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The Individual in Society

SEEN from the point of view of the individual, society is the great means for the attainment of all his ends. The preservation of society is an essential condition of any plans an individual may want to realize by any action whatever.

Even the refractory delinquent who fails to adjust his conduct to the requirements of life within the societal system of cooperation does not want to miss any of the advantages derived from the division of labor. He does not consciously aim at the destruction of society. He wants to lay his hands on a greater portion of the jointly produced wealth than the social order assigns to him. He would feel miserable if antisocial behavior were to become universal and its inevitable outcome, the return to primitive indigence, resulted.

Liberty and freedom are the conditions of man within a contractual society. Social cooperation under a system of private ownership of the means of production means that within the range of the market the individual is not bound to obey and to serve an overlord. As far as he gives and serves other people, he does so of his own accord in order to be rewarded and served by the receivers. He exchanges goods and services, he does not do compulsory labor and does not pay tribute. He is certainly not independent. He depends on the other members of society. But this dependence is mutual. The buyer depends on the seller and the seller on the buyer.

—*Ludwig von Mises*

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Dean Russell

Free Markets and Human Freedom

WHERE the market is freest, human liberty is highest. If labor is controlled (e.g., slavery), there is neither a free market nor freedom. If capital is controlled (e.g., government ownership), you can't produce without permission; that's not freedom. The free market economy and human freedom are mutually dependent; destroy one, and the other automatically falls.

Frederic Bastiat didn't write those precise words, but he clearly saw and described the relationship. And in the process of identifying the various institutions that have plundered the French people over the centuries, he dwelled at length on the disastrous consequences stemming from the actions of the only institution that can plunder *legally*—the government.

> Woe to the people who cannot limit the sphere of action of the state! Freedom, private enterprise [i.e., the market economy], wealth, happiness, independence, personal dignity, all vanish. . . . Throughout history, plunder has been practiced through abuses and excesses of government. . . . The only remedy is the progressive enlightenment of public opinion . . . . [which Bastiat believed to be "sovereign"] until the people finally come to realize that it is better to leave the greatest possible number of goods and services to be exchanged by the interested parties at freely negotiated prices in the market economy.*

While Bastiat developed his theme well indeed in that particular essay

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Dr. Russell, recently retired from a full schedule of academic work, continues free-lance consulting, lecturing and writing from his home in Westchester County, New York.

This is one of a series of articles examining current interventions of the welfare state in the light of warnings from the French economist and statesman, Frederic Bastiat (1801–1850).

*This extract (condensed and translated by me) is from the essay, "The Physiology of Plunder." *The Complete Works of Bastiat* (Guillaumin, Paris, 1878; vol. 4), p. 141 ff. This essay is also in the translation of Bastiat's book, *Economic Sophisms* (Foundation for Economic Education, 1964).

(and I especially recommend it to you), my objective is to apply the same principle to the activities of our own government in the United States today. I'll begin with a statement I'll be repeating several times in this chapter: Governments never control prices. No government ever has controlled a price. No government ever will control a price. It simply can't be done.

Governments control *people* (you and me) and nothing else. Governments tell the seller of a loaf of bread (or the owner of a rental apartment) what price to charge. Thus it's obviously the owner who's controlled; the price itself couldn't care less.

Freedom and the Market

Sometimes the specific price the owner must charge is the minimum. Sometimes it's the maximum. Sometimes the same price is both minimum and maximum. Whichever, it's never the price that would be determined by peaceful people freely exchanging their goods and services in the market place. And *always* the control is on the person who owns the product or service. The process is one of "people control," and (as Bastiat said) the inevitable result is loss of freedom, independence, and personal dignity—as well as the production of fewer goods and services.

Few Americans (when asked to identify the foundations of their freedom) will agree with me that it's basically the free market economy. Instead, they identify the source as our Constitution, or democracy in general, or religious teachings, and so on. In every case, however, they're identifying the results, not the cause. If you have a market economy, all of these desirable attributes necessarily exist or soon appear. If there's no free market, however, there's no possibility of a free press, or elections to change leaders, or any of the other freedoms we enjoy. For all freedoms (repeat *all*) depend on the existence of private ownership of the means of production in a free market economy where production is directed by the desires of the owners to earn a profit.

Since most people consider that statement both startling and questionable (admittedly it *is* a minority viewpoint), let's see how a reasonably well-educated and rational person could arrive at such a conclusion in today's socialistic world. In short, why do I persist in such an extreme viewpoint when probably more than 90 per cent of our educators, communicators, and religious leaders hold the contrary viewpoint?

Let's begin with this: Freedom for both religious and non-religious activities is guaranteed in the Russian constitution. It's a meaningless guarantee, however, because of the absence of private ownership and control of the means to implement freedom of religion in practice. For example, how can you have freedom of religion when you can't own a church? Or even rent one? Since all resources (all buildings) are owned in common, necessarily you must have the permission of the owner (government) to use the church building. Do you imagine that (even if the government gave you permission to use one of its church buildings) you could preach in it a sermon on "private ownership with responsible stewardship" as recommended in the Bible?

Private Ownership

When the Russian government assumed ownership of all the synagogues "for the benefit of all the people," freedom of religion for Jews automatically and necessarily disappeared, i.e., since their temples were henceforth to be used in the best interests of *all* the people, obviously they couldn't logically continue to be used by a group of zealots with a religion contrary to the idea of government ownership of all buildings and resources. True enough, the Jews are sometimes permitted (given permission by government) to attend services in one of the several synagogues owned and still maintained by the communist authorities. That arrangement is not exactly what we ordinarily mean by freedom of religion, however.

My thesis is that the free market economy is the key to all freedoms. In fact, the market and freedom are really synonymous terms. If the market is totally free, all presses and churches and assembly halls and speaking podiums are privately owned and are operated for a profit. Thus, each person can preach (or hear preached) whatever appeals to him. And anyone can pay to have published whatever idea he wants to write and circulate. But if private ownership is abolished, there's no possibility of freedom in those or any other areas, i.e., everything is necessarily by permission of the owner—the government, the police force.

For example, let's apply this idea to two nations where the economies are currently almost totally controlled, where all resources and all means of production and distribution are owned in common by all the people—Russia and Cuba. There is no freedom of any kind in either of those nations today. Freedom is a physical and mental impossibility that can't even be imagined there. While certain actions by the people (including church attendance) do have the appearance of freedom of choice, we must remember that those actions are necessarily by permission of the government, and can be rescinded arbitrarily tomorrow "for the good of the people who own everything."

In those unfortunate countries, no person can write what he pleases and have it published, or even send it through the mails to his own friends, without police permission. Nor can you hire a hall to make a speech, or to assemble together to hear a speech, without police permission. In neither country is there even a mechanism to establish a newspaper, much less a newspaper in opposition to government. Nor can you establish an opposition political party. Where would you meet? It's doubtful the government would offer you one of its halls to denounce the government. You couldn't even meet in a park or the woods; they're also owned by the people, i.e., the government.

No Personal Choice

There simply is no possibility of human freedom of choice when there is common ownership of all resources, including a place to stand on. When all resources must be used for the benefit of all the people instead of for the profit of the "greedy private owners," there's simply no "mechanism" you can use to practice your own brand of freedom of anything.

But imagine, if you will, what would be the inevitable results if the government could exercise no control over the peaceful economic activities of people in general. In short, imagine a market economy in those nations.

Publishers and editors could then be either for controls over the economy or against them. Even the editor who favored a *controlled* economy would be free to say so, if the market were free. Of course, many people would doubtless denounce those editors and publishers who made such proposals. But in a market economy where presses are privately owned and operated for a profit, there is nothing more they can do about it, except to refuse to buy the newspapers they disagree with and hope those papers go broke from lack of subscribers. In short, the press cannot possibly avoid being free in a free market.

Now reverse the situation again and imagine that all newspapers are owned in common (by the government) and are operated for the benefit of all the people. Imagine that private ownership and the market economy have been abolished. Obviously, there cannot be a free press under that arrangement. Just as the owner of *The New York Times* will never denounce himself in his own newspaper, just so will the owners of *Izvestia* and *Pravda* never denounce themselves in their newspapers. The situation presents a physical and intellectual impossibility for a free press when the government owns all of the presses.

As another example, try to imagine the existence of freedom of religion in a controlled economy of common ownership. Just how would you go about it *mechanically*? For example, the Latter Day Saints (Mormons) send their missionaries all over the world—literally to any nation they can get into. For the most part, those people preach personal responsibility for one's own economic welfare, the private ownership of property, the free market economy, and the responsibility of individuals and of the church (not the government) voluntarily to feed the hungry and house the homeless. Just where could they preach that philosophy in Russia, Poland, and Cuba? All pulpits are owned in common in those common ownership countries. Will "the people" (government) turn those pulpits over to a group dedicated to the opposite philosophy? They may do it—if you'll share your church equally with the devil worshippers.

Your church (whatever it may be) endorses private ownership and responsible stewardship. That religious philosophy cannot possibly be permitted unrestrained expression in any nation that endorses the concept of common ownership of property. If it were permitted to flourish, that subversive idea would quickly lead to revolution and the overthrow of government. In short, the public utterance of the free market philosophy could no more be tolerated as a religion than as an editorial policy in the controlled economy of common ownership.

The same reasoning holds true for speech, vote, and family life—as well as for every other human activity that involves differences of opinion. All the history I've yet read bears witness to that truism. And I can find no other answer in logic.

Nor can any constitution or bill of rights permanently stop the inevitable verdict. No legalities concerning freedom of press, speech, and religion have ever been able to stand permanently against the realities of an economy controlled by government. Obviously, the judicial branch of government can't long be permitted to pursue a course in direct opposition to the legislative and administrative branches of government, even in the unlikely event it wanted to. In one way or another, there must necessarily be at least a rough balance of agreement among all branches of government; otherwise, there could be no government.

Free Unions in Poland?

Lech Walesa discovered that reality in Poland when he had to use a government building for his union headquarters. (Remember, you can't buy, build, rent, or own a building in a "common-ownership" nation.) And when he wanted to print and distribute a pamphlet defending his union and denouncing the government's union, he necessarily had to go to a government printing press and ask them to do it. That arrangement simply couldn't last.

I spent five weeks in Poland during the build-up period that led to "Solidarity." I was astonished that so many Polish people (along with the vast majority of the American people) believed that a free union could exist in a common-ownership country.

It's possible to have a free and voluntary union in a market economy of private ownership. But there's just no way (even *mechanically*) it can exist under common ownership. "Solidarity" or common ownership (one or the other) had to go. I was saddened (but in no way surprised) at which one lost. Incidentally, I watch with great interest the ongoing and far-from-settled conflict between church and government in Poland. In due course, one of them has to go; for obviously, a free church can't exist under common ownership.

If the presses, auditoriums, and church buildings are owned or controlled by government, it is childish to imagine that there can be any freedom of press, speech, and religion. President Reagan saw this "press, speech, and assembly" reality when he was a presidential candidate in New Hampshire in 1980. Remember when he was scheduled to debate George Bush alone, and the sponsors of the debate wouldn't let the other candidates onto the platform? Ronald Reagan picked up the microphone and (on national television) announced that he had *paid* the private owners for the use of it, and that *he* would say who could use it.

At home from my easy chair, I stood up and cheered. For that's the essence of all freedoms. Someone *owned* the microphone, the podium, and the assembly hall—and rented them out at a profit. Freedom in a market economy works so automatically and smoothly that, if you were to thank the owner of that hall for his deep interest in preserving freedom of assembly, he wouldn't even know what you were talking about. His sole interest was the possibility of profit. And that's why you and I have freedom of assembly.

Farm Price Supports

Just as the government can't control prices (but only people), just so is it absurd to imagine that the government can support prices. Without exception, the only thing that any government can ever do is (in one way or another) control people, i.e., to prevent us from doing what we want to do, or to compel us to do what we don't want to do. Thus, it follows that the government's price support program for agriculture necessarily deprives farmers of their freedom. And it most surely does just that.

Here is a harsh and little understood fact: Because of price supports, freedom of agriculture in the United States really doesn't exist. That is, you can no longer grow what you wish to grow on your own land. If you have any doubt, try this experiment:

On any land that will grow tobacco, plant a few acres of it (even for your own use instead of to sell) without getting permission from government. You'll be fined or jailed (or both) for your antisocial and illegal action. Again, freedom follows the free market. When it's not free, neither are you.

And so it is with tariffs, subsidies, aid to all kinds of dependent people, and other government interferences with freedom of exchange. In every case, peaceful persons are deprived of their freedom to exchange their goods and services on mutually agreeable terms. In every case, we are deprived of a bit more of our freedom of choice.

All of us have lost our hard-won freedom to join or not to join organizations of our own choosing. Currently some 20 million Americans must belong to labor unions, whether the individual member likes it or not. The fact that you, yourself, may not now belong to a union is purely academic and perhaps temporary; the essential principle of no freedom of choice in the matter has now been firmly established and written into the law of the land. It is legally enforced by strikes, threats, and even bloodshed against those who are still naive enough to imagine that employers and employees in the United States are still free and responsible persons.

Perhaps you'll better understand the fearful danger we are in when you contemplate the implications of this fact: Compulsory unionism has long been broadcast to the world by our State Department's "Voice of America" as the very essence of freedom itself. Actually, that's what "Solidarity" in Poland was all about, i.e., it was a revolt against the compulsory unionism imposed by government on all employees. They objected, and tried to set up their own voluntary unions that no one *had* to join. That endeavor was no more successful in Poland, however, than it is in *most* states in our own country.

Let it be recorded that the card-carrying members of the Communist Party did not, and could not, do this to us, even though they surely wanted to. It was done primarily by our best people—our ministers, our teachers, our editors, our businessmen, and our most honest legislators. And it was inspired by the best of all reasons, i.e., the human desire to help one's fellow man.

Control of People

Those good people forgot, however, that the only thing any government can ever do, even in its proper function of preserving the peace, is to control people—to compel us to do what we don't want to do, or to prevent us from doing what we want to do. That procedure is, of course, the proper way to stop murderers and thieves and rapists; for clearly, the police powers of government should be used to prevent those antisocial people from imposing their desires upon others by violence. But when the same powers are used against peaceful persons in their peaceful activities, freedom is always and undeniably infringed.

For example, every American has lost his freedom to save or to spend his earnings as he pleases. Our government compels all of us to "save" (actually, it's a tax) a portion of our wages and salaries—that is, the government taxes away a portion and promises to give it back (sometimes more, sometimes less) at some later date. This compulsory scheme is called Social Security, and it is generally cited as the essence of true freedom for the people. Perhaps as many as 75 per cent of the American people are now in favor of this loss of personal choice (freedom) and would categorically oppose any suggestion to return to a situation in which each person is responsible for his own welfare in a market economy.

And so it goes—through hundreds and thousands of government prohibitions and compulsions in the peaceful economic affairs of men and women. Without exception, every one of them is a direct loss of freedom of choice and responsibility.

Again (remember, I promised to repeat this several times) the only control that any government can exercise is people control. Any attempt to control things must necessarily involve the control of people, and that is undeniably a loss of freedom.

Most of the editors in the United States scoff at my fears. "We will always preserve freedom of the press," they say, as they advocate additional government compulsions and prohibitions in the market, including postal subsidies to themselves.

In their sermons, most of our ministers promise us that "our hard-won freedom to worship as we please will never be lost." At the same time, they suggest that the police powers should be used to perform still another charitable service that was once believed to be the responsibility and pride of our churches.

And invariably, as the legislator demands still another interference in the market place, he thunders this familiar theme: "The people will never lose their right to vote as they please."

And true enough, those four precious freedoms of press, speech, franchise, and religion appear to be strong in the United States today, even though freedom itself is in great danger. That seeming contradiction is explained by this fact: We still operate within the framework of a market economy. It still survives in spite of the increasing attacks upon it. In spite of the fact that government now taxes and spends more than one-third of the combined in-comes of all persons, the market processes of competition, pricing, profit and loss still generally prevail. In spite of the fact that governmental controls over the economic affairs of all of us are steadily increasing, the long-established order of the market still prevails to a large extent. (Perhaps we should be thankful that the federal government doesn't yet actively *produce* anything, except electricity in Tennessee and money in its mints.)

But somewhere along the line, our essentially free economy must drift into an essentially controlled economy, if the present trend continues. That will be the end of human freedom in the United States, and probably in the world. All other freedoms—press, speech, franchise, religion—must necessarily disappear with the loss of the free economy. For the fact remains: In a totally controlled economy, it is not the economy but the people who are totally controlled.

Clarence B. Carson

A Credit Expansion

Economy

WE have a penchant for naming things around my house. For example, at one time we owned two Chevrolet Impalas. The more ancient of the two we dubbed The Old Impala, and the one of more recent vintage The New Impala, though the latter was only "new" by comparison. These names evolved as a shorthand for distinguishing between the cars. Of course, we name any pets who take up with us, though lately we appear to be running out of names. At present, we have an all white tomcat, whose name is Kitty, and a terrier of some sort whose name is Mutt. The way things are going, it would not surprise me that if we had a male child he would be named Boy.

While we may be unusually deficient in devising imaginative titles, my family is not much different from other people in its penchant for naming things. It is a trait common to the human race, and one which aids discourse greatly. By naming things we distinguish them from others, provide a convenient individual reference for them, and either recognize or accord individuality to them. The more precisely we identify them with names the more accurate is our discussion about them, assuming that accuracy is our aim. This last is especially the case when it comes to such things as patterns of action, trends, developments, and other so-

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cial phenomena. These tend to be somewhat amorphous quite often, and naming is a part of the process of getting a handle on them.

Now to the subject at hand. Ours is a credit expansion economy. Indeed, credit expansion may be the feature which distinguishes it best from others and is in many ways the most crucial aspect of our economy. A credit expansion economy is one that is geared to and more or less dependent upon continual (if not continuous) credit expansion. That is not to deny the applicability of such terms as interventionist economy, welfare state, a managed economy, and the like, to describe our present hodgepodge economic system.

The Moving Force

But I am not looking for a new term or phrase to describe the whole vehicle, so to speak. Rather, I am trying to get a handle on the mainsail, the oars, the propeller, the motor, or the motive power that is peculiar to our economy. Not, mind you, what moves people to produce or trade—these are market phenomena, not peculiar to any contemporary economy—nor what moves government to intervene, but rather the key or central mechanism of the intervention. I believe that an apt name for it is credit expansion, and that the use of the name may help to bring some things into focus more clearly than we can without it.

It may be objected that what I am here calling credit expansion has already been clearly identified and has a name. It is none other than inflation, and an economy geared to it could be called an inflationary economy. That might be so, *if* certain things were accepted. If it were commonly accepted and generally agreed that inflation means increasing the money supply (including credit expansion) the terms might be made to serve the descriptive purpose I have in mind. However, that is by no means the case.

When President Reagan declares that his administration has brought inflation under control, he is clearly referring to price increases, not to monetary or credit expansion. Newscasters and almost all public commentators use the word in that meaning, as do most people in conversation. Even those who are aware that monetary increases are the cause of the general price rises are inclined to think of them as the cause of price increases rather than inflation. Trying to use the word in its original signification is somewhat like spitting into a contrary gale force wind. It doesn't get very far.

But even if the term inflation had not been so widely appropriated for referring to price increases, I think it would be useful to refer to our economy as a credit expansion economy. However it is employed, inflation is a generic term, and historians, at least, need terms to refer to particular cases. It is highly useful, for example, to name each particular war, for instance World War I, although generically it was clearly a war. All credit expansions are probably inflationary (whatever the word is taken to mean), but not all inflations have been achieved by credit expansions.

In any case, we need a name for the central operative feature by which government attempts to exert control over and spur our economy. My nominee is credit expansion. There can be no reasonable doubt that we have had, and have, an ongoing credit expansion in the United States. The impact of the credit expansion, and its ongoing character, can be seen most clearly in the rise of the national debt since the early 1930s. At the end of the fiscal year 1930 the national debt was slightly under $16.2 billion. By 1940 it had risen to nearly $43 billion; by 1950 to over $256 billion; by 1960 to over $284 billion; by 1965 to just under $314 billion; by 1970 to over $370 billion; by 1975 to over $533 billion; and by 1979 to over $826.5 billion. Between 1979–1984, the national debt has approximately doubled, and in recent action Congress raised the debt ceiling just above $1.8 trillion. If this continually mounting debt were plotted on a graph, it would provide about as clear a picture as we could get of what is perhaps the most important dimension of the ongoing credit expansion.

Obviously, if there is debt, there must be credit which has been extended in equal amount from some source or sources. And if the debt has continually mounted over a period of more than fifty years, there must have been a credit *expansion* which made it possible. In fact, that has been the case. The means did not exist in 1930 from all available sources to provide $1.7 trillion, say, in credit to the United States. Nor have the liquid resources been adequate to provide the credit increase from $16 billion to $1.7 trillion. The major portion of the increase has come from *credit* expansion. To put it another way, the major portion of the debt increase did not result from borrowing from savings; it arose instead from the expansion of credit, *per se*.

Monetizing Debt

The credit expansion, *per se*, takes place by monetizing debt. Monetizing debt can be visualized concretely in this way. A borrower executes a note for a certain amount of money which he proffers to a creditor. The creditor runs off the amount of paper money desired on a printing press and gives it to his debtor. Thus, a debt would have been monetized. Credit would have been expanded by increasing the supply of currency. The trouble with this simple illustration is that it is misleading. It equates the increase of the supply of currency with credit expansion. Whereas, in our system, the increasing of the supply of currency, i.e., Federal Reserve notes, is an adjunct only to credit expansion, not the thing itself. The total of currency in circulation is to the total credit as cash flow is to the total assets of a corporation, say. Indeed, credit expansion is much more nearly an increase above the amount of currency in circulation than it is any increase in the currency. The increase in currency is always only a small portion of the total of the credit expansion. In our system, it is usually that amount reckoned to be sufficient for cash holdings and transactions.

What I am here calling credit expansion usually occurs upon a basis of a fraction of reserves of savings against the total of the amount of credit. Credit can be expanded either by increasing the reserves of savings or reducing the fractional amount required against credit extended. From one point of view, then, the credit expansion (that portion of credit extension beyond the actual savings) is created out of thin air. In effect, however, the credit expansion is achieved by debasing the currency. In practice, as the credit is expanded, each unit of our savings is reduced in the amount it will buy to give the created credit its buying power. Hence, credit expansion is the other side of the coin, so to speak, of the debasement of our currency and its declining purchasing power.

The expansion of credit is done by banks in the United States. Indeed, banks, or bank-like institutions, have exclusive franchises to expand credit by fractional reserve procedures. Although commercial banks, i.e., banks of deposit, are central to this undertaking, an assortment of other banks, public and private, play some role in it. The lynchpin of the credit expansion system is the Federal Reserve system, whose active arms are the regional Federal Reserve banks. These banks can expand credit in a variety of ways: by rediscounting the notes held by member banks, thus increasing their reserves; by raising or lowering the reserve requirements of member banks; and by buying government securities. Federal Reserve notes are our paper money now, and they can undergird credit expansion by increasing the currency supply.

A Spending Spree

This credit expansion system provides the life blood of the American economy today. It has made credit expansion the key ingredient to such prosperity as we can expect to have. Credit expansion not only fuels an increasing proportion of government spending but also much of private spending as well. While the national debt best exemplifies the vast credit expansion that has taken place, credit expansion is entailed in public and private debts, as well as foreign loans and support by the United States of international lending institutions. (Private debts differ significantly from public, in that private indebtedness fluctuates, and individuals and organizations actually retire portions or all of their debts from time to time. Thus, private debts are not dependent on an ongoing increasing credit expansion to the same extent as the government debt is.) Credit expansion provides the means for the purchase of a large portion of durable goods in the country, fosters the concentration of wealth to provide the capital for industrial expansion, and spurs demand through government redistribution programs.

But to see most fully that the American economy has become a credit expansion economy, it is necessary both to consider the role of money in the economy and the impact of credit expansion on the money. Money plays, or has played, three fairly distinct roles in society. It is, first and foremost, the medium of exchange. That is, it is ordinarily that through which exchanges of goods for goods are effected. Second, money is that in which the prices of goods are expressed. (This has sometimes been described as the "standard of value," but since this is somewhat more controversial as a formulation, I will say only comparative valuations get expressed in the market as prices.) Third, money has historically been used for saving, or, in the conventional phrase, for the storage of wealth.

A Money Economy

Ours is basically a money economy. That is, our economy is based on exchanges of goods for goods and services (or goods) for services. As individuals and families we ordinarily produce only a few, if any, of the numerous goods that we use. Instead, we usually specialize in producing some good for the market and in turn buy in the market the goods that we want. The medium through which we effect the exchanges is money. Hence, ours is predominantly a money economy.

Today, however, to say that we have a money economy translates correctly as a credit expansion economy. Our currency today is not money in any but a residual sense of the word. It is the paper residue of a long term credit expansion which has turned our money into credit. Thus, when we make exchanges, we exchange our goods for credit and exchange credit for goods. I am not referring simply to the widespread use of credit cards and checks in transactions. They are excellent symbols of what has happened, but if every transaction was made in cash the above statement would still hold. Our currency is no longer backed by anything; it consists of bills of credit, to use a phrase from earlier times. This may be made clearer by describing how the transformation took place.

Early Days of the New Deal

The first major steps toward demonetizing United States currency occurred in the early days and months of the New Deal (1933). Prior to that time, the main currency had been redeemable in gold. The government called in all gold and all currency redeemable in gold. These were paid for with Federal Reserve notes, which thereafter became the general currency in this country. These notes were forced into circulation by making them legal tender, invalidating all contracts calling for payment in gold, and prohibiting ownership or transactions in gold except for those especially licensed to do so. Even so, the currency was not completely demonetized in 1933 and the immediately ensuing years. The Federal Reserve banks were still required by law to hold gold reserves in some sort of relationship to their issues of notes. Moreover, the government put itself in position to defend the dollar abroad in gold, when it became necessary to do so. Actually, it was not necessary for quite a while. The government raised the price it would pay for gold from $20 to $35 per ounce (devaluing the dollar technically), and in the ensuing years much of the gold in the world was drawn into the United States.

The dollar had been only partially demonetized. In a roundabout way it was still being partially backed by gold. It had some silver backing as well. The subsidiary coins, several of them, had significant silver content. Also, the government issued $1 silver certificates which could be redeemed in silver. No doubt about it, the currency had been debased, and the situation would worsen in the ensuing decades, but it was still in some degree monetarily backed. Moreover, control over the money had shifted from the people to the government.

However, with the ongoing credit expansion and the supporting increase of the currency, the monetary base of the currency could not be maintained. In the late 1960s and early 1970s, the government ceased to support the dollar at any fixed ratio of precious metals, both at home and abroad. The subsidiary silver coinage was replaced with a base metal alloy—cupra-nickel. The government called in the silver certificates by fixing a date after which it would not redeem them in silver. This was followed by refusal to defend the dollar abroad at any fixed ratio to gold. Not even the residue of backing in gold or silver remained after 1971.

The United States had fullfledged fiat money, i.e., money by government decree, money because government by its tender laws proclaimed Federal Reserve notes to be money. While the phrase does aptly describe the relation of government power to the currency, it is doubtful that this paper currency should be dignified by the name of money. The only base on which it is issued is credit. It is basically credit extended to the government in return for debt instruments, i.e., government securities. Thus, the older phrase, bills of credit, much more precisely describes Federal Reserve notes.

These notes do serve some money-like functions; they are in that sense as-if money, if you will. They can be used as if they were money. Thus, Federal Reserve notes serve in a fashion as a medium of exchange. We exchange goods for them, and take them in exchange for our goods, or at least to the casual observer, that is what we appear to be doing. That is more appearance than reality, however. What we actually do is give *credit* for payment to those who give us the notes in return for some good, or receive *credit* for payment from those who have sold us some good. This character of the transaction is borne out by the language on Federal Reserve notes: to wit, "This note is legal tender for all *debts*, public and private." Granted, one of the functions of money is to extinguish debt; it is an after-the-fact function of a medium of exchange. Indeed, it attributes much more to a medium of exchange than the market ever would. It is a legal concept, not a market concept. In the market, the creditor and debtor may fix by agreement what amount of goods will satisfy the debt. Any legal good or service may be specified. By contrast, Federal Reserve notes are legal tender for *all* debts. Be all that as it may, Federal Reserve notes do serve as a medium of exchange for extinguishing debt.

Federal Reserve Notes

In this sense, Federal Reserve notes are a simulacrum of a medium of exchange, bearing a faint or residual resemblance to a medium. They offer credit only in exchange for goods, not a quid pro quo. That in itself might not matter, but they are not promises to pay in any specific amounts of any good. Hence, the person who accepts them does so in the hope only that he can trade them for some good that will provide him his quid. Of course, if he is going to extinguish a debt with the Federal Reserve notes he receives, which is more than likely in a credit economy such as ours, he does get a known quantity. Otherwise, he has accepted a raffle ticket, so to speak, in exchange for his goods. It will bring only what it will bring, if anything, when it is offered in the market for goods. If it be objected that such is the case, too, with goods, the answer is, yes, but they are goods already and do not need to be exchanged for something to have that status; whereas, paper currency—Federal Reserve notes—is not a good. It is only credit.

But if our bills of credit are unsatisfactory in their prime function as a medium of exchange, they are even less so in performing the other functions of money. The second function of money, as I said, is to serve as that in terms of which prices are expressed, or relative valuations of goods are made. Our Federal Reserve notes do that job very poorly and often produce confusion rather than clear signals in the economy. Prices of goods fluctuate in any case. Normally, however, the fluctuations of prices indicate changes in supply or demand or both (at different rates) of particular goods.

Thus, a rise in price of a good may signal to producers the desirability of increasing their production. On the other hand, a drop in price may signal declining demand for a particular good. When the currency consists of bills of credit in an ongoing credit expansion, rises in prices may signal nothing more than another expansion of credit. Relative valuations may be more than a little confused as well. While prices may be rising in general, they do not do so in lockstep fashion but rather within the exigencies of particular businesses as the effects of the expansion are felt there. Prices tend to become ephemeral, continually changing, usually upward, with no readily discernible distinctions among the things impelling them on their course.

A Store of Wealth?

In regard to the third function of money—as a storage of wealth—bills of credit tend to be much more nearly anti-money devices than they do money. In an ongoing credit expansion such as ours, the currency is almost continually depreciating. As the credit expands, any given unit of the currency tends to buy less and less. In consequence, storing it is somewhat like storing a perishable commodity. It must be used immediately after it is obtained, or it will become progressively worth less and less. A dollar earned in 1970, say, and simply saved without interest, would have shrunk in purchasing power to about 30 cents by 1984. And that does not take into account any appreciation that might have taken place in a stable currency as the result of efficiencies in production.

In sum, then, it is highly doubtful that our Federal Reserve notes qualify as money. To call them fiat money is almost equally doubtful, for the phrase suggests that government can create money by fiat, when in fact it has only created bills of credit. These bills of credit are to money as cupra-nickel is to silver. To call them money only serves to hide from us the full function of a commodity money. It obscures, too, the working of the process by which our currency becomes worth less and less as it sinks to its true level, which is worthless. Worst of all, by calling Federal Reserve notes money, we hide from ourselves the fact that we do not have any money. We have credit instead, and that credit rests on the one hand on our desiccated savings in dollars and on the other on our mounting national debt. We have a potential avalanche of paper which is ever increasing as credit is expanded and debt increases.

This precarious condition has been arrived at by taking away from the American people control over their own economic affairs. Government has usurped that control over their affairs which people had when they had a currency based on precious metals. It has taken their money from the people and given them in its place bills of credit. The currency has been thoroughly institutionalized by making virtually all banking and credit institutions the instruments both for putting the currency into circulation and for credit expansion. Since much of this has come about gradually and has been going on for the better part of a lifetime, it is difficult for most of us to conceive how things could be different from what they are, or begin to grasp the full advantages of having actual money in our possession. We have been thoroughly acclimated to play money, as it were, or, as children would say, "play like" money.

Precious Metals Lend Stability

Money backed by precious metals can be saved, and, even if it is not loaned out for interest, the amount it may buy may increase with productivity. Since the amount of it does not increase at will, prices which are measured in it tend to remain fairly stable except for shifts in supply and demand. Thus, changes in prices tend to be good market signals. Wages may increase in the amount of goods they will buy even though the monetary amount of them may remain the same. Raises in wages or increases in income indicate real increases rather than futile attempts to catch up with the depreciation of the currency. Transactions can be completed on a quid pro quo basis, although one party pays in money, for when the currency is either precious metals or redeemable in them, goods have been traded for goods, even though the money may be used later to purchase other goods.

Moreover, unless some fractional reserve system is used to increase the currency, there need be no business cycles occasioned by expansions and contractions of the currency. And, government indebtedness can be checked by the necessity of appealing to those private persons or groups willing to make loans. The debt could not grow and grow, for none could be found to make the loans to sustain it. Both public and private would have to live ultimately on current income plus savings, not upon credit expansion.

As matters stand, however, government power has been vastly augmented by its arbitrary control over the currency. It can increase the currency at will, and thus ultimately destroy what we have by way of a medium of exchange. It can expand credit more or less at will, and with that power often exercise decisive control over the economy. Attempts of government to manage the economy are centered in this power to expand or contract credit and to increase the currency. It can often spur economic growth by expanding credit, or slow it down by contracting credit. More precisely, it can take actions aimed at doing these things and create havoc within the economy.

How Monetary Manipulations Affect Individuals

Economy is an abstraction, of course, and the actual impact of these manipulations falls upon people. Individuals, families, and groups are caught in the matrix of these manipulations. Their freedom and independence is curtailed and circumscribed by the credit activities of government. Since their currency continually deteriorates, they turn to all sorts of expedients to minimize the impact and to somehow guard what they have gained from dissipating. They buy common stocks, invest in land, purchase jewelry and precious stones, seek the highest interest rates they can find on their savings—ever questing for something that will appreciate to offset the currency depreciation.

The credit expansions and contractions produce wave-like alterations in industrial activity, temporary expansions alternating with contractions with their shutdowns and bankruptcies. Farmers shift from crop to crop in desperate efforts to read correctly the confused signals of distorted markets. But of course there are hundreds of interventions in the market, in addition to credit and currency expansion. All these interventions confine economic activity and channel activities within the framework of what freedom remains.

The master intervention, however, the intervention by which government has planted its power at the heart of all productive and exchange activity, is control over the supply of credit, upon which we must depend for facilitating exchanges in the absence of commodity money. Thus, we have essentially a credit expansion economy.

There are a host of infelicities, inequities, and dangers in a credit expansion economy. Many of them have been detailed by writers who have explored them, usually in connection with inflation. But I will conclude this discussion with some remarks about what I suppose is the greatest economic danger. I have suggested already that this vast credit expansion can be thought of as a mountain of paper precariously perched so that it can become an avalanche. Our system of credit expansion built upon fractional reserves and a fraction of currency to the total of the debt is highly vulnerable to a liquidity crisis. To put it bluntly, if a large number of people demanded cash for their claims at the same time, the mountain of credit would come tumbling down.

FDIC Offers No Safeguard Against Liquidity Crisis

The United States government has erected safeguards against such a liquidity crisis, the most notable of which is the Federal Deposit Insurance Corporation. The great difficulty with this, however, is that in this case the very safeguard could become an instrument of destruction. If large numbers of people demanded cash from credit institutions, the most immediate result would be a great credit contraction as the reserves against credit were withdrawn. If the FDIC intervened, as it almost certainly would, both to make good on its insurance promises and in a desperate effort to forestall some sort of crash and depression, it would quickly exhaust its own reserves. If the government came to the rescue by printing large quantities of paper money, it could well set off hyper—or runaway—inflation. In short, our intricate and vast credit expansion has us poised between a debilitating credit contraction and runaway inflation. The great expansion of branch banking in many states in recent years, the portending interstate banking, and huge loans, both foreign and domestic, increase the likelihood of the kind of bank failures which could trigger a liquidity crisis.

The above is not a prediction; it is only a scenario of what may be the most probable course to a collapse. How and when the collapse will come, or what particular consequences will follow, we cannot know in advance. That it will collapse is approximately as certain as that a balloon will eventually burst if more and more air is blown into it. If, instead of an indirect credit expansion, we had inflated more directly by issuing huge quantities of unbacked paper currency, a runaway inflation would long since have wiped it all out. By resorting to an intricate, complex, and sophisticated credit expansion, supported by a fractional increase of the actual currency, the whole process has been strung out almost indefinitely. But indefinitely does not mean forever; it only means that we do not know when the string will run out.

Whatever the future holds, it is high time we face squarely what has been going on with as precise language as can be had. It needs to be very clear that the villain of the piece is not rising prices. We need to understand, too, that there is more involved than increases of the currency; that is a necessary adjunct to it but not the whole thing. The villain of the piece is an ongoing credit expansion which has produced a credit expansion economy. When we think of it that way we can see more clearly that we have substituted credit for money, and built a Frankenstein credit economy which holds us in its grip. Once we see that clearly, we may be able to see that the way to loosen that grip and regain control of our own financial affairs is to restore commodity money, reduce our debts, and bring credit under control.

One of the lesser credit organizations sponsored by the United States government is entitled the Production Credit Association. I think the United States government has become a Credit Production Association. We need to get the government out of the business of credit production, allow the economy to be devoted to its appointed task of producing goods in terms of supply and demand, not pushed this way and that by credit expansion, and allow prices to signal the market conditions. To call what is going on credit expansion helps me to see that more clearly.

Robert Awenius

The Forgotten Man

IN the last ten years of the 19th century and the first ten years of the present the American republic was thrust into a great drama of American Destiny carried to the far reaches of the world. America breached the trade barriers of Japan and China, and after winning the Spanish-American War, wrenched Cuba and the Philippines from Spain. The Philippines became an American colony and the idea of American Destiny moved strongly across the Pacific Ocean. We witnessed American imperialism; we were told it was our duty to carry the American concept to the world.

We strongly backed freedom for the Philippines, placing at one time as many as seventy thousand troops there and later sending ten thousand young American teachers and experts on sanitation, nutrition, tropical medicine, and agriculture to improve living conditions and wipe out disease. This Philippine adventure was a great pivot-point in American history, and as was stated by Richard O'Connor in his book *Pacific Destiny*:

> It signaled our determination to gain and hold supremacy in the Pacific and over as much of Asia as our military power could sustain. The consequences of that move have involved us in three wars so far and promise an unending, possibly unavailing conflict on the Asian littoral.[1]

Not all persons approved this stated American notion of world power. One great voice in opposition was a crusty conservative Yale Uni-

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versity professor named William Graham Sumner, who based his opposition on humanist grounds. His voice was prophetic because what he said also relates to the title piece of this article. Sumner's reasoning is put this way:

> The Forgotten Man, to whom he referred continually in his essays, was not the slum-dweller but the person who paid his bills for what later sociologists would term the disadvantaged. The Forgotten Man of Sumner's canon was the one who "just when he wants to enjoy the fruits of his care, is told that it is his duty to take care of some of his negligent neighbors, . . . but the point now is, that if preaching and philosophizing can do any good in the premises, it is all wrong to preach to the Forgotten Man that it is his duty to go and remedy other people's neglect. It is not his duty. It is a harsh and unjust burden which is laid upon him, and it is only the more unjust because no one thinks of him when laying the burden so that it falls on him. The exhortations ought to be expended on the negligent—that they take care of themselves."[2]

Sumner was saying that the millions of dollars of American wealth and resources spent on military and civil affairs at home and abroad were paid by the Forgotten Man, and that this burden was imposed upon him as a duty. His thesis went beyond application to the bellicose events of his era, since he meant his general theory to be applied broadly to all acts of the state.

So, likewise in the field of political science and sociology, the Forgotten Man is the common man who after working hard and paying his bills and taxes is told by the liberal establishment (oftentimes his government) that it is his "further" duty to become responsible for all the unfortunate persons, institutions, or other entities who, through negligence on their part or for other reasons, look to the government for their support.

Here, for example, is the teen-age girl who becomes pregnant outside of wedlock. In the view of many, if she has no funds for an abortion or for childbirth, these expenses must be paid by the state. And, further, when she goes on welfare she will receive Aid to Dependent Children (ADC) until the child's eighteenth birthday. All of this is to be paid by the state from taxes of the Forgotten Man.

The Forgotten Man is told, also, that his taxes are needed to provide housing for families whose breadwinner fails to provide.

The farmer who produces more grain than the market will absorb at support prices is told by his government that his grain can be stored as collateral for a commodity loan, with the loan proceeds coming from the Federal treasury, and supported by the Forgotten Man's taxes.

The arts and humanities groups (museums, symphony orchestras, theaters, painters, sculptors, writers, etc.) claim they are entitled to receive—and do receive—millions of dollars of government aid. And all this comes from taxes paid by our Forgotten Man.

He is told that certain categories of citizens—and even non-citizens—are entitled to have legal counsel furnished by the government, and this expense is to be borne by him through his taxes.

He is told that certain classes of citizens are entitled to food stamps, and he must pay for this through his taxes.

Our Forgotten Man is told that when a large national bank in a great city makes ill-advised energy loans that jeopardize the bank's capital structure, the federal government should infuse billions of his tax dollars into that bank in order to save it.

In short, he is advised by liberal spokesmen that all the poor and unfortunate of the land should be taken care of by the government, and that he (the Forgotten Man) should pay for all this. Never mind whether many of the poor and unfortunate became so through their own negligence.

The Forgotten Man is told that besides managing his own life he also should manage others' lives. In that regard the late Leonard E. Read stated, "Managing one's own life is complex enough; managing the lives of others is impossible."[3]

And to support all this government spending again the Forgotten Man is called upon:

> He is the Forgotten Man. If we go to find him, we shall find him hard at work tilling the soil to get out of it the fund for all the jobbery, the object of all the plunder, the cost of all the economic quackery, and the pay of all the politicians and statesmen who have sacrificed his interests to his enemies.[4]

Human Motivation

The Forgotten Man of whom we speak is in fact a very uncommon man in view of the burden cast upon him. He is a man of utmost integrity, and he has been so since civil social experience began. He has searched for certain ends and purposes in life and sought to reach them. He does not welcome all the burden that so many well-meaning people impose on him, since he places first in all his thoughts the provision for his own family's welfare. The history of mankind shows this strong incentive is continually reduced by the state, as well stated by Russell Kirk in his book on Conservatism:

> A . . . motive always has been the desire to provide for the welfare of one's own family and heirs; but the assumption by the state of the functions of education, economic management, and responsibility even for foods-supply and housing, has diminished the responsibility of the individual here, while taxation has hacked at the very foundation of the idea of bequest.[5]

Today, as at the turn of the century in Sumner's time, the Forgotten Man is paying the public cost of those who do not pay their share. In the Forgotten Man we behold the principle of dualism present in every person who pays his expenses and also those of the state. "He will . . . accept heavy taxation if he feels it necessary for the maintenance of Society, yet make every legitimate effort to keep his own contribution as low as possible."[6]

This is the same Forgotten Man who during the war years of the nation does all of the fighting and most of the dying. In many of these wars he is told he is fighting for democracy, when in many cases the countries he is trying to save do not know the meaning of democracy.

When we are discussing the rights of our Forgotten Man, we are dealing in the field of civil liberty. In this respect William Graham Sumner ably stated it this way:

> The notion of civil liberty which we have inherited is that of *a status created for the individual by laws and institutions, the effect of which is that each man is guaranteed the use of all his own powers exclusively for his own welfare.*[7]

All of history and philosophy tells us that the free citizen in a democracy should be guaranteed the exclusive enjoyment of all that he produces through work. It certainly is not the function of the state to make men happy; they must do it in their own way, and at their own risk.

The Oppressive State

For the Forgotten Man to be told by his own government or by other spokesmen that he has a duty to support others who do not support themselves, is to accept dictation by a privileged class that is asserting itself to create an immoral political system. This imposes upon his earnings an ill-defined duty to make others happy. Our Forgotten Man rebels at this duty others cast upon him because he wants the state to be kept within reasonable bounds of power and function. He full well knows that the state has a tendency to become oppressive.

The social doctors focus their attention on a group of people—the poor, minorities, workers—appealing to sympathy and imagination, and devising programs to care for them. They (the social doctors) set in force motion and forces that react throughout the entire fabric of society, and in the furtherance of their grandiose plans ignore the effect upon other members of society. They have developed the myth of a government competent to solve problems. They forget "that the State cannot get a cent for any man without taking it from some other man, and this latter must be a man who has produced and saved it. This is the Forgotten Man."[8]

Their programs thus shift capital from one group of men to another. The men from whom the capital is taken, individually, are the Forgotten Men. This transfer takes from one and gives to another, who performs no productive effort to earn the property that comes his way. The property transferred—usually money—is diverted from productive use. The person who produces this property is our Forgotten Man. This largess brings to mind the illustration of a man who gives a hungry man a fish. The better plan for the small philanthropist to follow here would be to give the hungry man a fishing pole and teach him how to fish. When he is hungry again, he will fish for his meal and not ask for a handout. Sumner phrases the situation in this manner:

> There is an almost invincible prejudice that a man who gives a dollar to a beggar is generous and kind-hearted, but that a man who refuses the beggar and puts the dollar in a savings-bank is stingy and mean. The former is putting capital where it is very sure to be wasted.[9]

In the above example the man who placed the dollar in a bank will start a process of the dollar going into the labor market as a demand for productive services. The real party in interest is the man who performs the productive service. He is the Forgotten Man. He is the one who the social doctors never think of when they lay their plans.

The way to keep the state within bounds is to restore to the individual his sense of self-reliance and the control of his private property and right to inheritance:

> The conservative is no anarchist; he knows that the just state, kept within reasonable bounds of power and function, is a force for our common betterment; but today the danger is that the state shall become all, quite as oppressive as the danger, in other times, that the state might waste away to nothing.[10]

The state certainly has a proper interest in expanding the opportunities for its free citizens to pursue their happiness. In this free democratic society, of which we speak, the only duty a free man has to other men of his same rank and standing is to render the others respect, courtesy, and good-will; here his duty ends. In other words, what we are saying is that men who have not done their duty to others in the world never can be equal to those who have done their duty tolerably well. The class distinction which we see in a democratic society results from the different degrees of success whereby men have utilized their chances from opportunities placed before them. Sumner, again, says it well: "Instead of endeavoring to redistribute the acquisitions which have been made between the existing classes, our aim should be to *increase, multiply, and extend the chances.*"[11]

If, as a nation, we try to satisfy every demand put forth by the social planners who endeavor to help the "poor," we'll learn that there is no way to meet such a ravenous appetite. We might just as well try to bail out the Atlantic Ocean with a sieve.

At every step in the process of government, we should examine the effect on the Forgotten Man, since on his economic and political health depends the safety and security of our nation.

—FOOTNOTES—

[1]Richard O'Connor, *Pacific Destiny* (Little-Brown & Co., Boston- Toronto, 1969), p. 258.

[2]*Ibid.*

[3]Leonard E. Read, *Meditations on Freedom* (The Foundation for Economic Education, Inc., Irvington- on-Hudson, New York, Feb. 1972), p. 22.

[4]William Graham Sumner, *What Social Classes Owe to Each Other* (The Caxton Printers, Ltd., Caldwell, Idaho, 1978, Eighth Caxton Printing, 1978), pp. 125–126.

[5]Russell Kirk, *A Program for Conservatives* (Henry Regnery Co., Chicago, 1954), pp. 106–107.

[6]Karl Mannheim, *Freedom, Power, and Democratic Planning* (Oxford University Press, New York, 1950), p. 282.

[7]Sumner, *op. cit.*, p. 30.

[8]Sumner, *op. cit.*, p. 108.

[9]Sumner, *op. cit.*, p. 109.

[10]Kirk, *op. cit.*, p. 120.

[11]Sumner, *op. cit.*, pp. 144–145.

IDEAS ON LIBERTY

Leonard E. Read

THE IDEA that each person has an inherent and inalienable right to life becomes meaningless when a person loses the authority for his own decisions and must act according to someone else's decisions. Unless a person holds the power of self-control, his life is not truly his own. Before a life can be valued for its own sake—and not just as a means to someone else's goal—that life must have its own power of choosing, its own quality, its own dignity. Without such a basis for love, respect, and friendship, the needy person is soon regarded as a puppet or a millstone around one's neck. Unless it is voluntary, even a mother's love in caring for an invalid child cannot exist. Aged persons and others who have come to depend for their survival upon the state's power of confiscation become merely numbers in the confused statistics of political bureaus. Statistics and bureaus have the capacity for neither love nor charity.

We should realize that the end pre-exists in the means. An evil means inevitably leads to an evil result. Related to the thesis under discussion, evil, not good, must come to persons who attempt to benefit from the confiscated property of other persons.

Hans F. Sennholz

Protectionism and Unemployment

THERE is a disturbing thing about foreign affairs: they are foreign. They do not conform to the world we admire, which is our own. Foreign matters are viewed with suspicion, yea, even dislike and contempt. Protectionism, which proposes to use the authority of government and its instruments of coercion to restrict trade with foreigners, builds on this psychological foundation.

In the minds of many people the ancient association of foreigner with enemy still lingers. Foreigners are blamed for all kinds of evil, real and imagined. They are censured for being inscrutable and unpredictable in their trade relations, engaging in ruthless competition, gouging their trade partners through prices too high or too low, exploiting their workers through sweatshop wages and conditions. But above all, trade with foreigners is believed to be most disruptive to commerce and industry, ever changing in composition and structure, requiring painful readjustment.

Protectionists offer instant gains through removal of foreign competition and protection from the pains of readjustment. Appealing to people who do not care to change and others who uphold domestic changes, but are set at odds with foreign changes, they promise peace and profit through legislation, regulation and the use of police power. But despite all the opposition to change, the world is a scene of changes. Today is not yesterday. We ourselves change as do our thoughts and works. Change may be painful, yet ever needful.

In our economic lives we may face important changes that require our

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attention and adjustment. The tastes, habits, choices and preferences of consumers may change, which may dictate production adjustments. The world-wide pattern of division of labor may change, which affects the structure of trade and commerce. The costs of production may change either here or abroad, which may create competitive advantages or disadvantages. There may be a never-ending sequence of changes in labor costs, capital costs, material costs, transportation costs, government costs, and many other costs.

Man faces changes in international trade and commerce to which he must adjust. After all, foreign trade is merely an extension of domestic trade, which is a corollary from the principles of division of labor. Cooperation and specialization bring the same kinds of benefits to all people regardless of race, religion or nationality. They make human labor more productive through exchange rather than direct production. If trade between the people in California, Texas, Florida and Maine is advantageous, it follows that free trade between people in Guatemala and Mexico, or Canada and Costa Rica may also be advantageous.[1]

Protectionism, Old and New

Most of the arguments in favor of restriction stem from the distant past. Many are crudely Mercantilistic; they favor exports and oppose imports. Mercantilists are concerned about an unfavorable balance of trade which, they believe, inflicts loss and waste. In the past they restricted imports and promoted exports in order to bring money into the country. The Neo-Mercantilists of our time favor exports for bringing in jobs and profits, and oppose imports for taking them out.

Mercantilistic notions, although discarded by most economists, live on regardless of the criticism that is levied against them. Businessmen remember them when they are encountering difficulties and calling on government, pleading protection from foreign competitors. The agents of labor retreat to the armory of Mercantilism when they are enmeshed in depression and unemployment. And government officials may plead the case for Mercantilism when they impose their regulations and controls on foreign trade and commerce, or grant subsidies, set rates, or gather information to promote exports and limit imports. They all hold to the persistent belief that exports are especially beneficial and praiseworthy, and imports *ipso facto* harmful.

The recrudescence of Mercantilism dates back to the early part of this century, and came to a head during the 1930s. Guided by a spirit of nationalism it sought national self-sufficiency through restrictive tariffs, import quotas, and exchange restrictions. It differed from the older Mercantilism in that it received strength and support from a philosophy of militant nationalism and economic welfarism. It was associated with comprehensive central planning by powerful governments engaging in economic warfare and military struggle.

The Neo-Mercantilism of the 1970s and 1980s differs from the 1930s' version in two important respects: it is devoid of the blatant nationalism of the first half of the century and its beggar-my-neighbor attitude; but it is saturated with the notions and doctrines of full employment by government fiat. Mindful of international sensibilities, it resorts to more subtle but equally deadly restrictions, to subsidies rather than tariffs and quotas. It does not aim at economic autarky for nationalistic ends, but at income and employment in favored industries. It does not spring from international confrontation, but from an inter-industry conflict that pits some industries against all others.

In the American steel industry, for example, capital and labor together conspire to restrict imports in order to boost corporate earnings and labor benefits. Embarassed by the low rates of production and the high rates of unemployment, they both call on government to restrain competition in any shape or form. They both plead as ardently for minimum wage legislation, which is designed to handicap other industries, as they argue forcefully against the competition of foreigners. For labor unions especially, government protection is of crucial importance. After all, to win substantial boosts in wages and benefits and subsequently suffer from staggering unemployment is casting serious doubt on the rationale of unionism.

Workers' Rights Movements in Europe and the U.S.A.

The labor movement in the U.S. closely resembles the workers' rights movements in the European welfare states. They both expound the doctrine that workers have an inherent right to a job, in their particular industry, at their present location and at rates of pay that exceed the market rates. To secure their right, government is expected to restrain foreign competition in any possible way and, if needed, subsidize both labor and capital.[2] In this respect, protectionism is a symptom of relatively weak national governments catering to powerful domestic interest groups, especially labor.

Protectionism also draws strength and support from the Keynesian mandate that government is responsible for full employment and that it must use its fiscal powers in a contracyclical manner. Such use of powers for purposes of market intervention may necessitate protection from foreign competition. After all, Keynesian recipes are national recipes that differ from those for world markets and international division of labor.

When Keynesian efforts succeed in raising goods prices, domestic producers suffer in competitiveness at home and abroad. Threatened by foreign competition, they may call for protection through import restrictions. When Keynesian efforts fail to achieve full employment the Keynesian planners further express their faith in government intervention as they turn to protectionist measures. The failure of Keynesianism breeds protectionism. Many Keynesians are joining the workers' rights movement and lending new luster to the promises of protection.[3]

Old Notions in New Garb

The labor movement and its Keynesian allies like to parade as champions of the less-developed countries. They are quick to disburse foreign aid to any and all applicants and finance their schemes of government enterprise. But many immediately draw the line when jobs are "exported" for the benefit of foreigners. They are dead set against capital and labor mobility that permits capital to move to less-developed countries and labor to more productive countries.[4] In all such matters they plead for restrictions that are said to bestow net benefits on society.

Man often errs through selfishness. Economic restrictions always benefit some people at the expense of others, and inflict net losses on society. Protectionists do not look beyond the range of direct involvement and dealing. American steel workers may see only their own wages and benefits which trade restrictions are meant to protect. They point at the market of goods and services catering to the steel industry in general and to steel workers in particular, and warn of dire consequences if these markets be permitted to decline. They completely ignore all other consequences and ramifications of restrictions, and refuse to admit that any favor bestowed on the steel industry is a disfavor to all others. Domestic trade is substituted for foreign trade, and domestic steel for foreign steel. The quantity of steel offered in exchange for other goods is reduced, which makes economic society universally poorer. The sellers of food, clothing, housing, education, and the like receive less steel in exchange for their goods and services. They would have been better off if they had been permitted to trade with foreign steel makers.

The protection argument for full employment is similar to that for net benefits. To working people it seems self-evident that import restrictions add to the demand for labor, and that steel and automobile quotas provide employment for steel and auto workers. Such evidence, unfortunately, is rather shallow and deceptive; it fails to consider other effects that are bound to follow. Import restrictions are restraints imposed by politicians and enforced by the apparatus of coercion, the courts and police. They constitute the use of brute force against people who voluntarily and peacefully are engaged in international exchange, in order to force them to act in a way they would not act if they were free.

Methods of Restriction Are Widely Available

The methods of restriction may vary greatly, from monetary exactions to outright confiscation of private property; they are highly effective in setting bounds to human action. When trade restrictions are imposed, the protected industry may temporarily enjoy special gains, which may cause it to expand and hire more labor, or retain more labor than it otherwise would. But this extra demand for labor, for instance, steel labor, is marred by a simultaneous decline in the demand for other labor, e.g., for food, clothing, housing. After all, the extra money spent on steel and steel products cannot be spent on other products, and the economic resources employed in the production of steel cannot be employed in other production. And the labor needed for the production of steel is no longer available for the production of food, clothing, housing, and so on.

At this point protectionists are quick to object that there is always unemployed labor and capital waiting to be called provided government lends a helping hand by restraining foreign competition. They point at mass unemployment in basic industries, such as steel, autos, mining, and transportation, and demand immediate correction through protection.

Unemployment undoubtedly is a great social evil that concerns us all. It is an economic phenomenon of loss and waste that harms not only the jobless but also their fellow workers who are forced to support them. In time it tends to turn into a political issue that breeds confrontation and conflict. To alleviate the evils of unemployment becomes an important political task. But it also raises the basic question of the suitability of the policies that are to create employment. In particular, it poses the question: can tariff barriers and other trade restrictions raise the demand for labor and alleviate the evils of unemployment?

Unemployment is a cost and wage phenomenon; foreign trade is exchange by individuals separated by political boundaries. The former is a manifestation of the law of price, which rests on the valuations by all members of society; the latter pertains to the scope of the division of labor which man is willing to practice. This scope does affect goods prices, including the price of labor. Improvements in the division of labor generally raise labor productivity and wage rates; deterioration reduces them. When government imposes trade restrictions it reduces the marginal productivity of labor and thereby lowers wage rates. If, in this situation, workers should refuse to suffer wage cuts, they are inviting mass unemployment. When seen in this light, trade barriers are effective instruments for causing unemployment.

In many respects production restrictions and trade barriers are like natural obstacles that thwart human effort and impair man's productivity. They both may increase the demand for specific labor. Destruction of housing by war, flood, earthquake or fire increases the demand for housing material and construction labor. But it also reduces the demand for a myriad of other goods which the destruction victims now must forgo. Similarly, import restrictions on steel may boost the demand for domestic steel, but they also reduce the demand for other goods which the restriction victims, that is, consumers must forgo. Steel producers and their workers may benefit from the new barriers; but the producers and workers in all other industries are likely to suffer losses.

Many workingmen welcome trade restrictions in the same way as they greet the breakdown and destruction of labor-saving tools and appliances. They are aware of the demand for their particular kind of labor and know how to increase it through protection and elimination of labor-saving tools. They apply the particular to the general and conclude that protection provides employment and destruction creates jobs. Unfortunately, they fail to see that both, restriction and destruction, are bound to reduce the marginal productivity of labor throughout the labor market. If, in this situation, affected workers should resist a prompt reduction of wage rates, which organized labor is likely to support with conviction and force, they face mass unemployment. After all, unemployment always visits that labor the cost of which exceeds its productivity.

Trade Restrictions Offer Temporary Relief

Trade restrictions may temporarily create new employment opportunities for a protected industry while other industries are forced to contract. But even in the protected industry they do not provide long-term employment, as the root causes of unemployment continue to be at work. The basic industries suffering from stagnation and unemployment generally are unionized industries with wages and benefits far in excess of nonunion market compensation. Labor unions enforce their rates through restriction of labor competition; the basic effect is unemployment. They apply their unrelenting pressures until they are enmeshed in depression and unemployment. To come to their rescue and grant them protection from foreign competition is to invite new restriction and more unemployment.

In a profound study, M. Kreinin recently demonstrated that labor compensation in the American automobile industry, in 1982, amounted to some 165 percent of that in all manufactures. To become competitive with Japanese car makers, he concluded, United Auto Workers' compensation would have to fall by 24 percent, which would leave their compensation still 25 percent above the U.S. manufacturing average. Similarly, in iron and steel production workers' wages and benefits amount to 189 percent of those in all manufactures. To restore competitiveness with Japan they would have to fall by 39 percent, which would leave their compensation still 15 percent above the U.S. manufacturing average.[5] But no such solution to the chronic unemployment in the steel and auto industries is under consideration. Instead, their spokesmen are clamoring ever louder for protection from "unfair" foreign competition.

Trade barriers destroy more jobs than they create. And yet, they have retained their popularity because most workers are convinced that they safeguard wage rates from the competition of low-cost labor. Without trade barriers, many Americans believe, foreign products made by cheap labor would flood the markets and force American labor to suffer substantial wage cuts or face unemployment. Free trade is said to be advantageous only between countries that have similar wage rates and similar standards of living, but thought to be harmful to people with high wages trading with people earning less. Americans and Canadians can trade with each other because they are similar in income and living conditions; but they must not trade with Mexicans who engage in unfair pauper-labor competition and cause U.S. living conditions to fall.

There are few arguments in favor of protection that are more popular and yet so specious and fallacious. When carried to its logical conclusion the wage-rate argument bars all trade across political boundaries as no two countries are identical in labor productivity and income. U.S. wage rates are generally higher than Canadian rates, which would call for American government protection from low-cost labor competition in Canada. Labor conditions may differ from state to state, yea, from community to community. Wage rates in New York state are generally higher than in Maine and Mississippi, which would call for government intervention in favor of labor in New York.

Differences in Productivity and Income Lead to Trade

In freedom, differences in labor productivity and income lead to exchanges of goods and services. As individual inequality brings forth man's division of labor so does his inequality in national productivity and output lead to international division of labor and goods exchanges. Adam Smith already taught that it is advantageous for a country to specialize in the production of those goods in which it has a cost advantage. David Ricardo added the law of comparative cost according to which it also is advantageous to a country to specialize in those items in which it has a comparative advantage.

To reap the advantages of an international division of labor a country may concentrate on production with greatest comparative advantage, importing even some items that can be produced at lower cost at home than abroad.[6] Improvements in international division of labor raise labor productivity and, wherever institutional restrictions have created unemployment, may actually lift some labor over the threshold of employability and thereby create jobs.

The competitive position of an industry may depend on the capital-labor composition of the product. A labor-intensive product, such as a hand-embroidered tablecloth, may be manufactured most advantageously in a low-wage country. A capital-intensive product requiring the application of large sums of capital may be manufactured most efficiently in the country with the largest per capita supply of capital and lowest interest rates. The manufacturers of Hong Kong, where wage rates are rather low when compared with U.S. standards, have a clear advantage in the production of hand-embroidery; U.S. manufacturers who benefit from efficient capital markets and relatively low capital costs have a clear cost advantage in the manufacture of capital-intensive products, for instance, $50-million airplanes.

Trade advantages may change when factor costs change. Where capital is being formed and made available at ever lower interest cost, capital-intensive industries are likely to prosper and expand. Where society and its political institutions consume productive capital, the industries can be expected to contract and discharge labor. When Toyota may secure capital for modernization and expansion at 7 percent while General Motors is forced to pay

TO ABOLISH the market determination of wages—that is, the commodity character of labor—it would be necessary to destroy private enterprise and resort to socialism. Then the worker really would become a chattel. No longer would his wages depend upon his individual ability to make himself useful, as determined ultimately by the current state of industrial productivity, but upon the will of a political master, from whose decision there would be no appeal. No longer would he be free to choose his occupation, or even his place of residence; he would have to work at his assigned task, whatever and wherever it happened to be, at the bidding of the same political master.

The true "Magna Charta" of labor lies in the very fact that labor is "a commodity or article of commerce," not a pawn in a totalitarian game.

From *The Guaranty Survey*, July 1956

14 percent in a depleted capital market, it becomes rather obvious that Toyota will continue to expand and employ more labor while GM must be expected to contract and dismiss some labor.

Many Factors Affect the Degree of Competition

The costs of capital and labor are merely two of many factors that determine the competitiveness of an industry. There are many other factors such as the methods of production and the state of technology, transportation costs for materials and supplies and for products to their markets, government regulation, taxation, environmental costs and other institutional costs. A change of any one, at home or abroad, may materially alter the competitive position of an industry. The formation of capital per head of the population generally raises labor productivity and reduces unemployment; the consumption of capital lowers labor productivity and depresses wage rates. Where labor resists the reduction and insists on remuneration that exceeds market rates, it invites mass unemployment.

It is significant that governments generally do not protect industries with relatively low rates of productivity and wages, industries with a great deal of unskilled labor. In the U.S. these industries are forced to labor under great difficulties created by minimum wage legislation. The U.S. government, under the influence of powerful labor interests, apparently prefers foreign imports from low-wage countries such as Korea, Hong Kong, and Taiwan over domestic production in the South and especially Puerto Rico. But it is granting considerable protection to industries that are known to pay the highest wage rates in the world.

The U.S. government is guided by the doctrine of "no injury," which brought into being the "escape clause" where injury is reported, and the "peril points" below which import duties must not be reduced. Protectionism is visible in the trade adjustment assistance granted to workers, in agreements with foreign exporters, the establishment of the International Trade Commission, and other concessions granted to interests with congressional clout. Protectionism springs ever anew from the efforts of "distributional coalitions," which use political power to restrict competition and output.

U.S.-Japanese Trade Relations

Protectionists in the U.S. spend a great deal of time and effort worrying and complaining about Japanese trade practices. They focus their concern on Japan with which the United States is running a huge deficit in its merchandise trade account. According to the Council of Economic Advisers *Annual Report*, the 1976–83 deficit amounted to some $95 billion primarily as a result of Japanese sales of textiles, television sets, automobiles, motorcycles, radios, photographic equipment, video tape recorders, watches, machine tools, and steel.[7] A *Business Week* cover story calls it "America's Hidden Problem: The Huge Trade Deficit is Sapping Growth and Exporting Jobs." (August 29, 1983)

American complaints about Japanese trade practices may have some merit, but they do not lead to the conclusions drawn by *Business Week* and other protectionists. They do not justify making Japan the "whipping boy" for trade deficits for which the U.S. government is primarily responsible. After all, it is an undeniable fact that U.S. trade restrictions completely bar Japanese buyers from important U.S. markets and thereby inflict visible losses not only on American producers but also on the Japanese people as consumers. Trade deficits may spring from a number of causes among which disruptive policies conducted by the U.S. government must not be overlooked.

There is transcendent power in example. U.S. leadership in international policy-making may be slipping because the U.S. example is unconvincing. The U.S. surely is no free-trade country; the U.S. government has entered into international trade agreements on cocoa, coffee, rubber, sugar, and tea. It has built trigger price mechanisms in steel and imposed "voluntary" quotas on autos and textiles. The maritime industry represented by seamen's unions and unionized domestic shipbuilders has managed to obtain legislation that forces Alaskan oil producers to ship their products in high-cost U.S. tankers to uneconomic destinations in the U.S. The legislation hit hard at Japanese levels of living by cutting the Japanese people off from Alaskan crude oil. It is estimated that, under free-trade conditions, they could be expected to buy some $15 billion annually, which alone would eliminate the merchandise trade deficit with Japan.[8]

The Japanese people must import almost all of their oil. In a free world unhampered by trade barriers Alaskan producers would be their least-cost suppliers. In the political world of trade restrictions special interests in the U.S. deny them access to the Alaskan market. The Trans-Alaska Pipeline Authorization Act of 1973 and the 1977 and 1979 amendments to the Export Administration Act virtually shut the Alaskan door to foreigners and forced them to seek supplies in far-distant Arabian and African markets. It is obvious that transport charges per barrel of Saudi oil are substantially higher than for Alaskan oil, and materially higher for Alaskan oil shipped to the West Coast and the Gulf Coast than for oil shipped to Japan.

Higher Shipping Costs

The higher transportation costs visibly raise total cost, which increases world prices, reduces labor productivity and impairs economic well-being. But a few American seamen and shipbuilders are enjoying a windfall through trade disruption. It is estimated that more than 90 percent of U.S. shipping capacity, measured in deadweight tonnage, and probably more than half of all American seamen serve to carry oil from Alaska to U.S. ports.[9]

Notions of full employment and favors to organized labor have led the U.S. government to impose an embargo not only on the shipment of Alaskan crude but also on the sale of timber to Japan. There are 20,000 saw mills in Japan, supplying housing and furnishings for 120 million people, but U.S. legislation passed in 1968 practically bars them from American markets. It bans exports of unfinished logs cut on Federally owned land, which amount to some 65 percent of the softwood sawtimber inventory in the U.S., and dictates that all such logs must be processed prior to export. The law even prohibits "substitution," that is, the purchase of Federal timber by American merchants who export timber cut on private lands.[10]

Surely, such measures neither reduce the U.S. merchandise trade deficit with Japan nor improve U.S.-Japanese relations. And yet, they continue to spring forth from the primitive notion that the log export ban forces foreigners to purchase finished products and thereby provides employment to wood processors and furniture makers. Fortunately, political force does not produce sales and employment; both obey only the laws of the market. The timber legislation actually has reduced employment in the American timber industry and prevents employment in cutting and shipping timber to Japan. It serves to reduce the marginal productivity of labor, to lower wage rates in both the U.S. and Japan and, wherever labor resists the downward pressure, contributes to mass unemployment. It puts the misunderstood interest of a powerful special-interest group ahead of national interest and gives much ammunition to the Neo-Mercantilists who are fretting about the merchandise trade imbalances.

"Buy American"

There are many more U.S. barriers to trade with Japan and other countries. The most noticeable probably are "Buy American" statutes that give preference to domestic products in Federal and state government contracts. Federal agencies are required to pay up to 6 percent more for products made in the U.S. The Federal aid program to mass transit systems requires that only American materials be used. The foreign aid program requires that at least 50 percent of the gross tonnage of all commodities thus financed be carried by American flag vessels. At least 18 states restrict the use of foreign steel and aluminum and order the purchase of domestic products. Many require state bids to carry a clause restricting the use of foreign materials and calling for American-made products. Many local authorities enact building codes that ban the use of foreign materials.

Countless Federal statutes and regulations prevent or limit imports of agricultural products such as beef, dairy produce, mandarin oranges, and sugar. In recent years the U.S. government sought voluntary restraints of foreign sales, which were as voluntary as a judge's temporary restraining order. In recent months it finally dispensed with the pretense of voluntarism. Protection from foreign competition now covers all basic industries that are forced to compete in U.S. markets. Its costs to American consumers in the form of higher goods prices amount to many billions of dollars. A recent study estimated the 1980 costs at more than $58 billion, or $255 per American consumer.[11] They probably have more than doubled since then. Its costs to American workers in the form of lower labor productivity and higher rates of unemployment can only be surmised.

The pressures for protection from foreign competition continue to grow in the U.S. and other countries. Well-organized groups, especially organized labor, use the political apparatus to reap economic gains through political force. Unable to compete effectively and suffering from depression and unemployment, for which they deny all responsibility, they seek refuge with government and its coercive powers. They noisily demand protection from foreign competition that is held responsible for their plight. Economists do know, however, that mass unemployment, no matter how painful it may be, cannot be placed on the doorsteps of foreigners. It is a self-inflicted evil of radical interventionism that cannot be alleviated by beggar-thy-neighbor policies. Protectionism only exacerbates it.

—FOOTNOTES—

[1]Cf. theoretical works: Gottfried Haberler, *The Theory of International Trade* (London: Hodge, [1933] 1936); also his *Survey of International Trade Theory*, Rev. and enl. edition, (Princeton University International Finance Section, [1954] 1961); James E. Meade, *The Theory of International Economic Policy*, Vol. 2; *Trade and Welfare* (New York: Oxford University Press, 1955); Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries* (New York: Oxford University Press, [1953] 1962); Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper, 1937); Leland B. Yeager, and David G. Tuerck, *Foreign Trade and U.S. Policy: The Case for Free International Trade* (New York: Praeger Publishers, 1976). Cf. also the classical historical work of Frank W. Taussig, *The Tariff History of the United States* (New York: Putnam, [1888] 1931).

[2]See Melvyn B. Krauss, "Ill Fares the Welfare States," *Policy Review* 18 (Fall 1981), pp. 133–38; also *The New Protectionism: The Welfare State and International Trade* (New York: New York University Press, 1978).

[3]Robert B. Reich, "Beyond Free Trade," *Foreign Affairs* 61 (Spring 1983), pp. 773–804; Bob Kuttner, "The Free Trade Fallacy," *New Republic*, 28 March 1983, pp. 16–21; G. William Miller, ed., *Regrowing the American Economy* (Englewood Cliffs, N.J.: Prentice-Hall, 1983); Leonard Silk, *The Economists*, (New York: Avon Books, 1978); see also *Allied Industrial Worker*, Official Newspaper of the Allied Industrial Workers of America (AFL-CIO) International Union, Milwaukee, Wisc.; September, 1984; *CWA News*, Communication Workers of America, AFL-CIO, Washington, D.C., September 1984.

[4]See Melvyn B. Krauss, *Development Without Aid* (New York: McGraw-Hill, 1983), especially Chapter 7.

[5]Mordechai E. Kreinin, "Wage Competitiveness in the U.S. Auto and Steel Industries," *Contemporary Policy Issues* 4 (January 1984), pp. 39–50.

[6]Cf. David Ricardo, *Works and Correspondence*, Edited by Piero Sraffa (Cambridge University Press, 1951–1955), Vol. I, *On the Principles of Political Economy and Taxation.*

[7]Council of Economic Advisers, *Annual Report* (Washington, D.C.: Government Printing Office, 1984).

[8]Beth deHamel, James R. Ferry, William W. Hogan, and Joseph S. Nie, Jr., *The Export of Alaskan Crude Oil: An Analysis of the Economic and National Security Benefits* (Cambridge, Mass.: Putnam, Hayes, and Bartlett, Inc., 1983).

[9]Steve H. Hanke, "U.S.-Japanese Trade: Myth and Realities," *Cato Journal*, 3/3, Winter 1983/84, p. 762.

[10]Barney Dowdle and Steve H. Hanke, "Public Timber Policy and the Wood-Products Industry," in *Forest Lands, Public and Private*, ed. M. Bruce Johnson and Robert Deacon (Cambridge, Mass.: Ballinger Publishing Co., 1984).

[11]See Murray L. Weidenbaum, *Business, Government and the Public*, 2nd ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1981), pp. 253–55; also "The High Cost of Protectionism," *Cato Journal, Ibid*, pp. 777–791.

John Semmens

Highways: Public Problems Private Solutions

EARLY in 1984 an article in *The Wall Street Journal* was headlined: "Interstate-Highway Building Projects Are Threatened by Political Stalemate." The gist of the story was that House Speaker Tip O'Neill was holding a highway appropriations bill hostage in an attempt to get more money for a project in Boston.

The struggle over appropriations is a political struggle over the division of tax receipts. This type of struggle is both a manifestation of the "infrastructure crisis" and a contributing factor in perpetuating infrastructure problems.

The "infrastructure crisis" can be roughly defined as the observed or anticipated deterioration of public facilities like highways, bridges, dams, and the like. The phenomenon becomes a "crisis" because the cost to repair or forestall the deterioration is projected to exceed the available tax revenues. A middle range estimate of the tax revenue shortfall in the case of highways alone has been pegged at $60 billion per year. The magnitude of the forecast of needs easily dwarfs the recent increase in revenues of about $5 billion per year generated by the 1983 5-cent-per-gallon Federal gas tax hike.

The implication of such a huge gap between revenue and cost is that huge tax increases are necessary, perhaps even inevitable. However, before we get swept away in a stampede to throw money at the problem, it might be worthwhile to examine the situation more closely.

If the infrastructure problem is truly as large as some of the figures indicate, it is clear that mere tax hikes within the existing operational structure would be an inadequate answer. In the instance of highway finance, substantial effort was required to pass a 5-cent-per-gallon gas tax increase. Yet, this tax hike generates only $5 billion per year. Raising $60 billion would necessitate another tax increase of 55 cents (or more, allowing for some decline in fuel consumption under higher taxes). Such a large tax increase must be considered highly unlikely.

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Since it is unlikely that such huge estimated highway needs can be met from tax revenues, the task of making do with less is of critical importance. Obviously, we cannot accomplish all that some think we "need" to accomplish. Choices will have to be made. Scarce resources devoted to some projects will unavoidably be denied to other projects. How these choices are made will determine whether the "infrastructure crisis" becomes the "infrastructure disaster."

Changes Required

One point that should be crystal clear is that "business as usual" cannot be maintained. A premise behind the $60 billion annual gap between highway needs and revenues is that all existing facilities must be preserved. Since there won't be a $60 billion tax hike, this premise becomes infeasible and no longer valid.

The notion that a highway, once built, must be preserved in perpetuity is both impractical and illogical. There is no way that a society can progress if it is to be constrained to carry on the upkeep of every investment it ever made. Roads, because of their long, useful lives, give the impression of permanence. However, there is a crucial difference between longevity and immortality. Times change, and the economic needs of a society change. The investments that were suited to an earlier era are not necessarily suited to the present or future eras.

No vital industry in a dynamic economy attempts to perpetuate every capital facility it ever built. Factories, offices, stores, machines—all wear out, become obsolete, or are replaced by other uses for resources. In fact, failure to anticipate the obsolescence of old facilities is a major drain on an industry's ability to cope with changing economic conditions. For example, the U.S. steel industry is plagued by aged facilities that threaten the survival of many firms.

Failure to deal with the fact of obsolescence in highways is a definite threat to the public infrastructure. Funds poured into the maintenance and preservation of obsolete roadways are funds that cannot be used to provide new roads. Highway segments that may have had substantial economic justifications when originally built may evolve into economic dinosaurs that consume disproportionate amounts of scarce resources. This endangers the viability of the entire system. Dealing with this situation poses a serious problem for public highway agencies.

While the phenomenon of obsolescence poses difficulties in both public and private sectors of the economy, institutional factors make it much harder for the public sector to cope with these difficulties. The common perception is that government is better situated to deal with problems like the infrastructure crisis. After all, the federal government has more revenue than any other entity in our economy. It has sovereign power to tax. It can borrow more money more cheaply. The federal government can even print money, if necessary. Despite this seemingly unlimited claim on resources, government is severely handicapped in dealing with economic problems.

Unlike government, private firms are forced to rely upon resources voluntarily obtained. Customers cannot be taxed. They must be persuaded to buy. Investors must be induced to provide capital. Resources are harder to come by and more costly than they are for the government. Yet, it is these constraints faced by the private firm that provide the institutional incentives for better economic performance.

Market Discipline

Restricted to only voluntarily obtained resources, private firms must respond to market demands. Their products must fulfill genuinely felt needs or they won't make any sales. Their operations must be efficient or their competitors will undersell them. Their investments must produce profits or their capital will be depleted. The market provides strict discipline. Resources are channeled to those firms that make the best use of them.

The importance of this market discipline can hardly be overemphasized. The absence of this discipline in the public sector makes it impossible for even the most well-intentioned public official to efficiently employ resources. The products and services government provides are not really marketed to willing customers, so public officials have no feedback on real demand. True competition doesn't exist, so there is little pressure to improve efficiency or demonstration of how to do it. There is no requirement to operate profitably, so capital is depleted on investments with negative rates of return.

The private sector transaction between seller and buyer is clear-cut. The customer is not expected to pay for products or services he doesn't receive. Likewise, businesses are not expected to provide products or services to those who don't pay for them. The public sector transaction is not so clear-cut. Customers or even noncustomers are taxed to pay for services they may or may not receive. Even in the case of public roads in which the user tax approach is employed, these types of inequities exist.

To begin with, nonusers have been paying a growing share of the total revenues devoted to highway purposes. A 1983 U.S. DOT study indicated that by 1980, nonusers were providing nearly 40 per cent of the funds spent on highways at all levels of government. The nonuser percentage has nearly doubled since 1960. The trend is clearly away from the strict user charge principle.

Inequitable User Charges

Even among highway users, the charges vary widely from the estimated cost of service for each type of vehicle. Imbalances between the cost to provide service and the revenues earned imbed inequities and inefficiencies into the user tax structure. For example, the current Federal tax structure charges heavy trucks less than the cost of service. A report by the Federal Highway Administration estimated that this year the heaviest trucks will pay 71 cents in taxes for each dollar's worth of service. At the same time, smaller trucks would be paying up to $1.31 for each dollar's worth of service. While this discrepancy may give the appearance of balancing out, the reality is that such a tax structure encourages an expansion of consumption by the heaviest vehicles. Since heavier vehicles are paying less than a compensatory use charge, the highway trust fund takes a loss on the transaction. These losses will tend to grow over time as more users are encouraged to consume these under-priced highway services.

Despite the fact that the charges for the heaviest vehicles do not recover the cost of highway services, intense lobbying to reduce these charges has occurred. This lobbying was successful in altering the tax structure to shift more of the tax toward smaller trucks. Thus, even though highway officials might like to charge compensatory rates, they will not be allowed to do so. In effect, Congress is mandating that the heaviest vehicles be served at a loss.

Congressional intervention in the pricing of publicly provided services presents some economic problems. The rates selected by Congress may make political sense, but be economically destructive. A private firm faced with such intervention by government would sustain serious losses. Government regulation of railroad rates helped make it a sick industry. Political control of highway user charges is having these same effects on the health of the highway system.

This is not to say that the highway agency will go bankrupt. These losses have been, and probably will continue to be, made up from nonuser subsidies and deferred maintenance. While the agency will not go bankrupt, the evidence does indicate that existing investments in highways are not yielding a positive return. The importance of obtaining a positive return is that capital is regenerated and increased. If the economy is to grow, regeneration of capital is necessary. Failure to regenerate capital leads inevitably to decline. The decline in one area could be forestalled by subsidies from other sources. This will, though, involve an opportunity cost in some other economic activity. Some other area would have to forego growth or suffer decline in order for highways to receive a subsidy.

Some will argue that highways provide much more in benefits than they consume in resources. Unfortunately, this is merely an assertion. The evidence indicates that the cost exceeds the value as represented by user charges paid for the service. Granted, the current user tax schedule may not adequately assess the users for services rendered, but it is the *only* quantifiable measure that we have. It is only by observing the actual paid-for use that we can begin to get an idea of the value of the service rendered by the highway system.

Improved Accounting

So-called cost/benefit studies that presume to sum up consumer surplus and indirect benefits that then exceed the costs of highway investment are not adequate substitutes for positive financial returns. The reason for this inadequacy is that values are subjective. An analyst's estimate of what he thinks the investment conveys in terms of benefits is only an opinion. Every form of economic activity produces consumer surpluses and indirect benefits. However, none of these benefits are included in the financial returns reported for various investments. To include them only for highway investments or only public sector investments is a distortion that systematically biases the results. Namely, it makes the public sector use of funds appear more productive than it actually is.

To help put the concept of cost/benefit in perspective, if such an approach were used for *all* prospective uses of capital, the policy implication would be that every undertaking deserved to be subsidized by every other undertaking. Obviously, this is not possible. Consequently, attempting to economically rationalize investments with cost/benefit calculations cannot provide valid guidance for the allocation of scarce resources. Cost/benefit analysis can reveal how alternatives among a strictly limited list compare to each other. Such analysis *cannot* determine whether an investment is a productive use of resources.

The only valid means of determining whether an investment is a productive use of resources is to observe whether the revenues obtained from sales cover the cost of providing the services. Private sector enterprises get this sort of feedback on a regular basis. Unsurprisingly, the private sector has evidenced an accumulation of capital and growth of resources over time. In contrast, the public sector exhibits a propensity to consume capital. Public sector highways, rather than accumulating capital to meet future growth, seem to require constant infusions of resources from nonusers.

Competitive Pricing

There is the prospect of increasing user taxes to cover full costs of publicly provided services. While this has its positive aspects, it does present some problems. We could probably hike user taxes substantially and thereby generate a positive return on the highway agency financial statements. This would be due, in part, to the fact that the services provided by highways are more valuable than the cost under the higher tax structure. However, the improved financial returns would also be due, in part, to the monopoly position enjoyed by the public agency.

In the private sector, competition limits the ability of individual firms to charge excessive prices. The fact that customers could resort to competing suppliers gives the customers a strong bargaining position. The lack of competing suppliers in the provision of highway facilities eliminates the possibility of effective bargaining power for the driving public. Consumers cannot easily demonstrate their preferences in the public sector monopoly environment. That these preferences are significant can be discerned from the wide variations in earnings generated on different road segments.

Even though the existing tax structure for highway user charges leaves a lot to be desired in terms of pricing strategy, observing how these taxes translate into earnings on a segment-by-segment basis is instructive. For example, some highway segments yield returns far in excess of their cost. Others earn mere pennies on each dollar invested. In Arizona, State Route 181 is projected to lose 95 cents out of every dollar put into it. In contrast, urban portions of U.S. Route 60 are likely to produce substantial surpluses over cost.

The implication of these discrepancies in yields on various segments owes much to erroneous pricing of the services. Urban highway users are stuck with high prices for relatively poor service. At the same time, many rural segment users are paying far less than the cost of the service. The monopoly position of the public highway system promotes this cross subsidy of rural facilities. In a competitive market, urban consumers would be less vulnerable to this type of exploitation. Profit seeking entrepreneurs would be encouraged to offer attractive alternatives in the urban areas.

In addition to inefficient and exploitive pricing structures, the public sector monopoly over highways reduces incentives to control operating costs. In the private sector, competition prompts firms to restrain overhead costs. Lean operations allow for a better service/price offering to the consumer. Firms that allow overhead to get out of control will be unable to offer as good a deal and still maintain profitability. Monopoly removes the pressure to control internal costs. The effect of public sector highway monopoly on overhead cost is as would be predicted. In the early 1960s, the ratio of overhead expense to actual construction was about 7 per cent. By the early 1970s overhead expense was up to 12 per cent of construction outlays. By the 1980s, overhead had reached 17 per cent of construction outlays. With no competitive pressure to encourage restraint, the public sector highway monopoly has allowed greater proportions of resources to be consumed in administering programs. This means less is available to provide usable facilities and services.

The Privatization Option

Examination of the status and performance of the public highway system reveals an operation plagued with problems. Operational inefficiency, an inequitable tax structure, inability to discern and serve consumer demand, and malinvestment of scarce resources are pervasive characteristics of public sector ownership and control. In fact, Federal law goes out of the way to mandate practices that unnecessarily impede efficiency. A classic example is the Davis-Bacon Act. The Congressional Budget Office estimates that the procedures required by the Act add 4 per cent to the cost of highway construction. While 4 per cent may not sound like much, on a multi-billion dollar construction budget it is substantial. The annual cost of road construction in the United States is probably around $1 billion higher than it has to be as a result of Davis-Bacon.

Bad as the record of public sector ownership and control is, the alternative of privatization is usually portrayed as impractical. Critics of privatization plausibly ask: "Who would be willing to buy and operate roads?" Although the "obvious" answer to such a question is supposed to be "no one," there are other possibilities.

To begin with, if the real answer is that no one would under any circumstances be interested in acquiring and operating any road segment, the facilities must have no economic value. Such a conclusion is patently false. Roads do provide important services having definite economic value. The existence of self-sustaining toll roads and bridges would seem to indicate that at least some properties could be operated profitably. From a historical perspective, it could be pointed out that privately owned and operated toll roads were common in the United States in the early 1800s. So, the notion that privately owned highways are infeasible is unfounded.

There are many existing highways that could be effectively adapted to a toll operation. The key advantage of a toll facility is the strong link beween revenue and need. Only those who use the highway are required to pay. Service need not be provided at less than cost. The strong link between revenue and need provides the wherewithal and the incentive for better maintenance of the roadway. As a result, toll roads are almost always better maintained than nontoll roads serving similar traffic. Interestingly, Federal law explicitly prohibits the charging of tolls on highways that have received any Federal aid.

Tolls and Access Charges

It seems likely that privately operated toll roads could be an appealing option in some instances. In other instances, toll roads might appear unattractive. Opponents of the toll road concept lampoon the idea by conjuring up a vision of congested urban traffic brought to a standstill by toll booths at every intersection. Obviously, such a method of operation would be insane. Fortunately, there are some prospective remedies. First, access to urban road systems could be sold in larger units than one block of travel at a time. For example, the city of Singapore sells access to the central business district road system on a monthly basis. Many private sector businesses operate on this type of a marketing system. Access to health club facilities is a prime example of this method of charging for services rendered. Customers usually pay a monthly, quarterly, or annual access charge, not for each dip in the pool, weight lifted, or yard jogged. Financing some road services via access charges would seem a feasible option.

Second, payment for road use could be automated, with traffic electronically recorded and billed periodically. The technology has already been developed for individualized vehicle identification, travel measurement, and billing. A test of equipment in an urban setting is already underway in Hong Kong. The private sector makes use of a related approach in automated scanning of universal product codes to speed traffic flow at retail cash register lines.

Third, highway facilities could be financed by indirect user charges. A frequent argument against the idea of privately owned roads is the problem of the "free rider." Some contend that roadways must be public goods because of the difficulty of excluding nonpayers. On the one hand, this difficulty is exaggerated. Public agencies already exclude would-be users who don't pay assorted charges like vehicle registration and driver's license fees. On the other hand, even assuming that collecting directly from the user is difficult, there is another way.

In the twentieth century, the broadcasting industry grew from nothing to a pervasive part of modern life. Television and radio are multibillion dollar industries. Yet, their services are consumed for "free." Viewers and listeners pay no money to broadcasters. Anyone with a receiver can consume the broadcasts without paying a dime. The industry is able to thrive by selling access to the audience of free broadcasts. The millions of viewers and listeners are of interest to advertisers.

Highways have millions of drivers and passengers on them every day. This provides the opportunity to sell space for communications. Billboards are one means of communicating. Though billboards can be seen from roads right now, they have been neglected as a source of revenue for sustaining the highway facility.

Tapping Real Estate Values

Another variation of the indirect means of finance would be similar to the method in which shopping center owners charge for lease space. High volumes of traffic improve retail sales and, consequently, lease rentals. Highway facilities could link up with real estate developers to improve the traffic flow to and from a location and receive compensation from the property owners based on the traffic volume. As it now stands, public sector highway construction creates improved real estate values, but receives no revenues based on these values. Windfall gains are created for the lucky or the well-connected real estate holders, while the highways end up losing money.

The above suggestions are meant to show how privately owned highways could conceivably succeed. After so long a period of public sector monopoly, there is no immediate, universally obvious alternative method of operation. Because we cannot now specify exactly how privatization would work for all situations does not mean that privatization is not a viable option. The whole point of privatization is that it will expose the problems of highway transportation to the initiative of entrepreneurs. The creativity of entrepreneurs in a market environment is the key advantage of privatization. That we cannot precisely predict what they will create is but further evidence of the shortcomings of centralized planning.

A transition period of experimentation and gradual change would seem advisable. A potential starting point for a transition to privatization could begin with the public sector's divestiture of poorly yielding facilities. Why would a private firm want to acquire such facilities? Many business ventures are money losers. Yet, in the private sector, purchasers can usually be found for the disposition of the "assets" of failed ventures. Just because the government loses money in the operation of a facility does not necessarily mean that a subsequent owner won't be able to earn a profit. New management, combining old assets in new ways, can often turn losses into gains.

Selling the Losers

A program of divestiture would need to take a realistic approach. For one thing, public officials should not expect to recover the sunk costs of money-losing facilities. Assets of this kind can only be disposed of at a discount. In fact, for road segments that don't even generate enough cash to cover out-of-pocket costs, the public highway agency would actually improve its financial condition by giving such segments to whomever will take them.

In addition to discounted prices for divested facilities, the public sector agency will have to avoid the temptation to heap debilitating restrictions on the operation of the privatized facility. Since the very reason for divestiture is the fact that the public agency cannot operate the facility in a cost effective manner, it would be unreasonable for the agency to impose restrictions on the new owner. Besides, the fewer the restrictions, the more salable the assets. The public sector will get better prices for divested properties if they are less encumbered.

As divestitures proceed, both public and private sector participants and observers can learn from experience. Successful techniques for transferring ownership and for operating the privatized assets can be imitated and improved upon. Unsuccessful examples can be analyzed to provide guidance for reducing negative outcomes in the future.

Over time, the highway transportation system should show marked improvement. The public agency's financial condition will benefit from unloading deficit-ridden highway segments. Both savings in operating costs and revenue from the sale of assets will serve to relieve some of the financial strain. As facilities pass into different hands the prospects for service innovation and experimentation will increase. Highways could begin to be integrated into the more dynamic private sector economy. The successful highway entrepreneurs will make their investments grow. This will enable them to buy or build more segments. The infrastructure, instead of facing a future of deterioration and decay, would have an opportunity to grow and flourish.

Edmund A. Opitz

Battle for the Mind

THE term *Weltanschauung* is nothing more than a highfalutin label for "world view." Everyone has a world view, although not everyone is fully conscious of it or aware of its implications. In other words, everyone conducts his life on the basis of some fundamental premises he takes for granted. The premises may not be explicitly stated, in which case they can be deduced from observations of the way a person habitually acts. Your *Weltanschauung* is analogous to the contact lenses you are wearing; you don't see the lenses while you are using them to see other things. The late Cornell philosopher E. A. Burtt put it well when he said: "In the last analysis it is the ultimate picture which an age forms of the nature of the world that is its most fundamental possession. It is the final controlling factor in all thinking whatever." That is why it is so important.

We are in the midst of a battle for men's minds. This is obvious at the level of the news, where we read and hear about a confrontation between Communism and what, for want of a better term, is labeled The Free World. The battle for the mind goes on at the level of official propaganda, and it is also fought out in the classroom, on the podium, from the pulpit, in books—wherever the intellect is engaged and ideas are wrestled with.

The Communists are pretty clear about their world view, Dialectical Materialism, and strongly motivated by it. The people of The Free World, on the other hand, are so unclear about their basic beliefs that little dedication is aroused. Once it was different. Two centuries ago the

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philosophy of freedom was in the ascendant and clear thinkers declared that "We hold these truths to be self-evident." And they spelled them out in detail. The Free World today gives little more than lip service to its heritage, half-heartedly accepts a milk and water version of the opposition's world view. That makes for a lopsided contest, for the side that seems to be in focus and dynamic can always recruit fellow travelers from among the lackadaisical.

Two world views are in conflict: Materialism, intellectually insubstantial but passionately adhered to, versus non- Materialism, which generates only lukewarm devotion despite its intellectual and moral strengths. This paper exposes the weakness of the Materialist's case and demonstrates the strengths of the contrary world view.

Everyone, to repeat, entertains some picture of the entire scheme of things; everyone has a mental image of what the cosmic totality is like—in the final analysis. During the past couple of centuries the most popular world view has conceived the universe along the lines of a mechanism—an immense and intricate piece of clockwork, each cog and gear meshing with the others in a self-contained system. If you like labels, this world view has been called Mechanism by some, Positivism by some, Materialism by others. Karl Marx adopted the belief that only matter is genuinely real, and he gave this doctrine enormous momentum. The Marxist version of this theory is called Dialectical Materialism, and Dialectical Materialism is the most widespread religion in the world today, numbering among its adherents millions who are not Marxists—except at the rock-bottom level of believing that matter is the fundamental reality in this universe.

I believe that Materialism is intellectually incoherent and demonstrably untrue in four essential areas. In the first place, this world view has no genuine place within it where mind, reason, and free will can find their rightful niche. Secondly, Materialism cannot accommodate the idea of inherent rights—immunities belonging to each person in virtue of his humanity. Thirdly, the idea of a moral order is incompatible with the notion that only material things are real. And finally, no one can achieve a proper view of himself as a person who accepts the Materialist teaching that he is merely a chance collocation of atoms, a by-product of physio-chemical interactions. Materialism is genuinely compatible with collectivism, but it is incompatible with the freedom philosophy. The free society and market economy need a world view which has a sound theory of mind, reason and free will; a logically grounded doctrine of inherent rights; a firmly based belief in the moral order; and an authentic understanding of personhood.

If we believe that only matter is genuinely real, we are logically committed to the corollary that mind is secondary, a derived thing dependent on that which is more basic than itself, namely matter. Mind, then, is not *sui generis*; it does not exist in its own right; it is not a primary ingredient of the cosmos. Mind, for the Materialist, is merely an epiphenomenon; it is matter in a late stage of development. Mind, intellect, consciousness, cognition, reason, rationality, will—are offshoots of matter; shadow, not substance. The really fundamental stuff of the universe—according to this theory—consists of the particles of matter which we can see, touch, count, weigh and measure.

The Reality of Matter Depends upon Reason

It is a peculiar quirk of the modern mentality to affirm without question the reality of matter, but to deny reality to mind. The catch is that it is only by using our mind that we know that matter exists! A rock does not know that stars exist; a tree is unaware of the oceans. Only we human beings know these and other things, and we know them by exercising our cognitive faculties upon the impressions gained through the senses. But our own mind is so close to us, it is so intimately a part of our very self, that we allow ourselves to be misled into downgrading our minds into something subservient to matter.

Matter is indisputably real; that is obvious. But the reality of the mental activity by which we come to know this is equally obvious; every attempt to prove otherwise must be self-defeating. Downgrade the mind, even by the tiniest degree, and you discredit any conclusion you presume to reach by the exercise of your mental powers. A rational case against reason is a contradiction in terms, for the more airtight your argument against reason the stronger the proof—contrary to your intention—of the efficacy of reason.

My proposition may be put in the form of Aristotle's Law of Identity: Mind is Mind. Mind is not a mere attribute of something sub-mental. Mind is a primordial ingredient of the universe at the most basic level. To reduce Mind to the non-mental is to declare that Mind is non-Mind, which is non-sense. Because Mind is Mind we human beings are able to understand, to make choices, to take charge of our own lives, and to order our lives in line with human purposes. If we believe anything less than this about ourselves we lower our capacity to resist those misguided authoritarians who would make us their creatures.

Our Declaration of Independence talks about "unalienable rights . . .

endowed by the Creator," then goes on to say that governments are instituted to secure these rights. It appears to be one of those self-evident truths that no people would make a valiant effort to structure the laws of their society so as to protect each person's private domain and render justice for all, unless they first believe in individual rights—the idea that each person possesses an inviolable region at the core of his being. The old- fashioned Whig idea of the Founding Fathers was to limit the reach of the law to the task of securing and preserving freedom of individual action within the rules of the game, and the rules were designed to maximize liberty and opportunity for everyone, allowing everyone the elbow room each of us needs to pursue his personal goals. Only thus may each person's rights be secured.

The Nature of Rights

The word "liberal" today is the opposite of what the word meant when it first entered the vocabulary about two centuries ago, and a similar fate has befallen the word "rights." Formerly, rights signified individual freedom and personal immunity from arbitrary interference with peaceful action; the popular belief today is that "rights" are legal privileges entitling people to housing, medical care, education, equal pay, or whatever. How may we recover the sounder idea which was once the keystone of our political system?

There are three schools of thought as to the nature of rights. The popular "liberal" belief today is that society is the dispenser of rights, but this viewpoint depends on the verbal sleight of hand which confuses rights as immunities with "rights" as entitlements. If you define words to mean whatever suits your purpose, anything can be made to mean anything else. As Dr. Johnson said, if you call stones plums you can make plum pudding out of stones!

The second school of thought declares that nature is the source of rights. Let it be noted that rights, whatever they might be, are *not* material objects. Your liver, your brain, your heart *are* material objects; they have mass and extension, and can be weighed and measured. Likewise your body; when life has departed, your carcass can be reduced to $1.98 worth of chemicals! But your rights are like your ideas, in that neither your rights nor your ideas occupy space, nor can either be reduced to a chemical formula.

Now, nature is the material world; it's a marvelously intricate combination and recombination of the 105 chemical elements from actinium to zirconium. To speak of chemicals as the source of our rights makes as little sense as to speak of the chemical origin of mind and thought. Nor does it make much sense for the Materialist to speak of human nature as the source of man's rights, because his philosophy has first subordinated human nature itself to physical nature.

The world view of Materialism, I argued earlier, has no genuine place within it for Mind and thought; nor does it have a valid ground for the concept of rights—which is why it twists them into entitlements. There is a radical alternative to Materialism, but what shall we call this other world view? Call it whatever you like, but it's the religious or theistic world view in its affirmation of the reality of a non-material, mental, or spiritual dimension of the universe. Call it the sacred or divine order, if you like. Or refer to the *Mysterium Tremendum Fascinans* explored by Rudolph Otto in his seminal book *The Idea of the Holy*.

Our forebears were not afraid of using three-letter words in public so they used the term God for the creative Power. This Power also worked within—the word enthusiasm is derived from two Greek words meaning "the god within"—and thus each person participates in an order of reality beyond society and beyond nature. He is thereby endowed with an inner sanctum which is his alone, any trespass upon which is taboo. His rights are endowed by the creative Power.

The world view which declares that only material things are real, has no place for an independent moral order, and this leads to moral relativism. Theories of moral relativism have seeped into the popular mentality to emerge as slogans and bumper stickers such as "Whatever turns you on," "If it feels good, do it," "Do your own thing." The result is that the shrewd, the wily, the clever, the unscrupulous doing their thing have the rest of us over a barrel.

Moral Relativism

The *U.S. News and World Report* for October 8, 1984 has a story headlined "Nearly 1 in 3 Gets U.S. Benefits." It listed the eleven biggest programs from Social Security to infants' nutrition, involving 66 million people. Many of these recipients are into several programs, for 129,299,000 checks are mailed out from Washington regularly to these 66 million people. The report did not cover farm families, or union members, or the government bureaucrats, or those employed in schools paid for by taxpayers, or people in tariff protected industries, like those in Detroit who charge us thousands of dollars extra for the cars we buy. And there are others. We are now a nation where almost everyone is trying to live at the expense of everyone else. We have written a form of theft into our statutes. Why? Because there's a little larceny in our souls!

It's too easy, and too false, to blame the politicians. They're only our hired hit men, and in cases of this sort the principal is at least as guilty as his agent. Large chunks of the American electorate decided that living off government handouts is easier than working for a living and safer than stealing, so they created political parties in their own image and elected politicians who promise them an inside track to the public treasury.

Moralists in former periods inveighed against this sort of thing, but in the modern world they were no match for the theoreticians of communism and socialism who convinced almost everyone that legal plundering was the wonderful wave of the future. Intellectuals today are not so sure, and many now side with the free society-market economy team. And it is our good fortune that many men and women in public life, people of integrity and intelligence, are fighting in their own way the same battle we are waging.

Reason to Believe in An Objective Moral Order

Is there an objective moral order? That is not possible within the world view of Materialism! Is it probable within a theistic world view? I think so. Your individual physical survival depends on several factors. You need so many cubic feet of air per hour, or you suffocate. You need a minimum number of calories per day, or you starve. If you lack certain vitamins and minerals, specific diseases appear. There is a temperature range within which human life is possible; too low and you freeze, too high and you roast. These are some of the requirements you must meet for individual bodily survival. They are not statutory requirements; nor are they mere custom. They are laws of this universe; they are built into the nature of things. This is obvious.

And it is just as obvious that there are certain requirements and rules built into the nature of things which must be met if we are to survive as a civilization characterized by personal freedom, private property, and social cooperation under the division of labor. It would be impossible to have *any* kind of a society where most people are constantly on the prowl for opportunities to murder, assault, lie and steal. A good society is possible only if most people most of the time do *not* murder, assault, steal and lie. A good society is one where most people most of the time tell the truth, keep their word, fulfill their contracts, don't covet their neighbor's goods, and occasionally lend a helping hand.

No society will ever eliminate crime completely, but any society where more than a tiny fraction of the population exercises criminal tendencies is on the skids. To affirm a moral order is to say, in effect, that this universe has a deep prejudice against murder, a strong bias in favor of private property, and hates a lie. We may not like living in a stringent universe which lays down a tough set of rules for individual and social survival. But let's face it; nobody has ever come up with a better alternative to living here and now.

Of course we know that this planetary home of ours is where we belong; and it's a pretty good place to be, even if at times it's a pretty tough test run. Each of us came into this world chock full of potentialities and with an immense capacity for learning. At birth we were, in effect, handed a do-it-yourself kit, a do-it-yourself kit for the manufacture of a human being. And then we were given a life sentence in order to transform this raw material into a full-fledged mature adult. In the nature of the case this has to be an inside job, for each person is the custodian of the time, energies and talents which are uniquely his own. Each individual is in charge of his own life, constructing, by the choices he makes hourly and daily, the person he has it in him to become. No outsider can take over this responsibility for us.

The collectivist promise that if we give them the power they will fashion a new social environment which will create a new humanity, is a damnable lie—and I've chosen the word deliberately.

Becoming a human being is a full time job, and it's for life. But there is that perennial urge in the human psyche egging us on to bigger things, like the latest dream of empire, like a "brave new world," like one more desperate try at some newfangled model of the Tower of Babel. Every collapse of these megalomaniac dreams hurts, but it does provide some people with a clue that human fulfillment lies in a different direction; we have to begin from within. Gerald Heard used to say that we must grow as big inside as the whale has grown outside! A cartoon shows a man paying the final installment on his psychiatrist's bill. As he hands over the money the former patient says to the doctor: "You call this a cure? When I came to you I was Napoleon; now I'm nobody." We know that this former patient is on his way, but a gain of this sort feels at first like a loss!

Man is not God; he did not *create* himself, nor did he write the laws of his being; but men and women do *make* themselves. And as we seriously take ourselves in hand, we begin to discover who we are and what we may become. "That wonderful structure, Man," wrote Edmund Burke, "whose prerogative it is to be in a great degree a creature of his own working, and who, when made as he ought to be made, is destined to hold no trivial place in the creation."

The Apocalyptics

EDITH EFRON'S remarkable *The Apocalyptics: Cancer and the Big Lie* (New York: Simon and Schuster, 589 pp., $19.95) is the story of a scandal within a scandal. It is worked out in detective story fashion, with Miss Efron, a consummately able researcher, zeroing in after the perusal of thousands of documents on the culprits who have been misleading us about the extent of the cancer threat. Her book does not make for light reading, for it is densely packed on every one of its pages. But it is a richly rewarding study of misuse of the press by scores of people, both in government and out, who pretend to speak in the name of science.

The big overall scandal that engages Miss Efron's attention before she gets into the meat of her book is the one perpetrated by the environmentalists who think the earth is doomed by capitalistic industrialists who put profit ahead of human life. Her "apocalyptics" include Rachel Carson, Barry Commoner, Rene Dubos, Paul Ehrlich and George Wald, as well as a group of scientists at MIT who conducted a famous study for the Club of Rome. In her *Silent Spring* Miss Carson portrayed nature as good and attacked industrial man as the great defiler of our soil and atmosphere. Barry Commoner, the biologist, made the "ecological crisis" the burden of his testimony before the Muskie Committee, claiming that our capitalistic industrialists and pesticide-using agriculturalists were destroying the world's ecosystem. In a book titled *The Poverty of Power*, Commoner said that socialism offered the only way out. The report done by MIT scientists for the Club of Rome purported to prove that if we did not mend our profligate consumption, the earth would be running out of fuels and minerals by the year 2,000 A.D.

The universal doomsayers set the stage for Edith Efron's second scandal, the propagation of the theory that ninety per cent of our cancer is due to industry-made chemicals that get into the food we eat, the water we drink, and the air we breathe. This, in Miss Efron's extremely well-documented opinion, is the "big lie" she refers to in her title.

Miss Efron knows as well as anybody else that many artificially made chemicals are dangerous. But the idea that nature itself is pure and only man is vile can't stand up for a moment against the evidence that Miss Efron summons from her vast reading. The world is full of natural carcinogens that pre-date the birth of all our modern chemical manufacturing companies. Silicates and "asbestiform minerals" are widespread in our bedrocks. Our mines are full of radon, a radioactive gas. We get skin cancer from the sun. Our foods, whether organically grown or not, contain elements that could be cancerous. Miss Efron's list of natural carcinogens takes up many pages. What she demonstrates is that everything is chemistry, and much of chemistry, both natural and man-made, can be dangerous if genetic dispositions combine with circumstances to cause cells to go haywire in a still unexplained way.

When Miss Efron says, "there is nothing we can breathe, eat or drink without encountering carcinogens," it made me wonder how the human race has come as far as it has. Isaac Berenblum, who discovered there was such a thing as anticarcinogenesis, provides a hopeful answer. There are cancer inhibitors. And to set a carcinogen in dire motion a "promoter" may be necessary. If the "promoter" can be evaded, there will be no cancer. The whole thing is extremely complex. Yet our laws are based on what might be called "one-on-one" theory. "Regulatory" science is not like true science: it demands black-and-white answers to questions that still baffle even the most careful of our laboratory workers.

Questionable Tests

The whole business of using animals to test for carcinogens poses many conundrums. What will cause cancer in mice may not necessarily induce tumors in rats or hamsters. If there can be differing susceptibilities in animals, how can we generalize about man? Then there is the question about high and low dosage. In one experiment on the sweetener cyclamate, test animals were given the human equivalent of 552 bottles of soft drinks a day. Herman Kraybill, a dissenting member of the National Cancer Institute, says the data drawn from such tests as related to man "are almost science fiction."

Despite random variations, and the opinion of many scientists that two or three species of animals should be used if a test is to be considered anywhere near conclusive, OSHA considers that "a substance may be classified as a Category I Potential Carcinogen on the basis of scientifically evaluated positive results . . . in a single mammalian species in an adequately conducted long-term bioassay . . ." So the mice have it all on their lonesome. And Congress listens.

The scandal, as Miss Efron sees it, is that our scientists have not spoken up to refute the simplistic notions about cancer and cancer prevention that have been spread by the apocalyptics. They have not told the world that a study of various societies shows no correlation between the rise of industrialism and the prevalence of cancer. The dinosaurs had cancer. Socialism is no cure, nor is Third World rusticity. A study of cancer in Ethiopia and Chad would be meaningless simply because millions in those countries are dying of malnutrition before they could ever contract the diseases of old age.

Miss Efron, who wrote *The News Twisters,* has been extremely critical of the press—the "media"—in the past. Curiously she does not blame newspapers and television for misreporting on cancer. Reporters are dependent on official sources for their cancer news. When government agencies lead reporters down the garden path, it is the duty of scientists to protest. That they have failed to counter the "apocalyptics" is the true scandal. Edith Efron's book should do much to correct the situation.