one who has accumulated property does not deserve, or make good use of, that property, it does not lie within the rightful power of that other person to make that choice. The creator of value should be able to choose how to use his created value, who shall receive it, and under what circumstances. What other person possesses a higher claim?

The Moral Factor

A moral factor overrides the entire question. If every human choice constitutes a moral act, then the essence of morality (making the right choice between good and evil) resides in the power to choose meaningfully between alternatives. To the extent that the fair-share advocate obviates other individuals' power to choose, he commits an immoral act even if his choice can be labeled "right"—and no one can apply that label effectively because no one other than the victimized actor who lost his choice can assess his subjective value under his conditions.

In comparing and contrasting justice and social justice, one writer finds them antithetical:

> So-called social justice is man's greatest injustice to man, anti-social in every respect; not the cement of society, but the lust for power and privilege and the seed of man's corruption and downfall.
>
> Finally, social justice in no way fits the claim of its advocates: an expression of mercy and pity. These virtues are strictly personal attributes and are expressed only in the voluntary giving of one's own, never in the seizure and redistribution of someone else's possessions.
>
> Morally and ethically motivated citizens can condone a philosophy of so-called

social justice only if they fail to see its terrible injustice.[12]

Social or distributive justice deifies force and coerces peaceful people, robbing them of their choice-making ability. True justice expresses concern and respect for an individual's non-aggressive free choice. Social justice exudes false sympathy and prattles about equality, all the while exhibiting the clenched fist of force. True justice accords with the ultimate morality of choice. What, then, is "our fair share"? It is precisely that which we create and acquire in non-aggressive manner during our tenure on this earth. It is nothing more and it is nothing less.

—FOOTNOTES—

[1]See Gary North, III *Remnant Review* (No. 19, October 6, 1976), p. 114; (No. 7, April 7, 1976), p. 38.

[2]He seldom seeks to deprive "B" of life any more because the "A's" of the world recognize that death of a producer finally terminates production of those coveted goods, services, and ideas. So much better then to keep "B" alive and producing.

[3]Such a definition amounts to a tautology, given the common usage of the terms, e.g., what is proper is what is fair, and what is fair is what is proper.

[4]Professor Cotton M. Lindsay, in an introduction to *Two Essays on Income Distribution and The Open Society* (International Institute for Economic Research, Reprint Paper 4, January 1977), p. 1, writes: "And yet, detailed analysis of redistributional results of many government actions indicates that the direction of this income transfer is the reverse of what most people are alleged to regard as 'fair.' From the Social Security System and minimum wage legislation to government support of agricultural prices and higher education, one sees an array of programs which generally end up serving individuals in the middle and upper-middle classes as primary beneficiaries. Taxes fall upon both the rich and the poor, but the poor are disproportionately underserved by these programs."

[5]Leonard E. Read, *The Love of Liberty*, (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, Inc., 1975) especially Chapter 8, "The Roots of Concord and Discord," pp. 46–52.

[6]Irving Kristol, "What is 'Social Justice'?" *Wall Street Journal*, August 12, 1976.

[7]This paper may not present the optimum place to debate this particular issue in depth. The works of Mises such as *Human Action* and the Bastiat trilogy seem apt places to commence a defense on this point. Ludwig von Mises, *Human Action*, 3rd rev. ed. (Chicago: Henry Regnery Co., 1966); Frederic Bastiat, *Economic Harmonies, Economic Sophisms* and *Selected Essays on Political Economy* (all published Princeton, N.J.: D. Van Nostrand Co., Inc., 1964).

[8]Peter T. Bauer, "Egalitarianism: Art of the Impossible," *The Times Literary Supplement* (London, England: July 23, 1976).

[9]*Ibid.*

[10]See Leonard E. Read, "I, Pencil," reprinted in *The Freeman*, November 1983.

[11]Strangely, the same opprobrium does not seem to attach to plunder achieved by operation of the law, as where those in authority employ the Federal Reserve System and the Treasury Department to milk citizens' savings of several *trillion* dollars over forty years by means of the tax commonly termed inflation.

[12]Leonard E. Read, "Justice Versus Social Justice," *Who's Listening?* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1973), p. 97.

Jerry Ellig

Dime Store Economics

"One, two, three, *pull!*"

"Unghh!"

"Y'all on that side aren't pulling hard enough. Ready? One, two, three, *pull!*"

"Unghh!"

Was this the sound of galley slaves in the glory days of the Roman Empire? Or of medieval serfs straining to pull a nobleman's barge upstream?

No, it was the summer of 1983. The grunts and groans came from about a dozen salespeople on their hands and knees, straining to maneuver a 15-foot long counter full of soap and shampoo into its final position. The store at which I work part-time while attending college was being remodeled.

Though known to countless neighborhood customers simply as "the dime store," our store is part of a national chain and had been selected as the first in the city to be remodeled. The changes were drastic indeed: new counters, new tile, new paint and yes, even new merchandise.

There simply had to be a method to this madness. No company as old as ours would spend so much money on blueprints and diagrams, and so much of its employees' time, for absolutely no reason.

The reason, of course, was quite simple: profit. Those folks in the regional office who created so much work for us did not do so merely to frustrate us, much as we might have thought that was their intention. On the contrary, their goal was the company's goal: to seek profits and to avoid losses.

In a store such as ours, profitabil-

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ity comes through selling more at a lower cost per sale. Every aspect of the remodeling, therefore, was at least theoretically directed toward increasing sales and reducing costs by providing customers with a more attractive environment in which to shop.

For weeks, confusion reigned supreme. No employee could ever be 100 percent certain where in the store a given item could be found on any given day. The manager was reputed to have quipped to a long-time customer looking for notebook paper, "Just stand still long enough and you'll probably see it go by."

It was against this background that a customer approached me one day (as I was using a hammer to pound nails into the wall) and asked a pretty logical question: "Why are you going to all this trouble when you'll just re-do it again in another 25 years?"

I told him how much better the store would look, how much more convenient the new arrangement would be for customers, and so forth. But after he left the question remained in my mind and set me to thinking. Why, indeed?

The same question must have been on everyone's mind a month later when merchandise was still being shuffled around for apparently no reason. Goods on one side of a counter switched places with goods on the other side. Merchandise on the left side of counter A moved to the right side of counter B, barely six feet away. "We spent all day yesterday setting up those ten feet of counter space," one employee complained, "and when I came in this morning, somebody'd moved it again!"

A key element in the whole scheme is the arrangement of merchandise in the most convenient and pleasing manner. The constant migration of merchandise until it found a final home was like a giant jigsaw puzzle. Both management and employees were seeking to place each item in its optimal location so as to render total sales as large as possible.

The realization of this fact brought home to me the incredible power of the price system. In striving for profit, our store was simply striving to please our customers in some very specific ways. It would not be exaggeration to state that each decision to relocate an item was very much an entrepreneurial decision. Each move was carried out in the hope that the new state of affairs would be more satisfactory than the old one.

Though few involved in the effort have even heard of Ludwig von Mises, all were acting as he would predict:

> If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm . . .

> The consumers . . . determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. For them nothing counts other than their own satisfaction.[1]

Within a very few weeks, consumers will begin to tell us with their dollars whether or not they like the new arrangement. One thing is certain: their decision will be based on their own subjective valuations. In their quest for their own satisfaction, consumers will be entirely indifferent as to how much time, money and effort was put into the remodeling. They are concerned with results. If they do not like the changes, it will do no good to tell them about how much labor and capital was expended.

This is, of course, the Austrian subjective theory of value in action. The company's efforts will have value only if consumers value the results. Value exists only in the human mind, not in any object or collection of objects.

Unbelievable as it may first sound, then, the experience of one store corroborates a host of fundamental economic principles. The firm is merely the middle man between the owners of resources and consumers. Consumers reward service with purchases if they are pleased, and profits result if costs are kept down. The subjective valuations of consumers, therefore, determine the uses to which resources will be devoted. The "higgling of the marketplace" ensures that those resources—the petroleum used to make gasoline, the wood in a broom handle, and even the steel of which store fixtures are made—will go to the most highly-valued uses. Moreover, all of this activity takes place voluntarily, requiring neither force nor direction from above.

At last, I've arrived at a worthy answer to the customer's question. Why did we go to all that trouble when the job will be re-done again in another 25 years? Because we believe that's what our customers want. It is ultimately the wishes of the consumer, not the caprice of the corporate executive, which determine how the store should be decorated, what lines of merchandise should be dropped or added, and even whether brown towels should be displayed next to green ones or blue ones.

If there be anyone who doubts the existence of consumer sovereignty and Adam Smith's "invisible hand" in modern America, he or she ought to help remodel a dime store!

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[1]Ludwig von Mises, *Human Action,* 3rd. Rev. Ed. (Chicago: Contemporary Books, 1966), p. 270.

S. David Young

THE CASE OF THE STOCK MARKET: *Freedom vs. Regulation*

THOSE who consider liberty as a primary value are naturally very reluctant to support any imposition of government authority. This is not to say that state action is always inappropriate, but the standards for determining instances when the state should intervene are strict and unyielding.

When calling for government regulation in any sphere of endeavor (whether economic, social, or political), it is prudent to bear in mind the fundamental principles upon which our country was founded. Due process, presumption of innocence, and limited government should be driving forces behind the analysis of any proposed government intervention.

Given the aforementioned principles, prerequisites can be derived which will serve as a model for evaluating the efficacy of proposed regulation.[1] First, some readily identifiable event or phenomenon must have occurred (or is likely to occur) which needlessly and unfairly damages a distinct group of individuals. Second, this damage should neither be the result of infrequent lawbreaking nor be addressed by existing laws. Third, a cost-effective free market alternative is *not* available. Fourth, a cost-effective government-imposed remedy *is* available. Fifth, the proposed regulation should not violate constitutional rights. And sixth, the burden of proof should be placed on the advocates of the proposed regulation, not on those who oppose it.

This article examines the regulation of the stock markets with respect to these prerequisites and concludes that the Securities and Exchange Commission (SEC), the federal agency tasked with regulating securities, has failed the test miserably. Indeed, if the SEC were

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to subject its own history and practices to the same scrutiny it focuses on the corporations it regulates, its commissioners, staff, and Congressional sponsors would be more than just a little embarrassed.

Prerequisite No. 1: Some event or phenomenon has occurred which unfairly damages a distinct group of individuals.

The 1920s was a period of uncommon optimism and speculation in the stock market. The decade was characterized by an almost constant bull market. There were occasional setbacks but recovery was always swift and strong. All of this came to an end, however, on October 24, 1929, the date known on Wall Street as "Black Thursday." On that day, the market began a sudden and dramatic slide downward to the surprise of nearly everyone. Fortunes were lost overnight and the country was thrown into the depths of the Great Depression.

The stock market crash of 1929 and the ensuing depression were a puzzle to most people at the time. Part of the cause was thought to be the widespread abuse of securities markets by insiders and inadequate disclosure of financial data by corporations. The disastrous effects of the Federal Reserve Banks' cheap money policies in the late 1920s and protectionist trade measures such as the Smoot-Hawley tariff were much more important reasons for the economic collapse, but few thought so at the time.

Shortly after his election, President Roosevelt appointed Ferdinand Pecora to head up a Senate investigation of abuses in the securities markets. The Pecora Committee, as it was called, documented numerous instances of alleged stock market fraud and abuse. The Committee's revelations sparked a public furor and proposals for government regulation were soon forthcoming. Public demands for reform led to the enactment of two very important laws which together form the cornerstone of securities market regulation. The Securities Act of 1933 requires issuers of new securities to file a registration statement with the federal government and issue a prospectus to the public. The Securities Exchange Act of 1934 requires disclosure on a regular basis for firms which have their securities publicly traded. The latter act also established a federal agency to administer both acts, the Securities and Exchange Commission. The primary purpose of the legislation, then, was to redress abuses believed to be inherent in unregulated markets—abuses which were presumed to have cost naive investors dearly.

Unfortunately, very little empirical research was conducted at the time securities regulation was first debated in Congress. Evidence presented in support of government control was largely anecdotal in nature. A reasoned assessment of the costs of alleged abuses to the parties who were supposed to have been hurt by them was never conducted.

The SEC's present scope of regulatory power includes not only disclosure requirements for new issues and publicly traded companies, but also constraints on insider trading, controls over the stock exchanges, antifraud regulation, regulation of investment companies (e.g., mutual funds) and investment advisors, and rules on corporate governance.

Prerequisite No. 2: The damage does not occur infrequently and existing laws are not sufficient to deal with it.

Benjamin Anderson, writing in the late 1940s, agreed that Congress was correct in its pursuit of truth in securities and its prohibitions against stock manipulation. But he felt that Congress and the SEC had clearly gone too far: "The normal functioning of the security business . . . is clean and sound . . . Every day transactions involving tens of millions of dollars . . . are made by word of mouth. . . . Transactions between the brokers on the floor of the exchanges are made by a word or even a nod of the head, each man making a memorandum of his own part in the transaction, but neither man giving the other a written document. Disputes regarding these transactions are very rare. . . . A very high order of integrity is necessary to make such a system work. Occasionally, however, criminal acts occur, as in every field . . . For these occasional criminal acts, there is need for criminal law and punishment. But there is no more need for the kind of supervision of multitudinous details in which the [SEC] engages . . . than in any other field."[2]

Just like brokers, dealers and investment bankers, accountants were also singled out for blame. Many opinion-makers believed that arbitrary accounting practices in the late 1920s encouraged fictitious financial reporting and, thus, contributed to stock price manipulation. Specifically, accountants were charged with arbitrary write-ups of asset values for the purpose of inflating financial statements, enabling companies to appear more profitable than they really were. The significance of this charge cannot be overstated for it served as a prime justification for government intrusion in corporate accounting practice and is widely accepted to this day.

How common were write-ups of assets in the years just prior to the Great Crash? A recent study, which examined the accounting policies of 110 NYSE companies chosen at random, shows that contrary to popular belief, accountants in the 1920s did *not* write-up asset values routinely.[3]

In fact, write-offs (declines in book value) were much more common. For those companies that did write-up asset values on their books, rarely did the amount exceed 5 per cent of total assets and *never* were write-ups reflected in the company's income statement (they were always shown in surplus accounts on the balance sheet). The conclusion drawn from this evidence is that accounting practices of the late 1920s were *not* a contributing factor to the Great Crash.

Prerequisite No. 3: A cost-effective free market alternative is not available.

In the absence of government regulation, corporations are still compelled to disclose information about their financial affairs. They do this partly because of economic incentives and partly because private stock exchanges may impose rules on members. For example, prior to the securities acts, all companies listed on the New York and American Stock Exchanges were required by the Exchanges to make their financial statements publicly available. Also, over 90 per cent of all companies traded on the NYSE in 1933 were audited by independent certified public accountants. The legislation requiring periodic financial reporting and the audits of that information was not passed until 1934.

The most persistent critic of securities regulation, George Benston, states the case for voluntary disclosure simply and elegantly. According to Benston, corporations have strong incentives to disclose information in a free market.[4] Prospective shareholders and creditors, whose funds the corporation wants to attract, demand information. Corporations that do not disclose in a free market run the risk of suspicion. And once a corporation begins disclosing, its managers find the practice difficult to give up.

In a free market, providing financial information that is audited by CPAs enhances investor beliefs that corporate resources will be used productively. Whenever managers have less than a 100 per cent ownership interest in a company, they have incentives to waste or misuse resources if the benefits to them exceed their share of the reduced profits. For example, managers may be inclined to spend lavish sums on personal office furnishings when the cost can be passed on to others. This problem is known in academic circles as "agency cost." Investors are aware of this problem and so those in control must find a way of convincing investors that they do not intend to divert corporate assets. One way to do this is to install a system of accounting control and convince investors that the system is working. That is why corporations would hire CPAs even in the absence of regulation. CPAs are entrusted with determining the credibility of management's representations in the financial statements not because they are inherently more trustworthy than others but because their reputation and ultimately their livelihood depends on professional integrity and expertise.

Benston's theory becomes especially powerful when applied to the case of dishonest corporations (those that deliberately try to deceive investors). First, we must consider whether the SEC is effective in preventing the dissemination of false information. Benston points out that financial statements have proven to be inefficient vehicles for cheating investors. Accounting data presents a history of past events, yet potential investors are forward looking; that is, they seek information that helps them assess the present value of future cash flows. Therefore, crooks are more likely to mislead investors by floating rumors and spreading tips than by issuing fraudulent financial statements. Next, we should ask if crooks are capable of deceiving investors. The problem here is that those who use financial statements to defraud investors must either bribe the independent CPAs or do without their services. Either prospect is not conducive to a successful fraud.

Great Britain continues to rely on a corporate disclosure system that is privately run. Although Britain has laws that govern disclosure by companies most of the functions performed by the SEC in this country are performed by the London Stock Exchange, which is not an agency of government. Unlike American securities regulation, British laws are self-contained and allow very limited discretionary power for government administrators. The result is a system that is not only less cumbersome, less costly and more flexible, but also has fewer frauds, proportionately, than our own capital markets. Clearly, a cost-effective market alternative can and does exist.

Prerequisite No. 4: There is a cost-effective regulatory remedy.

According to supporters of government-mandated disclosure, the more investors know about a corporation, the better their investment decisions will be. As more information becomes publicly disseminated, stock prices approach the underlying value of the securities being traded. In other words, stocks become fairly priced. Disclosure, it is argued, increases the fairness of capital markets and renders the task of price manipulation more difficult.

The problem with this line of reasoning is that those who apply it nearly always ignore the fact that information costs money to produce. In a free market, corporate disclosure is governed by the same principles that govern resource allocations elsewhere in the economy. Resources would flow into corporate disclosure activity until the cost of additional resources exceeded the perceived benefits. When the SEC requires more disclosure than there would be in a free market, corporations are forced to devote more resources than efficiency demands.

Do the perceived social benefits of efficiency and fairness allegedly caused by mandatory disclosure exceed the costs? This is a difficult question to answer but, unfortunately, SEC supporters have rarely even tried. Even friendly critics of the commission frequently take it to task for its reluctance to perform any sort of cost-benefit analysis on proposed regulations.

George Benston has addressed the issue of whether there are some observable benefits from government regulation of corporate disclosure practices. The essence of Benston's position is that required disclosure has not led to an increase in the efficiency of capital markets.[5] Since competitive markets are already efficient, required disclosure adds nothing and because it costs money, we would be better off without it. His analysis is based on the idea that disclosed information should be perceived as valuable by market participants. Benston's methodology, therefore, is designed to determine whether disclosure leads to observable and significant changes in stock prices. Based on observations of disclosure practices and stock price movements, he concludes that government-mandated disclosure does not have an economically significant impact.

Another issue we should consider is the effectiveness of government regulation on the trading of insiders. A study conducted in 1974 examined changes in trading volume and profitability of insider trading after each of three important legal decisions rendered in the 1960s.[6] Because significant change in the properties of insider trading was not observed following any of these decisions, the author concluded that regulation had no apparent effect. In other words, taxpayers were paying for a service with no apparent equity or efficiency benefits.

A recent estimate of the costs of SEC-required disclosure to corporations, deliberately biased on the conservative side, puts the cost of conforming with periodic reporting requirements at $213 million in 1975.[7] The cost of new issues disclosure was placed at $192 million. These figures have not been adjusted for subsequent inflation or the cost of additional requirements, but 1983 costs are likely to be well in excess of $1 billion. This evidence is lost on those advocates of government regulation who seemingly view information as a costless good.

The SEC imposes costs on business in other ways that are virtually impossible to quantify but are quite real nonetheless. For example, bureaucratic interference in the securities markets increases the time it takes for new products to reach the market. In some cases, potentially profitable investment vehicles may never reach the investor because sellers find the time delays and costs prohibitive. In fact, evidence has been presented suggesting that although SEC interference may have reduced the risk of new stock issues, it has also had the effect of reducing the average return on such issues.[8] In other words, the SEC does not necessarily force out poorer quality issues, just riskier ones. For investors who are willing to incur high risk for the prospect of high return, their options have been limited.

Prerequisite No. 5: The proposed regulation should not violate Constitutional rights.

Roberta Karmel, in relating her experiences as an SEC Commissioner (1977-1980), describes a disturbing trend among Commission staffers toward a flagrant disrespect for the rights of business people.[9] Harold Williams, SEC Chairman under President Carter, is charged with attempting to guide the SEC toward ever greater control over publicly held corporations and promoting an anti-business atmosphere. Williams pursued certain policies not to secure investor interests but rather to promote his ideas about corporate governance. Investor protection became a facade behind which Williams and his followers justified their notions of proper public policy (namely an expanding role for government in the securities markets). Although Karmel still believes that the potential for corporate wrongdoing is a problem worthy of SEC attention, clearly the lack of government accountability is far worse.

An even more disturbing report exposes the SEC's suppression of first amendment rights through its regulatory supervision of investment advisors.[10] Emboldened with powers allegedly bestowed by the Investment Advisors Act of 1940, the Commission has seen fit to censor certain investment advisory publications and, in some cases, even prohibit publication altogether. This grievous attack on freedom of speech and press continues.

Prerequisite No. 6: The burden of proof should be placed on the advocates of regulation.

Determining the effects of any regulation is a difficult and often frustrating experience. George Benston and other critics of securities regulation have not "proven" that the SEC has failed to provide any benefits to investors. They do show us, however, a preponderance of evidence suggesting that the presence of such benefits has not been proven either. And in a country where people value the protections afforded by limited government, the burden of proof should lie squarely on those who support government regulation of the securities markets. Such proof was not required when securities regulation was first debated in the Senate hearings of 1933, and has yet to be required by those who set government policy.

So Why the SEC?

As we have just seen, when subjected to the stringent standards listed at the beginning of this article, the supporters of securities regulation have much to answer for. Why then are we still subjected to these burdensome securities laws? The answer lies partly in the self-interest of various constituencies which are affected by the laws. The most obvious of these constituencies are the staffers and commissioners of the SEC who possess considerable discretionary power, not to mention their impressive government salaries. Also securities lawyers and certified public accountants owe much of their livelihood to the SEC. Contrary to what we may think, the SEC is not a thorn in their side, for many of these professionals have made fortunes off the agency by helping their clients cope with the burden of regulatory requirements. Security analysts and portfolio managers also benefit from government-mandated disclosure. They need financial information in order to do their jobs and the more information they can get the better. And since they do not have to pay for the information, quite naturally they are at the forefront of demands for even greater disclosure.

One intriguing theory suggests that the securities laws were passed because Congressmen were anxious to *appear* as having addressed the problem of stock market abuses.[11] Since stock fraud and inadequate disclosure were *perceived* as important causes of the 1929 Crash, antifraud legislation and government-mandated disclosure were *perceived* as the solution. According to this theory, the SEC's budget is still determined by politicians concerned more with appearance than substance. This attitude is reflected in the actions of the SEC and helps to explain the near total absence of cost-benefit analysis.

Since there is no such thing as a free lunch, who pays for this legislation? Not suprisingly, taxpayers (who fund the SEC's operations) and shareholders (who ultimately bear the cost in reduced corporate profits).

But if the rest of us are forced to bear these costs, why do we allow it to continue? One reason is that investors have been deluded into believing that confidence in our financial markets would be undermined without regulation. But another more subtle reason has to do with the per capita costs and benefits of the regulations. Because SEC employees, securities lawyers, CPAs, and security analysts have much more at stake in these laws on a per capita basis, they are more inclined to go to the trouble and expense of preserving their domain. The rest of us foot the bill but the per capita charges are not perceived as large enough to merit an effort at repeal.

Conclusion

We should not view the current debate over securities regulation as simply a contest between private capital and public interest as most lawmakers are inclined to do. After all, government policy makers are themselves private individuals with their own self-interests to pursue. The question is really one of which group of private decision-makers will determine how capital resources are allocated in the American economy. A system which allows investors applying the time-honored tradition of *caveat emptor* to make their own choices is far superior to a system in which government administrators, insulated from the risks and rewards of the marketplace, decide what investment opportunities can be made available. When investors are allowed to make their own choices, unconstrained by government control, *they are the ultimate authority.*

—FOOTNOTES—

[1]R. K. Elliott and W. Schuetze, "Regulation of Accounting: Practitioners' Viewpoint," in *Government Regulation of Accounting and Information*, A. R. Abdel-khalik, ed. (University Presses of Florida, 1980).

[2]Benjamin Anderson, *Economics and the Public Welfare* (Liberty Press, 1979), p. 455.

[3]G. D. Dillon, "Corporate Asset Revaluations: 1925–1934," *The Accounting Historians Journal*, Spring 1979, pp. 1–15.

[4]G. J. Benston, "Security for Investors," in *Instead of Regulation*, R.W. Poole, ed. (Lexington Books, 1982), pp. 169–205.

[5]G. J. Benston, "The Value of the SEC's Accounting Disclosure Requirements," *The Accounting Review*, July 1969, pp. 515–538 and "Required Disclosure and the Stock Market: An Evaluation of the Securities and Exchange Act of 1934," *American Economic Review*, March 1973, pp. 132–155.

[6]Jeffrey F. Jaffe, "The Effect of Regulation Changes on Insider Trading," *Bell Journal of Economics*, Spring 1974, pp. 93–121.

[7]Susan Phillips and J. Richard Zecher, *The SEC and the Public Interest* (The MIT Press, 1981).

[8]Gregg A. Jarrell, "The Economic Effect of Federal Regulation on the Market for New Security Issues," *Journal of Law and Economics*, December 1981, pp. 613–675.

[9]Roberta Karmel, *Regulation by Prosecution* (Simon and Schuster, 1982).

[10]Michael McMenamin and William Gorenc, Jr., "Subverting the First Amendment," *Reason*, January 1983, pp. 23–28.

[11]Ross L. Watts, "Beauty is in the Eye of the Beholder: a Comment on John C. Burton's 'The SEC and Financial Reporting: the Sand in the Oyster,'" in *Government Regulation of Accounting and Information.*

Morgan O. Reynolds

HOW TO REDUCE CRIME

CRIME remains a silent contender for the number 1 domestic ill. It won't go away. Criminal experts are prone to explain this by saying that crime is "intractable," that there is little we can do. This claim is false. Crime is complex, to be sure, because it involves factors beyond law enforcement such as the strength of the family, neighborhoods, schools, and churches. But crime is simple in the sense that government officials can reduce crime by doing their job, namely, by making crime too unprofitable to practice.

No added resources are needed by the criminal justice system in order to accomplish this. Government finds it easy enough to spend money, but difficult to spend it productively. Between 1960 and 1982, for example, the number of serious crimes known to the police jumped from 3.3 million to 12.8 million, while government spending on police, courts, and corrections was doubling as a share of GNP, rising to one per cent of total output. Furthermore, victimization surveys show that only about one-third of crimes are reported to the police.

The key to making our cities less dangerous is to change the rules of the game. We must reduce the enormous daily waste of time and effort that makes it so expensive to arrest, convict, and punish the guilty.[1] While the machinery of government and its bureaucrats is always plagued by weak accountability and inefficiency, the law enforcement problem has increased dramatically over the last twenty years. Since 1961 the criminal justice system has been transformed from a law enforcement

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system into a thicket of criminal rights and make-work projects for nearly 2 million lawyers, judges, social workers, psychologists, criminologists, prison officials, and other bureaucrats. More people now produce less justice.

The quadrupling of crime over the past twenty years is due to a top-down revolution, as all revolutions in public policy are. Friedrich von Hayek points out that political opinion over the long run is determined by the active intellectuals. That is why in every country that has moved toward socialism, there was a long preceding phase during which socialist ideas governed the thinking of most intellectuals. Expanded rights for criminal defendants, sociological theories of crime, theories of rehabilitation, and dubious legal processes have followed the same path.

The Short Run: Rebuilding External Constraints

Suppose that we had a *carte blanche* on crime policy and a mandate to reduce crime. What changes would be prudent and effective? I do not claim that my recommendations are feasible in short-run political terms, only that they are sound ways to reduce crime. The basic short-run strategy is to raise the criminal's chances of arrest and conviction and increase the effectiveness of punishment, all without added burden on the taxpayer. This is far from impossible, provided these five recommendations were followed:

1. Avoid worsening the problem through increased community "rehabilitation" and other "therapeutic" treatments instead of prison terms.
2. Repeal the laws which make the crime problem worse than necessary, such as drug laws, gun control laws, rules restricting the use of prison labor, and those granting coercive privileges to organized labor.
3. Revise the exclusionary rules, suppression of evidence, inordinate delays, technical reversals, instability in criminal procedures, bias in favor of criminal defendants, and disregard for the rule of law by Supreme Court majorities.
4. Make greater use of private incentives and private contractors for police, prosecution, and corrections work, so that the taxpayers get more for their money.
5. Make sentencing fit the crime, not the criminal: Punishment should be usual, even-handed, determinate, prompt, shorter, more severe (though not cruel) and served in full.

The cardinal rule for any physician is "First, do no harm," and recommendations 1 and 2 reflect this philosophy. The likely prospect is that things will get worse before they get better because criminal policies are still dominated by unsound ideas and unsound advisers. Legislatures are losing their earlier resolve and bowing to public pressure over the last few years. The people selling therapy for criminals are succeeding once again based on the argument that prisons are crowded and there is no sense in spending more money on failed policies. The legislature in Texas recently accepted this idea, pulling up short just as more plentiful and longer prison terms were beginning to make a dent in crime rates. So the first order of business is to fend off more of the same policies which caused the crime epidemic in the first place.

Perhaps the most controversial recommendation is to repeal the criminal drug laws (and laws against other victimless crime), cases in which the cure is worse than the disease. Over 20 per cent of criminal arrests are for drug violations and these clog up the courts, preoccupy police resources, sustain the infrastructure of organized crime, raise the price of opiates so that as much as 30 per cent more street crime occurs, promote corruption, and have failed miserably in every respect. Similarly, gun laws are misguided attempts to control crime "on the cheap" which never have worked and cannot work in America. They are counterproductive and reduce citizen protection.[2] The numerous restrictions on the use of prison labor have reduced the output of the economy, raised the prison bill for taxpayers, and denied prisoners wider employment opportunities.[3] Even the prospects of rehabilitation have been harmed by these protectionist measures. Another labor policy adding to the crime problem is the tacit right of labor unions to use "the weapons of labor" in order to create artificial scarcities of labor via violence and threat of violence. The special privileges of labor unions, both by statute and common law, should be revoked. Not only would this directly reduce violence, it would also reduce the close association between organized crime and organized labor.[4]

In addition to discontinuing some things, the public sector should do some things that presently are not being done. The most important step is to rebalance our biased criminal procedures. It is no exaggeration to say that the Warren Court has the blood of thousands of crime victims on its hands. Without the ability to convict the guilty promptly and *conclusively* in fair if less-than-ideal procedures, nothing can substantially reduce crime. With all of the privileges granted to the accused in today's courts, we are fortunate to have as little crime as we have.[5]

The techniques of the marketplace can improve the productivity of the public sector. Police departments, for example, should be at least partially rewarded on the basis of *gains* in reducing crime rates. The crime data should be checked by independent auditors. Private security agencies should be allowed to bid for contracts to supply police services where it is legally feasible. Based on experience, these measures can emerge on a piecemeal basis around the country, learning as we go.[6] Similarly, private incentives and contractors can be more widely used in prosecution and corrections. When the duty of protecting a citizen from criminal harm is left solely to government, there are times due to neglect, malice, or political intrigue that prosecutors fail to act on behalf of the victim. If criminal law were amended to allow wider private rights of enforcement in the courts, then the citizen can protect himself if the government does not, and enforcement will be much more energetic. Prisoners should have more productive opportunities, with the profit motive allowed wider scope on both the demand and supply sides of the highly restricted market for prison labor services and in prison-made products. The ingenuity of the marketplace and competition should be harnessed to serve the cause of crime reduction.

Recommendation 5 is to change sentencing policies. We should eliminate false advertising: make sentences shorter but served in full. Sentences should fit the crime, not the criminal. The present philosophy about the appropriate procedures for determination of guilt and assignment of punishment basically should be reversed. Evidence about the accused's criminal background, for example, should be allowed in weighing the probability of guilt or innocence, but should be ignored for sentencing. We do it for traffic fines or tax evasion and should do it for criminal offenses as well. Perhaps juveniles should receive special consideration but punishment basically should fit the act, not the age nor the criminal record of the guilty party. One of the tragedies of the current arrangement is that juveniles initially receive tender-loving-care at the hands of the criminal system and are almost seduced into a criminal life. Not taking the system seriously, some of them end up serving long sentences as habitual criminals for crimes so old that nobody can remember them.

Severity of punishment can be humanely increased through greater use of solitary confinement. This serves the cause of justice because anti-social individuals and criminal bands destroy social cooperation, so let them bear the logical results of their actions. The English penal system used this technique with great success in days gone by, and their abandonment of the procedure has been a factor in the British crime epidemic. Solitary confinement also has the virtue of decreasing schooling in criminal skills and criminal contacts. Prisoners also should work, but I favor the carrot of productive, remunerative employment opportunities rather than the stick of breaking rocks all day.

And what about the death penalty? I personally favor its reinstitution to administer just deserts for the absolutely worst crimes. Life imprisonment in an era of color TV and coed prisons cannot do justice for the acts of a Richard Speck. We terminate vicious animals, and if we believe that society is worth protecting we should be willing to execute the vicious killers that spring up among humans. Our present unwillingness to execute the most grotesque evildoers speaks loudly to criminals about our society and its ideological climate.[7] As Friedrich Nietzsche said, "There is a point in the history of society when it becomes so pathologically soft and tender that among other things it sides even with those who harm it, criminals, and does this quite seriously and honestly."[8]

The Long Run: Rebuilding Internal Constraints

The rise of crime has not been an isolated social phenomenon. For instance, there is a striking parallel with the demise of discipline in the schools. Why? The basic reason is that a large, influential segment of public opinion came to believe that students should not be punished—made unhappy, reprimanded, scorned—for doing things that are wrong. As a substitute we ended up with "special counseling programs" and other non-answers. Those opposed to punishment share Rousseau's view of man, feeling that social constraints inhibit healthy human development, that people are born friendly and considerate. Pro-punishers believe that man is a mixture of good and bad, but that our basic instinct is to look out for number one and trample anyone who gets in the way of what we want. Under the weight of painful experience, our schools may be shifting away from Rousseau's views, but it can only be effective if adults are willing to face up to things, to show some backbone. Without serious steps to restrain the law-breaking minority, of course, the reversion to savagery is never far away.

The breakdown of the personal qualities of self-restraint, honesty, integrity, foresight, self-reliance, and consideration for others is indissolubly linked with the welfare state. For what is the redistributive state but a glorification of envy? There is an irreconcilable conflict between the rule of law, which depends on limited government, and the welfare state, which depends on a limitless government. As government has passed more and more laws and regulations, individual liberty has shrunk and disorder has grown. The rule of man has been substituted for the rule of law.

Crime and the Welfare State

The welfare state does not respect private property. It takes from the politically uninfluential and gives to the politically influential. Redistribution by government is not called stealing, though the same act is if performed by a private individual rather than a government official. Neither shoplifters nor more serious criminals think of themselves as stealing; they say that they just "take" things. In a way, they are right because crime and most of what takes place under the heading of politics amount to the same thing.

Changing the incentives faced by criminals is relatively easy from a technical point of view. Just make punishment swift, sure, and severe. It requires a firm but limited government. But if government is to restore the rule of law and protect private property, government itself must abide by the law. And this is not consistent with the welfare state.

Collectivists like to say that a war on poverty is also a war on crime. I agree with this statement but not in the sense that collectivists mean it. Collectivists mean more coerced redistribution, generous welfare benefits, more social workers and bureaucrats. The consequences of these programs have been family dissolution, illegitimacy, mass unemployment, demoralization, and non-existent work skills. Redistribution perpetuates poverty, intensifies it, and therefore increases crime. The real war on poverty occurs daily in the marketplace. Capitalism, entrepreneurship, commerce, and the creation of new wealth is the real war on poverty. Capitalism encourages independence, self-reliance, honest dealing, expanded employment opportunities, and therefore less crime.[9]

New job opportunities in the private sector reduce the relative attractiveness of crime and do not call for more government training and welfare programs. They demand less welfarism. Government should get out of the way and allow the marketplace to create more opportunities and wealth. Many factors influence the labor market conditions that potential criminals confront. For example, federal minimum wage laws and union wage rates prevent many young people, whose services are not worth $3.35 or more per hour, from finding legitimate work. Stealing then is more attractive because they cannot find occasional jobs to pick up spending money. They also fail to acquire the skills, like basic reliability, that would allow them to raise their value in the marketplace. Many other policies adversely affect crime rates, including monetary and fiscal policies. The graduated tax rates, for example, used to finance destructive social programs retard economic growth and employment opportunities.

Robbery and tyranny by the state is a reflection of the general breakdown of moral law, as it was in ancient Rome, when people had lost all respect for the sanctity of private property. If the lights go out in any major American city, many thousands of people will go on a crime spree, as they did in New York City in the blackout of 1977. The intellectuals have spent decades telling people that they are underdogs in an unjust and decaying society, and that violating the laws against theft or rape is a form of social protest, a form of higher morality.

The long run problem of producing more considerate people means greater reliance on the private market and less on government. It is no surprise that a decline in criminal behavior occurred with the growth of capitalism, and that greater criminality has been associated with the rise of the welfare state and socialism. Reviving internal constraints means gradually reversing the growth of Leviathan. If we are to solve the problem of crime, as with other ills of the welfare state, we must work toward a society where economic and social policies are determined by free markets, not centralized coercion.

The underlying problem is to change the intellectual climate in this country toward liberty and justice and away from collectivism and injustice. No one can avoid this intellectual battle in our politicized era. The purpose of the criminal justice system must become the pursuit of justice once again.

—FOOTNOTES—

[1]Also see Ernest van den Haag, "Making Crime Cost and Lawfulness Pay," *Society,* 19 (July/August 1982), p. 22.

[2]For evidence, see David T. Hardy, "Gun Control: Arm Yourself with Evidence," *Reason* (November 1982), pp. 37–41.

[3]For a dramatic example, see Jeffrey Shedd, "Making Goods Behind Bars," *Reason* (March 1982), pp. 23–34.

[4]See Morgan O. Reynolds, "Unions and Violence," *The Freeman* (February 1983), pp. 98–106, and "Contradictions of Unionism," *Journal of Political, Social, and Economic Studies* (Winter 1982), pp. 387–409.

[5]For the arguments, see Steven R. Schlesinger, "Criminal Procedures in the Courtroom," especially pp. 192–200 on the exclusionary rule in *Crime and Public Policy,* edited by James Q. Wilson (San Francisco, CA: Institute for Contemporary Studies, 1983).

[6]Theodore Gage, "Cops, Inc.," *Reason* (November 1982), pp. 23–28.

[7]Walter Berns, *For Capital Punishment* (New York: Basic Books, 1979).

[8]Friedrich Nietzsche, *Beyond Good and Evil,* trans. Walter Kaufman (New York: Vintage, 1966), sec. 201., p. 114.

[9]For corroborating views, see Christie Davies, "Crime, Bureaucracy, and Inequality," *Policy Review,* 23 (Winter 1983), pp. 89–105; James Q. Wilson, "Crime and American Culture," *The Public Interest,* 70 (Winter 1983), pp. 22–48.

Dennis Bechara

UNIONS AND GOVERNMENT EMPLOYMENT

SEPTEMBER 9, 1919 was a date that altered government employment and the duties associated with it. For this was the time the Boston police force went on strike, causing an alarming state of violence, riots and looting previously unheard of in the country. The Boston police strike marked the beginning of a long and protracted struggle aimed at the unionization of government employees.

The strike at that time was doomed to failure, for public opinion was against it. The policemen who participated in the strike were discharged, with public approval. When Samuel Gompers, head of the American Federation of Labor which had called the strike, petitioned Governor Calvin Coolidge to reinstate the strikers, the Governor replied: "There is no right to strike against the public safety by anybody, anytime, anywhere." This statement enjoyed almost unanimous approval, and helped Coolidge attain national recognition which ultimately catapulted him to the vice-presidential nomination in 1920.

The Boston police strike occurred as the economy was readjusting from the severe pressures of the First World War. During the war, a War Labor Board was formed by the federal government, which encouraged the organization of labor unions. This was the first time the government created conditions favorable for the unionization of employees. So, it is not surprising that as many as five million employees were union members by early 1920.

The Boston police strike was only one of many strikes that took place during this time. It has been estimated that over 3,000 strikes occurred in 1919 involving approximately 4 million employees. Yet, the difference between the Boston police strike and the others was that the

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latter were aimed at private industry whereas the former was directed not only against the government but against the entire Boston population. People instinctively knew the unfairness of such a strike since it touched everyone in Boston, whether or not they wanted to be involved in the controversy. The stark differences between public and private employment became clearer, and people generally agreed that there could not be such a thing as a right to strike against the public safety.

Compulsory Union Bargaining Began in Private Sector

In order to understand the full measure of compulsory public-sector bargaining, it is instructive to study the origins of private collective bargaining and its effects on the unionization of employees in the private sector. The unionization of government employees took place after the principles of majority rule, exclusive representation and collective bargaining were entrenched in private labor relations.

After the abolition of the War Labor Board when the war ended, union membership declined from its all-time high of 5 million members in 1920 to 3½ million members by 1923. During the depths of the Great Depression, union membership hovered around 3¼ million members, and it was not until the passage of protective Federal legislation that union membership substantially increased. Under the Norris-La Guardia Act of 1932, the jurisdiction of the courts to issue injunctions was severely restricted in cases involving labor disputes. Similarly, under the National Recovery Act in 1933, collective bargaining was encouraged. Although this statute was later to be found unconstitutional, its encouragement of collective bargaining was enshrined in the Wagner Act of 1935. The effect of this legislation was substantial. The Department of Labor has stated that:

> The 2-year expansion of total union membership brought about a rise from less than 3 million in 1933 to 3¾ million in 1935. In the following 2 years (the first 2 years of the Wagner Act), membership almost doubled, advancing to 7¼ million. The largest gains during the latter period were made in the automobile, rubber, and aluminum industries, in which workers were organized on an industrial basis. Many of the older organizations, including such unions as the International Ladies' Garment Workers' Union, the International Association of Machinists, and the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers, also registered substantial membership increases. The extent of these gains is even more impressive when it is realized that the total labor force increased only 2 percent between 1935 and 1937, and that nonagricultural employment, the main source of union membership, increased less than 15 percent.[1]

Union membership continued to increase during World War II and peaked in 1953, when 25.5 percent of the private sector work force was unionized. Membership decreased thereafter to approximately 16.2 percent by 1978.[2] It is not surprising that although recent labor leader pressures have failed to amend the National Labor Relations Act, other efforts aimed at the same goal of increasing unionization of employees have met with startling success.

President Kennedy signed Executive Order 10988 on January 19, 1962 whereby collective bargaining was recognized as a right of certain Federal employees. Although the terms of the Executive Order prohibited strikes and mandated that all agreements entered into must meet civil service regulations, the stage was set for further inroads. As one commentator put it: "Kennedy's Executive Order triggered a series of bargaining laws in states with substantial private sector unionism like Michigan, New York, Washington, and Pennsylvania. Only a dozen state governments, mostly in the South and West, do not have some kind of mandatory bargaining law to promote public employee unions today."[3]

The situation in the federal government has been substantially altered by the passage of the Civil Service Reform Act of 1978 which enshrined the principle of compulsory collective bargaining for most Federal employees.

Membership in public-employee unions has soared during the twenty-year period between 1960 and 1980. By 1960 eleven percent of government employees were unionized, whereas by 1980 the figure had increased to 50 percent of a total of over 15 million government employees.[4]

The recent surge in the unionization of government employees is in marked contrast to the decline in the unionization of the private sector. With government employment becoming more significant in the economy, it is essential that we understand how this differs from employment in private industry.

Market Guidelines

Perhaps the most salient distinction between the private sector and the government is the fact that private enterprise is guided in its behavior by the market and especially by the demand for its services. Businesses base their decisions on the market price for goods and services, and the consumer ultimately has the power to decide whether or not to purchase the items offered. There is always the incentive to be efficient in the provision of goods and services since real or potential competitors may offer a better price.

Government, on the other hand, has no such guidelines. Revenues are based on the taxes collected from the population. Efficiency in the provision of goods and services has no effect on revenues. Nor is there danger of losing the market to the private sector because in most instances competition is forbidden. The Postal Service, for example, has a monopoly in the delivery of first class mail. Regardless of the efficiency of the Postal Service, there is no danger that a private entity will offer alternative modes of delivering such mail. Even where competition is not forbidden, it is impractical in many cases because the government has the power to tax and may offer its services at below-cost prices. Public schools, for instance, have the advantage that no direct charges are imposed on the users of their services, whereas those who attend private schools not only have to pay for the private schooling but must sustain the public school system as well.

Since there is no incentive to economize or lower costs, and since there is no possibility of effective competition, government has considerable leeway in the assignment of priorities to provide goods and services. And since there is no market price for government services, its actions are in a sense arbitrary. Ludwig von Mises elaborated this point:

> A police department has the job of protecting a defense plant against sabotage. It assigns thirty patrolmen to this duty. The responsible commissioner does not need the advice of an efficiency expert in order to discover that he could save money by reducing the guard to only twenty men. But the question is: Does this economy outweigh the increase in risk? There are serious things at stake: national defense, the morale of the armed forces and of civilians, repercussions in the field of foreign affairs, the lives of many upright workers. All these valuable things cannot be assessed in terms of money.[5]

These facts tend to complicate the employer-employee relationship in the public sector. There are no objective standards by which to judge and reward the productivity of government employees. In a private enterprise, the profit and loss system provides an objective framework upon which to judge the contribution made by each employee. It is true that arbitrary actions on the part of the employer may take place in the private sector. It is conceivable that an employer may act rashly and may in fact discharge his most efficient employees, retaining the least productive. But if he acts in such a fashion, he will do so at his peril.

Non-economic Factors

The public employer, lacking a market method of judging his employees, turns to other non-economic considerations. At one time partisan politics played the most important role in the employment of government employees. The spoils system became so much a part of political reality that it took President James A. Garfield's assassination in 1883 by a disappointed office seeker to initiate the enactment of the first civil service law. This statute, known as the Pendleton Act of 1883, "created a Civil Service Commission to administer a new set of rules which required appointments to be made as a result of competitive examinations and prohibited assessments on office-holders for political purposes. By law these new rules were applied only to some 14,000 positions, about 12 per cent of the total, but the President was empowered to extend them at his discretion. At the turn of the century there were not far from 100,000 in the classified civil service; at the end of Theodore Roosevelt's administration the number had more than doubled, and when Wilson left the White House it had increased to almost half a million. At the same time most states were passing civil service laws."[6]

The situation has changed even more dramatically; the Supreme Court has held that patronage dismissal from government employment violates the U.S. Constitution. The Court stated in *Elrod v. Burns*,[7] that patronage dismissals could only be justified in policymaking positions so as to guarantee that the policies which the electorate has mandated may be implemented. In yet another case, *Branti v. Finkel*, the Court indicated that patronage dismissals may only be justified if "the hiring authority can demonstrate that party affiliation is an appropriate requirement for the effective performance of the public office involved."[8] It may reasonably be said that the spoils system is no longer an important factor in the employment relationship in the government. However, this does not alter the fact that the public employer has no objective measure by which to judge the efficiency and productivity of his employees. Even in those government agencies where there is a provision of services for which there is a market price (like railroads and the provision of electric power), the agency is operated with other than a profit motive and thus lacks an objective standard.

The Power to Abuse

There is no question that government employees have the constitutional right to form and join unions. This is a part of the freedom of association guaranteed by the Constitution, and is as it should be in a free society. However, to extrapolate from that right of association a concomitant right to engage in collective bargaining is a quantum leap.

The theory of collective bargaining, which is embodied in our national labor policy, confers upon unions the exclusive right to engage in bargaining with an employer over the terms and conditions of employment, in behalf of certain employees. This exclusive right is in itself a very broad delegation of power, as each individual employee correspondingly loses his right to deal with his employer over those terms and conditions. The union that enjoys this exclusive right to engage in collective bargaining has the economic self-interest to raise the wages and other conditions of employment of those employees it represents at the expense of the rest of the work force. Such collective bargaining has had various effects. Some companies have not been able to compete as a result of the high wages exacted by the unions they must bargain with. Others have not been able to hire as many employees as they would have preferred. When we take these effects of collective bargaining, not to mention the consequences of prolonged strikes, it becomes obvious that unions in government will tend to exert an inordinate amount of power over the budgetary decisions of the government. As Sylvester Petro pointed out:

> So long as taxpayers remain a diffuse, unconcentrated group, while public-sector unions enjoy the compact political power derived from the laws granting them the privileges of exclusive bargaining statutes and of compulsory collective bargaining, the taxpayers must fight a losing battle.[9]

Although it is difficult to estimate the actual income generated by public-employee unions, an expert recently estimated that $750 million a year is a conservative figure.[10] Clearly, public-employee unions have an acute interest in promoting compulsory public sector bargaining.

Essential Differences

Among the many other differences between the government and private employers is the economic advantage enjoyed by the government. Taxpayers must subsidize the government's expenditures regardless of their demand for the services offered. As previously noted, the possibilities of private competition are curtailed. All of these factors enhance the entrenched power of public-employee unions. Besides, since government is usually the only supplier of many services, a strike, however short its duration, can inflict tremendous damage to the population. This in turn causes the politicians to yield to exorbitant union demands so as to lessen the public outcry caused by the strike.

The politicians responsible for maintaining labor peace in the government must reconcile two conflicting demands. On the one hand they must pacify the concerted efforts of public-employee unions to raise labor costs while on the other hand they must stem any outcry that may surface on the part of the population at large to avoid profligate spending. This effort at reconciling these opposing demands is usually resolved in terms favorable to the public-employee unions since these organizations have formidable lobbying power. Public employees have an economic interest in voting for candidates who will be more generous in settlements with public-employee unions. It is not surprising that "public employees participate in elections at substantially higher rates than the general citizenry does, thereby forming a more potent voting bloc than their share of the work force might suggest."[11]

A Political Process

The easiest way for politicians to reconcile the conflict between the general taxpayers' clamor to reduce spending and the strong pressures exerted by public employee unions has been to grant many of the benefits demanded as long as they are to be financed over the long term. There is no short-term need to raise taxes, and both the unions and the taxpayers are satisfied. This development is similar to the so-called "uncontrollable" items in the Federal budget where benefit increases have been mandated over a number of years. Since the legislation took place in the past, no politician needs to suffer the consequences of being singled out as responsible for the increase in spending.

Public-sector bargaining is part and parcel of the political process since its outcome directly influences the budgetary decisions of the government. This becomes even more acute whenever a strike takes place: "A strike designed to get for the strikers more than the legislative appropriation calls for is thus a political act, not an economic one; its purpose is to supplant the budgetary decisions produced by the political processes of representative government with a form of action which can only be called an act of political aggression or extortion."[12]

Although most public-employee collective bargaining statutes contain prohibitions against strikes, government officials have become reluctant to impose any sanctions on the strikers. In 1980 there were 536 work stoppages involving 224,000 government employees.[13] It seems safe to assume that the reason few sanctions have been taken has been due to the powerful political influence enjoyed by public-employee unions. Yet, one must consider that during the 1981 Professional Air Traffic Controllers Organization strike the government took an unusually strong stand and proceeded to discharge all those strikers who refused to return to work. This severely strong action was politically acceptable and shattered the myth that it is impossible for a government official to deal effectively with the issue of strikes in the public sector. But the issue posed by public-employee unions goes beyond whether or not public employees should have the right to go on strike. The question that should be addressed is whether or not compulsory collective bargaining should be the guiding principle for labor relations in the public sector.

The clear differences that exist between a private and a public employer demonstrate the vulnerability of both the government and the taxpayers to the pressures exerted by public-employer unions. Compulsory public-sector collective bargaining will increase government spending inordinately with the consequent adverse effects on the budgetary and policy-making process. It should be remembered that the costs of collective bargaining include all the disputes that may arise during the term of the collective bargaining agreement. Clearly, collective bargaining in the public sector is not the most appropriate mechanism to handle labor relations in government.

Mandatory Arbitration

There are some who share a negative opinion about compulsory public-sector bargaining but feel that the ideal solution is to refer all disputes to compulsory arbitration. In this fashion, it is argued, arbitrators will decide the fairness of the union demands as well as the reasonableness of the employers' position. Yet, this argument overlooks an important consideration. By empowering independent arbitrators to impose contract settlements mandating new terms and conditions of employment, the people at large will have given up their capacity to hold anyone accountable for the particular settlements. Instead of bringing about a solution to the problems posed by the public sector bargaining, mandatory arbitration will only aggravate them.

If the government were to change its policies and refuse to engage in collective bargaining, would this open the door for arbitrary treatment of government employees? The fact is that government employees have rights protected by the Constitution which are not open to employees in the private sector. We have already seen that the spoils system has been effectively curtailed as a result of recent Supreme Court decisions. In addition to this, the Supreme Court in *Perry v. Sinderman*[14] granted public employees who face dismissal the right to a hearing so that they may establish whether or not they had a "property interest" in their jobs.

The instances in which public employees have been dismissed are minimal. In 1978, for example, "only 300 of 2.8 million federal employees reportedly were dismissed or terminated for incompetence."[15] In addition, public employees may not be disciplined for their exercise of First Amendment rights. As all of this reveals, government employees enjoy certain rights that guarantee that they will not be subjected to arbitrary actions on the part of their employer. In addition, of course, public employees enjoy economic security since the government does not run the risk of going out of business. All in all, government employees enjoy greater job security than do employees in the private sector.

Government should rededicate itself to the purposes of the original civil service statutes. A pay scale cognizant of the realities of the market, along with the constitutional and statutory protections afforded public employees, assure them fair treatment without subjecting the government to the shackles of public-employee union pressures. If we continue to pursue the policies of compulsory public-sector bargaining, we will lose further control over the behavior of the government and its spending decisions. As Sylvester Petro has said:

> Compulsory public sector bargaining dilutes governmental sovereignty by transferring the loyalties of public employees from their government employers to their union. It dilutes popular sovereignty by pitting public employees as a group against taxpayers as a group. Instead of serving taxpayers, government employees and their unions extort from them.[16]

It is in our power to change those policies which have brought forth compulsory public-sector bargaining; if we do not, the events of September 9, 1919 may no longer be incidents of the past.

—FOOTNOTES—

[1]United States Department of Labor, *Brief History of the American Labor Movement,* 1976, p. 23–24.

[2]Myron Lieberman, *Public-Sector Bargaining* (Lexington: D.C. Heath and Company, 1980), p. 2.

[3]Vol. 4 *Government Union Review* (1983), p. 6–7.

[4]*Ibid,* p. 3.

[5]Ludwig von Mises, *Bureaucracy* (New Rochelle: Arlington House, 1969), p. 50.

[6]S. E. Morison, H. S. Commager and W. E. Lluchtenburg, *A Concise History of the American Republic* (New York: Oxford University Press, 1977), p. 414.

[7]427U.S.347 (1976).

[8]445U.S.507 (1980), at 518.

[9]Vol. 10 *Wake Forest Law Review* (1974), p. 134.

[10]Lieberman, *op. cit.,* p. 13.

[11]Vol. 4 *Government Union Review* (1983), p. 14.

[12]Vol. 10 *Wake Forest Law Review* (1974), p. 101.

[13]United States Department of Commerce, *Statistical Abstract of the United States* (1982–83), p. 411, table 685.

[14]408U.S.593 (1972).

[15]Vol. 4, *Government Union Review* (1983), p. 13.

[16]Vol. 3, *Government Union Review* (1982), p. 23.

CHARACTER EDUCATION

LEONARD READ once made the prescient remark that, now that we had succeeded in separating church and state, the next big battle would be to separate state and school.

With the hold that compulsory public education has on this country, the struggle suggested by Leonard Read has hardly begun. Even the most independent private schools have to go to government for accreditation. Sometimes they can't even get that: ministers in Nebraska are jailed for starting church schools in competition with the public school system. The Amish, who persist in their attempts to teach their own children, are persecuted and hauled into court. But, with the big decline in the so-called SAT scores in the past few years, public dissatisfaction with our government-run school system is undeniably mounting.

Since, after a century and more of indoctrination by the followers of Horace Mann, the public schools are not going to be abandoned within foreseeable time, there will be efforts within the system to do something about those bad SAT scores. Frank Goble, who runs the Thomas Jefferson Research Center, thinks the answer to the problem is to restore the teaching of ethics. In a book written in collaboration with B. David Brooks, *The Case for Character Education* (Green Hill Publishers, Ottawa, Illinois, 168 pp., $7.95), Mr. Goble makes an eloquent pitch for his contention that if the schools will only add the fourth "R" of responsibility to the basic "Rs" of reading, 'riting and 'rithmetic, the SAT scores will dramatically improve and classroom vandalism will tend to disappear.

The Goble-Brooks book definitely shows there is a correlation between student behavior and academic achievement. With the growth of ethical relativism in the Seventies, both the verbal and mathematical test scores began to tumble. Where the average verbal test score was 478 in 1963, it plunged to 427 in 1979 and 424 in 1980. The 1963 average score in mathematics had been 502; in 1979 it was 467, and in 1980 it fell off another point to 466.

While it is possible that the teaching might have become more negligent in the decade of the Seventies, or that the SAT tests themselves had become subtly more difficult, Mr. Goble does not have to go very far to assemble a whole host of negative behavior statistics, beginning with drug use and ending with suicide and homicide, to prove his correlation. He quotes Health, Education and Welfare Secretary Califano's statement to Congress that "schools that should be centers of teaching and learning . . . have become centers of danger and violence for teachers and students." Teen-agers spend only a fourth of their waking hours in school—but forty per cent of the robberies they perpetrate or suffer and thirty-six per cent of the assaults on teen-agers occur in the classrooms or school hallways and grounds. The streets themselves are much safer places for kids.

The Teaching of Ethics

The teaching of ethics has tended to fade out because ethics is connected with religion, and the separation of church and state has been interpreted by the courts to preclude anything in the classroom that smacks of religious indoctrination. Kids can't even pray silently to themselves for divine guidance. But Mr. Goble defies the American Civil Liberties Union to tell him that the First Amendment means the schools can't teach things like responsibility, citizenship and generally approved codes of behavior.

"Character," says Goble, "refers to those aspects of personality—mental habits, attitudes, values, personal goals—that influence personal behavior." A person of good character will have persistence, tact, self-reliance, generosity and loyalty. Character building can be stressed without relation to any specific religion or system of government, which means that any school can go in for it without running into constitutional roadblocks.

Mr. Goble would have a hard time

proving that character in itself can make a person more nimble at mathematical calculation or the writing of good prose. Crooks can be intelligent, and good souls can be dumb. But it still remains true that it is easier to learn to parse sentences and to do long division in classrooms where order predominates and ambition is encouraged. It takes a genius to concentrate in a boiler factory.

The Goble-Brooks book relies on case histories to make the correlation between behavior and academic excellence come clear. The story of what happened in the schools of Modesto, California, is typical. Stressing the "fourth R" of responsibility, Modesto decided in 1976 to go back to the basics in everything. It cut out the old habit of automatic promotions. Competency tests had to be passed year by year or no diploma would be awarded. Written student conduct codes setting forth student rights and responsibilities were distributed to parents. The conduct codes, with specified punishments for infractions included, had to be signed by the parents and returned to the school.

The results of the Modesto program have been most impressive. It did not wipe out vandalism, but the work of the graffiti artists and window smashers was held to a 6.9 three-year increase where other California schools were reporting a twenty to twenty-five per cent increase in destructive practices each year. Meanwhile, the Modesto reading, writing and arithmetic scores gained markedly in comparison to what the other state schools were showing.

Teaching at Home

In New Hampshire two parents, Bob and Nancy Wallace, decided not to wait upon the improvement of the public schools. It was not so much the ethical standards of the schools that bothered them; their two children, Ishmael and Vita, happened to have special self-starting characteristics, and they would have suffered if bound down to the ordinary classroom pace. In an appealing book called *Better Than School* (Larson Publications, Burdett, New York, 256 pp., $11.95 paperback), Nancy Wallace recounts the adventures of a happy and dedicated mother and father in educating their children at home. They had the devil's own time in wresting permission for a "home school" from their local Board of Education in New Hampshire. (Ithaca, New York, did better by them after they had moved to be near Cornell University, with its needed library and cultural facilities). But, save for the once-a-year administration of state tests, the Wallaces kept the government out of their hair. The result, apparently, has been two superbly educated kids—and a couple of educated parents, too.

NATION, STATE, ECONOMY: CONTRIBUTIONS TO THE POLITICS AND HISTORY OF OUR TIME

by Ludwig von Mises
Translated by Leland B. Yeager
(New York University Press, Washington Square, New York, NY 10003)
231 pages ▪ $25.00 cloth; $9.00 paperback

Reviewed by Bettina Bien Greaves

THE noted free market economist, Ludwig von Mises, was a native of the old Austro-Hungarian Empire. By 1914, he was in his early thirties and his years of compulsory military service had been all but completed. When World War I broke out, however, he was called to duty immediately. He served throughout the war, a large portion of the time in the cavalry on the eastern (Russian) front where, as he lamented later, he "could rarely find time to read a newspaper." (*Notes and Recollections,* p. 66). Shortly before the war ended, Mises was transferred back to Vienna where he had been living previously. He was there when the Central Powers finally collapsed.

War's end found Europe in turmoil, hunger widespread, national boundaries in disarray, and communist terrorists eager to stir up trouble at every opportunity. As opportunity permitted, Mises returned to his intellectual pursuits. One question uppermost in the minds of many persons at that time was what had caused the strife that had led to the war just ended. This book, first published in German in 1919 and only now translated into English, explores the answer.

As the title indicates, Mises deals with the concepts of "nation," "state," and "economy," their respective similarities and differences. To appreciate the situation in post World War I Europe, with its countless intermingled minorities, many with different languages, dialects, cultures, religions and special interests, an understanding of these concepts is essential. Unfortunately, little attention was paid to the explanations Mises presented in this book. Longstanding international conflicts continued to fester in spite of the attempt to implement in Europe the then-popular idea of national self-determination. As a result, when Hitler came along he had only to stir these issues up again, until in time they erupted into World War II. Mises' message is important to us today also, for the same issues are at the root of current international conflicts.

Nineteenth-century Europe had been trending toward the freedom ideas of classical liberalism. To understand the origins of German nationalism which led to World War I, therefore, it must be explained how liberalism, always pacifist and anti-militaristic, was overthrown. "[T]he last trace of the liberal spirit had first to disappear from Germany and liberalism had to become regarded as a kind of dishonorable ideology before the people of poets and thinkers could become a weak-willed tool of the [imperialist] war party." (p. 3) This was accomplished primarily thanks to a combination of interventionists—(1) working class socialists, who favored "democracy" initially, and (2) the bourgeoisie, industrialists and militarist authoritarians.

Mises contrasts the principles of classical liberalism with those of the interventionists. "The basic idea of liberalism and of democracy is the harmony of interests of all sections of a nation and then the harmony of interests of all nations (p. 44).... Full freedom of movement of persons and goods, the most comprehensive protection of the property and freedom of each individual, removal of all state compulsion in the school system ... are the prerequisites of peaceful conditions." (p. 96) Liberalism stood for the international division of labor, free trade and free migration. Frictions in a truly liberal society can usually be resolved peacefully, through discussion, debate, election and voluntary agreement.

Authoritarianism and socialism, although nominally opposed to one another, shared quite a few non-liberal, protectionist positions. Because of their opposition to socialism, many entrepreneurs and industrialists aligned themselves with the privileged, authoritarian, class. And many socialists, opposed to monarchy and a privileged nobility, upheld the idea of democracy and "fought for the right to vote, freedom of the press, and the right to form associations and assemblies as long as they were not the ruling party [but when] they came to power they did nothing more quickly than set these freedoms aside." (pp. 44–45). However, both groups, authoritarians and socialists alike, were interventionist. Both were advocates of national self-sufficiency and protectionism. Both favored a status society in which certain special groups had the power and authority to suppress minorities. And the policies of both led in time to militarism and conquest. The only way to settle controversies under an authoritarian or socialist regime is by resorting to force and authority.

Prior to World War I, Europe was a polyglot patchwork quilt of linguistic and cultural communities, each anxious for independence and the freedom to control its destiny. The non-liberal governments of that day, however, could not grant this independence or freedom to the separate linguistic groups within their borders without relinquishing some of their own power and authority. Mises devotes considerable attention to the role of language as the basis of "nationality" and to the conflicts that arise under non-liberal regimes when different linguistic and cultural groups are geographically intermingled and overlapping. He deals especially with the conflicts among the many different language groups located within the pre-World War I borders of Prussia and Austria-Hungary, conflicts that contributed directly to the start of both World Wars.

Under liberalism, production is expanded as the world becomes ever more closely linked by the widespread division of labor and far-flung international trade. It is a sort of poetic justice that the imperialistic German government, having rejected free market principles, had to turn to free enterprisers during World War I to keep their war machine operating. "War," Mises wrote in 1919, long before nuclear bombs were even dreamed of, "has become more fearful and destructive than ever before because it is now waged with all the means of the highly developed technique that the free economy has created." (p. 216) And today, war is even more dreadful to contemplate. It is not surprising, therefore, that many concerned persons now clamor for peace. Unfortunately, however, most of those who agitate for a nuclear freeze or to ban the bomb are "socialists" or "interventionists" who advocate the very government policies that lead to domestic and international conflict. "Philanthropic pacifism," Mises wrote in 1919, "wants to abolish war without getting at the causes of war." (p. 88)

Mises explains that the path to lasting peace depends on adopting the freedom philosophy of classical liberalism.

> He who has made the harmony of the rightly understood interests of all strata within a nation and of all nations among each other the basis of his world view can no longer find any rational basis for warfare. He to whom even protective tariffs and occupational prohibitions appear as measures harmful to everyone can still less understand how one could regard war as anything other than a destroyer and annihilator, in short as an evil that strikes all, victor as well as vanquished. Liberal pacifism demands peace because it considers war useless. . . . He who wants to prepare a lasting peace must be a free-trader and a democrat and work with decisiveness for the removal of all political rule over colonies by a mother country and fight for the full freedom of movement of persons and goods. . . . Liberalism rejects aggressive war not on philanthropic grounds but from the standpoint of utility. (pp. 86–87)

The cause of peace would be better served if, instead of mounting massive protests and demonstrations, concerned persons were to speak up for the repeal of special privileges, subsidies, welfare programs, progressive taxes, protectionist measures, barriers to world trade and free migration, and the like. Such steps would accomplish more toward eliminating the causes of war than picketing at nuclear missile sites.

To those who fail to recognize that the hope for peaceful interpersonal relations rests on utilitarianism and classical liberalism and who, as a result, reproach their advocates for considering only "the satisfaction of material interests and neglecting the higher goals of human striving," Mises has an answer:

> Nothing is more absurd than this criticism. It is true that utilitarianism and liberalism postulate the attainment of the greatest possible productivity of labor as the first and most important goal of policy. But they in no way do this out of misunderstanding of the fact that human existence does not exhaust itself in material pleasures. They strive for welfare and for wealth not because they see the highest value in them but because they know that all higher and inner culture presupposes outward welfare.... Not out of irreligiosity do they demand religious freedom but out of deepest intimacy of religious feeling, which wants to make inner experience free from every raw influence of outward power. They demand freedom of thought because they rank thought much too high to hand it over to the domination of magistrates and councils. They demand freedom of speech and of the press because they expect the triumph of truth only from the struggle of opposing opinions. They reject every authority because they believe in man. (p. 215)

This book, written so long ago, offers important insights to us today for understanding current problems. Professor Yeager provides a helpful introduction explaining the European background situation at the time Mises was writing. This early work is a worthy addition to the collection of Mises books available in English. Mises himself realized its importance, for he referred to it as follows in his 1940 recollections:

> It was a scientific book with political design. It was an attempt at alienating the affections of the German and Austrian public from National-Socialist [Nazi] ideas, which then had no special name, and at recommending reconstruction by democratic-liberal policy. My book remained unnoticed and was seldom read. But I know that it will be read in the future. (*Notes and Recollections,* p. 66)

Now that *Nation, State, and Economy* has been rendered into very readable English by Professor Yeager, perhaps that future is here.

NATURAL RESOURCES: BUREAUCRATIC MYTHS AND ENVIRONMENTAL MANAGEMENT

by Richard L. Stroup and John A. Baden
(Pacific Institute for Public Policy Research, 635 Mason Street, San Francisco, CA 94108) 1983
148 pages ■ $25.00 cloth, $9.95 paperback

Reviewed by Brian Summers

THE battle lines over environmental issues seem to be clearly drawn. On one side stand private landowners and businessmen, supposedly bent on plundering natural resources. Opposing them are government bureaucrats, who seem to form the environment's last line of defense. Almost all environmentalists side with the bureaucrats.

But according to Richard Stroup and John Baden, the environmentalists are on the wrong side. Private owners face economic incentives which are fundamentally different from the political incentives facing government bureaucrats. After carefully examining these incentives, the authors conclude that private ownership of natural resources offers the best hope for enlightened resource management.

Consider, for example, the 107 million acres of public forestland managed by the federal government. The bureaucrats in control, no matter how well intentioned, have no economic incentive to promote efficient timber production. Instead of logging where marginal returns are the greatest, the U.S. Forest Service responds to political pressures. Bureaucratic mismanagement squanders scarce resources, deprives the nation of needed lumber, raises housing costs, and increases the number of acres that have to be cut to produce a given amount of lumber.

But wouldn't private forest companies do even worse? Wouldn't they strip forests bare and then move on? Not if they owned the forests. As private forest companies such as Boise Cascade and Weyerhaeuser have shown, it is in their economic self-interest to maintain their forests and plant seedlings—if for no other reason than to sell the forest to the next private owner.

In addition to forestland management, Stroup and Baden analyze air and water pollution, toxic waste disposal, the development of fossil fuels, nuclear and alternative energy sources, wildlife sanctuaries, rangeland management, and water resources. Through the use of basic economics and concrete examples, they make a compelling case for private ownership in a market economy as the best possible solution to environmental problems.