

THE FREEMAN

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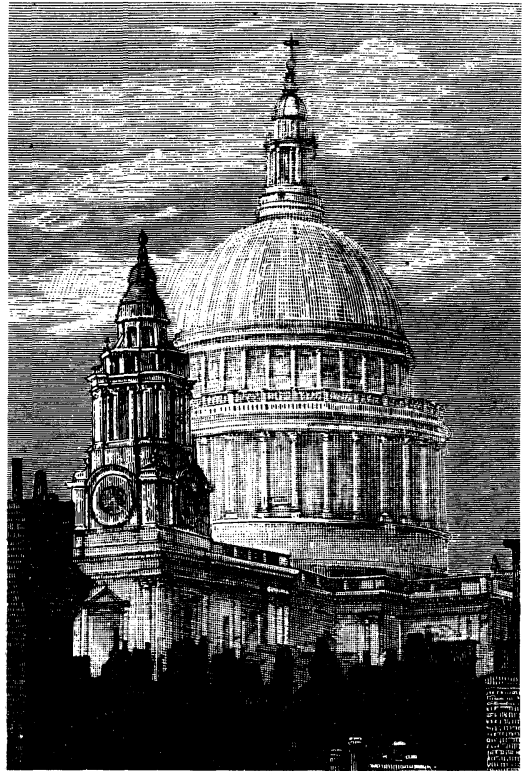
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Who Are the Poor?

When St. Paul's cathedral was rebuilt after the Great Fire of London of 1666, King Charles II visited the finished building. Upon completing his inspection, he allegedly turned to the architect and proclaimed that he found the cathedral "awful, amusing, and artificial."

The architect was delighted. In those days, the word "awful" signified what today we would call "awe-inspiring." "Amusing" and "artificial" corresponded to today's terms "amazing" and "artistic." This is a rather striking example of the usually harmless ways in which words change in meaning over the years.

Yet some changes in the meaning of words are ominous. Consider the word "poverty."

The term has always signified a significant shortfall of goods and services relative to some standard. But what standard?

The goods and services needed for bare survival? The goods and services necessary for basic health? The goods and services needed for a "tolerably comfortable and secure exist-

tence"? Over the years, poverty has been equated with a significant shortfall of goods relative to all these standards.

The latest suggested standard, however, is profoundly different from the above. Poverty today is widely understood in terms of a significant shortfall of goods relative to the goods possessed by the wealthiest members of a given society.

In this way, the notion of "poverty" has been linked to the concept of "equality." To abolish poverty it becomes necessary to ensure that the "gap" between the wealth possessed by the poorest members of a society and the wealth possessed by the wealthiest members of that society does not exceed some—necessarily arbitrary—factor.

Some quite amazing conclusions derive from this definition of poverty:

- By this definition, a society in which all people were equally destitute would be a society without poverty.

- If poverty signifies a significant shortfall of goods relative to the goods possessed by the wealthiest members of a society, poverty can be claimed still to exist until complete equality of possessions is realized. All that has to be done is continually to redefine what constitutes a "significant shortfall."

In this way the "poor are always with us." So, alas, is the veritable army of government-employed "poverty fighters" primarily responsible today for defining poverty!

Each conclusion, surely, is absurdly unacceptable. That says something about the definition!

—John K. Williams

Robbing Ourselves

Consumption by the wealthy, however conspicuous it might be, represents only the "tip of the iceberg" and isn't much affected by the various tax schemes whether of the "soak-the-rich" or "help-the rich" variety. Increase their taxes and the bulk of the tax will be paid from

their savings—savings which ultimately provide the housing stock, factories and productive machinery which house and employ millions of citizens. (Decrease their taxes, on the other hand, and again their consumption is relatively unaffected, but savings, investment, employment all increase.) Dole the increased tax receipts from the wealthy out to nonproducers and you increase demand without increasing supplies. Prices will rise and everyone's standard of living will decline accordingly.

Only to the extent that the wealthy are first able to restore a portion of their confiscated assets (through higher profit margins in response to increased consumer demand, for example) will they begin to offer jobs, agree to higher wages for workers, and so on. The net result is that the wealth bestowed on nonproducers is derived not from one wealthy stratum of society but rather from all strata, roughly in proportion to income and wealth shares that prevailed before the attempted redistribution.

—William T. Chidester
Market Vantage

Pass the Hay

I strongly suspect that if Henry Ford had had to bring out his Model T in today's environment, the courts and the regulators would have stopped him. Darn thing was dangerous; why, you could break your arm cranking it. Of course, horses were dangerous, too, but as an established technology, horse transportation would have fared better in the courts and regulatory halls. . . .

We are stifled by our own do-gooders, our law courts, our bureaucrats. Today the Wright brothers could not get off the ground. Could our early railroads have passed an environmental impact or safety test? What would the unions have done to Eli Whitney's cotton gin?

—Peter Huber, writing in the July 13, 1987 issue of Forbes.

Among the Barlows

by Victor Bobb

We called them barlows. The term was both condescending and unjust, for most of them were not really barlows. But there was enough generic similarity that the label was too useful to be abandoned.

In the beginning a *barlow* was an itinerant wino who hired on as a farm laborer and worked just long enough to save the money necessary for a good long binge. We gave them the name in recognition of their origins: Barlow's was a combination employment agency and tavern near the tracks in Spokane, and while barlows were waiting for the employment agency side of Barlow's to place them, they were generally letting the bar side of Barlow's please them.

We non-barlow farmworkers—summering college students, unambitious post-high school rural kids, and weathered old lifers—were content to refer to most of the itinerants as barlows, even when the implications of drunkenness and unreliability were unfair.

I worked with dozens of them. They were generally taciturn men, but they were willing to answer my questions, and I learned a lot about them. They were glacier-speed drifters, for the most part, men who began in the midwest and found themselves twenty or thirty or forty years later in eastern Washington. Walt was from Wisconsin, quit school at 14 to work in a pulp

mill in Green Bay, spent twenty minutes in the water off Okinawa after his ship was kamikazied, and lived when I knew him in a battered and stuffy old company-supplied travel trailer moored under a line of lombardy poplars on the edge of a pasture. Jack began in Nebraska; he had a sister living in Spokane (not sixty miles away) but in the three years he had been working here he had never made it those last five dozen miles to see her. Al was originally from a wheat farm near Pierre (pronounced peer), South Dakota; a hardworking man with a family, he was several cuts above most of the others. Ernest was a pathetic one, a tall pallid man with thick brown hair brushed straight back from his forehead. He looked like a fallen Bulgarian aristocrat, and he swore that he had been a concert violinist until he had been ruined by drinking. Surely he had astonishingly long white fingers (with which he now drove a clattering Cat D-6 over twelve thousand acres of marginal scabland wheatfields). Ross was a big-bellied Missourian who couldn't figger any reason for us to be mad at them Chinamen; they 'uz just people like anybody elst. Larry was barely my senior, an ignorant veteran with a gimpy eye and an inexhaustible supply of lies and fascinating nonfacts (he was in the street-legendary car stopped going four miles per hour on the freeway while its stoned driver thought he was doing a hundred; the U.S. Air Force has captured and disassembled several flying saucers but is keeping the fact covered

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up); he drank scotch at lunch one day and fell off a ladder. To cover up he claimed a dizzy spell from a war wound and as a result I was given a work assignment which I had coveted but which my juniority had denied me. Thanks, Larry, or thanks, Glenlivet: I used the free time in that job to rough out my dissertation and to read all of Melville and Faulkner.

These men were genuinely interesting to me. I liked them, and I enjoyed working with them, talking to them, responding to their elaborately obscene pantomimes, reflecting on their experiences and their futures. As a Certified Good American and Nice Guy I recognized their contributions to the general weal: we eat because uneducated men sling hay and truck wheat and herd cattle and repair plows. It took me a while to break training and to realize something beyond the Certified Wholesome Opinion, though. But then I realized it: I was not simply more lucky than these men. I and mine were, in stark fact, more competent people.

We wince. It sounds coarse, arrogant, smug. But even though the wince springs from a laudable source, it's time to stop wincing and look with something like objectivity and unsentimentality at the things which distinguish college professors from winos.

God bless Jeffersonian democracy and its ideals. They are in large measure the springs of our cultural, economic, and political strengths and successes. But we have become conditioned by the softer edge of twentieth-century egalitarianism to forget that the Jeffersonian ideal of equality (not to mention the nobility of the yeoman barlow) is an ideal of equal beginnings, not necessarily of equal endings. And we have been beaten, culturally, into forgetting that the second part of the Jeffersonian model sees—and celebrates—the rising to the top of an aristocracy of merit and talent and energy. We need to recall some of the forgotten ideas, to recapture some of the principles which have been discarded in favor of mushy dreams, unrealistic pretenses, and wishful thinking which ignore the concrete facts of existence.

Walt was pushing sixty and had lived for forty-five years in variations on the theme of that grease-spattered and airless little cell in which I knew him fifteen years ago. I was living then in a hotel room which cost eight dollars a week; it was a clean little hole in a dying farm town. Now I'm living in a five-bedroom house which was elegant before the Kaiser abdicated; it's not in the best neighborhood in town, but the taxes are reasonable and

we like the old woodwork and the oak floors and the big trees. Walt, if he is still alive, is certainly living in some place very similar to that stuffy old trailer.

I do not despise Walt, or scorn him, or resent the fact that his vote and mine are equal. In fact, I think of him with a real affection which is not especially condescending. I hope that he has his health and has stayed out of jail (he had a tendency to fight in bars when he could get to town) and has a nice place to live and can keep finding work for as long as he wants or needs to. But I am tired of pretending that the difference between my house and his company trailer is the result simply of the accidents of my good fortune and his bad breaks. I'm tired of playing at believing that we two are essentially identical and passive tools, that all things are otherwise equal, and but for aimless chance our positions might easily have been reversed. Of course chance was part of it—but what our mainstream post-Jeffersonian culture seems determined to ignore is this fact: I could do Walt's work as well as he could, but the reverse was and is not true. Walt was a truck driver and a hayslinger and a stockhand and a tractor driver. I was a truck driver and a hayslinger and a stockhand and a tractor driver. I learned his trade quickly and (in fact) I was trusted by our common employer with some jobs which would never have been left to the skill of a semi-barlow like Walt. But could Walt do my work as well as I can? I'm sorry, but he couldn't.

I claim no superior merit or virtue or utility inherent in my trade over Walt's. In fact, I am perfectly willing to acknowledge that mankind would eat if it had no professors of English, while it would starve if it had no farmhands. I freely acknowledge that there is a lot of humbuggery in the academy and that in some respects Walt works harder than I, and for (a little) less money. But the fact remains that Walt does what I could do, while I do what Walt could *not* do. I need not be arrogant to recognize and admit that simple equation and its implications. Perhaps we need to reflect, though, on the significance of the fact that in

the America of the 1980s it seems daring and revolutionary (and makes people uneasy) to make so simple a statement as that one—that there are quite simply differences in the native capacities and capabilities of various people . . . and that pretending otherwise does dangerous violence to truth and good sense.



Lentils are harvested by combine, trucked and stored in bulk, and then sacked in burlap for shipment all over the world. Relatively small portions are bagged in plastic for domestic consumption. Bagged lentils conform to specifications of size and wholeness: the smallest lentils and the broken lentils are shunted aside and graded lower.

The lentils are simultaneously sorted and cleaned by an ingenious machine which uses big fans, gravity, and a series of screens to cull the more desirable ones.

A small lentil or a broken lentil is just as nutritious, just as full of protein and food value, just as much a lentil as the big one. But the big lentils go into burlap for shipment to Germany and Venezuela and other destinations spray-painted through crude stencils onto the bags, while the small and broken lentils wind up being shoveled by barlows into troughs for the livestock.

Walt and I—and you, reader—are of the same flesh, even as the large and the small lentils are of the same leguminous protein. But I will lay you odds that Walt is not living where the woodwork and floors are polished and pretty. I am humbly grateful for the luck (and the divine blessing) which has gone into bringing me to this place; the amount is enormous and far beyond anybody's deserving. But I am also tired of being compelled by fuzzy thinking to pretend that luck is the only reason for the difference between my house and Walt's. It is not, and one of the most important tasks facing sensible people in the last part of the twentieth century is the task of making it possible for people to acknowledge their competence without violating propriety. □

The Affirmative Action Complex

by Mitchell Bard

Racism and sexism are serious problems in this country. Ironically, the solution that has been devised for these ills is blatantly racist and sexist. Affirmative action calls for decisions to be made solely on the basis of race and sex—which is the very definition of racism and sexism.

Nevertheless, the government has decided that it is necessary to use this means of discrimination to redress past discrimination, and this procedure has been ratified by the judiciary. The impact of affirmative action, its supporters say, is that it has provided minorities and women with opportunities they otherwise would have been denied. This is the beneficial side of the policy, but there is also a negative side which is being ignored.

The focus of the debate on this issue has been on whether affirmative action is justified given the past discrimination and current biases in our society. There has been little or no attention, however, to the psychological consequences of this palliative. Those consequences, in fact, may be quite grave and involve the erosion of the values of individualism and personal responsibility.

The explicit message of affirmative action is that everyone should have an equal opportunity



to health, education, and employment, but the implicit message is more sinister. That message is that all evils which befall an individual are the fault of society rather than the individual. Affirmative action has ratified the proposition that the historical and cultural prejudices of our society are the cause of problems encountered by individuals. This is something quite different, however, from the premise that affirmative action is needed because of the impact of these prejudices on certain groups.

This affirmative action complex is probably most prevalent on the nation's campuses where these programs have been most liberally applied. Thus, for example, students who are not qualified to be in the university in the first place quickly find themselves unable to do the required work and, rather than take personal responsibility for their difficulties, blame society for failing to prepare them adequately. They say that the education they received in high school was not good enough or that they are not getting sufficient tutoring on the campus.

Those things may indeed be true, at least partially, but few students seem willing to accept, even as a possibility, that it may be their own inability or failure to study that is responsible. It is even more disturbing to find students who *are* qualified who believe that the burden of responsibility for their problems should be laid on someone other than themselves.

There is a saying that no one owes you a living, but affirmative action has created the perception that someone owes disadvantaged members of our society not only a living but a virtually problem-free existence. The only thing society should owe them, however, is an

equal opportunity to become educated or employed. If the beneficiaries of that opportunity fail to make the most of it, then it is no more society's fault than if a white male fails to take advantage of his opportunity.

The problem could be solved by eliminating affirmative action. However, that is not going to happen so long as policy-makers believe that affirmative action programs are necessary to redress inequalities in our society. That being the case, it is important that we begin to recognize that the consequences of these programs are not benign and that affirmative action legitimates societal responsibility for personal failure.

At some point, and it may be nearer than some people think, the government will have to say that it cannot do any more for people. When that point is reached, the disadvantaged members of our society will have to stand on their own feet. In the meantime, we would be well advised to begin to condition the current beneficiaries of preferential treatment to the fact that they must accept responsibility for their lives. □

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Education vs. Egalitarian Politics

If we give way before the force which now menaces higher education and our society as a whole, we are not only opening the door to second-rate standards and a new and more vicious and permanent form of injustice. We are also passing control of tomorrow's leaders and tomorrow's dominant ideas from the privacy and independence of the academic community to the realm of egalitarian politics. If Affirmative Action gains the final say in curriculum, faculty, and admissions throughout higher education, effective control of society will have passed to the social engineers and the politicians, and America will have lost one of her greatest resources in the struggle to remain an open and effective society.

—GEORGE C. ROCHE III
The Balancing Act

Defending the Market

by Tibor R. Machan

One of the greatest benefits many Western political systems bestow upon their citizens is a substantially free market economy. In this system individuals are not legally prevented from seeking their economic advantage in the company of others who may be counted on to do the same thing. While there is no purely free economic system anywhere, surely the main difference between Western liberal democracy and other political systems is the presence of the economic opportunity afforded by a relatively free market.

There are those who dispute this. However, even these critics usually do not deny the presence of greater economic opportunity in the West. Rather, they frown on the value of this opportunity. Critics from Left and Right have alleged the corrupting influence of a political system that does not hinder the pursuit of commercial prosperity.

These critics tend to see the free market as catering to base human inclinations—self-interest, greed, lust, and so on. When one is not much hindered, let alone prevented, from pursuing wealth, one will, the critics say, focus all one's attentions on this pursuit. Thus, we are told, free market systems give us the commercialization of everything from religion to art. Doctors do not worry so much about medicine as about prospering economically. Lawyers, evangelists, educators, scientists, artists, politi-

cians—members of all vocations and professions with talent and skill concentrate predominantly on the bottom line.

Now there is something to this charge, if we look only at the evidence before us in most Western societies. But it is unfair to judge the matter from a narrow empirical framework. For example, it needs to be stressed that economic liberty is a recent phenomenon, following centuries of repression and oppression during which prosperity was out of the question for most people in the world. It is therefore not surprising that for a few centuries people would focus their attention on attaining reasonable material prosperity, besides a number of other goals that are important to them.

In any case, my concern here is not so much with defending the free market system but with discussing one of the prominent ways in which it is defended against a persistent indictment. Professor Paul Samuelson, a critic of the free market system, has made the following serious charge against the free market: “The Invisible Hand will only maximize total social utility *provided the state intervenes so as to make the initial distribution of dollar votes ethically proper.*” (*Collected Scientific Papers* [Cambridge, Mass.: MIT Press, 1966], p. 1410 [emphasis in original])

In other words, the justice of such a system is predicated on the presence of a strong government that first distributes wealth equitably. If we start out with some people having much

more than others, with no moral justification, then the results of market processes will be contaminated with this initial defect of unjust distribution. From this indictment follow almost all the other indictments leveled at the free market—the rich get richer while the poor get poorer, the important professions lack support while trivial pursuits are well rewarded, and so on.

The Economist's View

Defenders of the market offer different replies but one of them is very prominent, coming from the best placed group of such defenders: economists. Professor Murray N. Rothbard summarized this defense most aptly when he wrote, "There is no distributional process apart from the production and exchange processes of the market; hence the very concept of 'distribution' becomes meaningless on the free market. Since 'distribution' is simply the result of the free exchange process, and since this process benefits all participants on the market and increases social utility, it follows directly that the 'distributional' results of the free market also increase social utility." ("Toward a Reconstruction of Utility and Welfare Economics," in Mary Sennholz, ed., *On Freedom and Free Enterprise* [New York: D. Van Nostrand, 1956], p. 251)

The crux of this defense is that apart from what people actually choose to do in a free market, there is no other measure of what is good for them. Putting it more generally, this is the subjective value theory defense: How can we dispute the free judgments of market agents as to what are the best decisions for them to make apart from the decisions they actually do make as they carry out their commercial transactions? And if there is no way to criticize those decisions, how could anyone propose that the overall results of market transactions are defective and require state intervention? There is, in short, no justification for state intervention because there is no standard of value other than what people in fact individually and freely invoke—and thus the result of such judgments that characterize collective or "social utility"—in free market systems.

But there is a serious implausibility about

this defense. People may often be subjectivists in their general outlook, but in particular matters they are not. They may say that everything is relative as far as value-judgments are concerned—like beauty, goodness is merely in the eyes of the beholder. But when they see someone indulging in reckless purchases such as accumulating eight Rolls Royces, as did the late Liberace, or obtaining cocaine or pornographic books, they are perfectly willing to say that, contrary to the economist's theory, these people do not really benefit themselves in trade but are guilty of fadism, fetishism, excesses, immoderation, and so on.

These people will conclude, if they are without a contrary theory that accepts the legitimacy of ethical criticism of market behavior, that any society that makes it possible for people to be so indulgent must be ethically flawed. People quite reasonably dispute that "[the exchange] process benefits all participants on the market and increases social utility," at least as they observe the market in their particular situations.

They then go on to share the view of social critic John Kenneth Galbraith that the market produces many failures of distribution—people often fail to benefit themselves and their society when they produce and sell in the free market. Would it not be better that the money spent on pornography or heroin or even Michael Jackson gloves go to medical research, the arts, or economic education? Perhaps they won't know how to give a thorough philosophical defense of this conviction, but they will nevertheless hold it.

And they are right to do so. Free men and women can indeed make very bad, even evil judgments—there is no guarantee that when people enjoy freedom from the dictation of others, they will always choose to do the right thing. Anyone who proposes this view, as some economists do, will fly in the face of unshakable convictions and common sense. The very idea of freedom implies that one can do both good and evil while carrying on as a market agent. The details could only be known from close up, but they are no mystery—self-indulgent people are a dime a dozen. Misallocation of resources, therefore, is easy to conceive in free markets.

But does this not concede the case to those who wish to intervene in the market?

Not by a long shot. First of all, just as market agents can make bad judgments, so can those who would intervene with the behavior of market agents. And there are fewer pressures on these latter than on the former, since they enjoy “sovereign immunity” (e.g., government regulators cannot be sued when a mishap occurs in an industry they regulate, as is clear from recent accidents in airline transportation, chemical manufacturing, and so on).

But even more important, it is meaningless to talk of good human conduct without freedom. Persons who are fully or even only partially enslaved—dictated and forced to behave by others—simply cannot be given credit for good or evil conduct. They are in effect reduced to the status of robots.

Thus an unfree system is to the extent of its lack of freedom a dehumanized system. What needs to be accepted is that the utopian dream of making people perfect through limiting or regulating voluntary, self-regarding conduct is a dangerous dream, not some beautiful ideal as many suppose.

So the market must be seen as the best that we can do. Whatever failures it is exposed to can only be resisted by education, exhortation, example, but not by coercion. It will not do to deny that it is open to failure, as economists sometimes do, or to try to eliminate the failures by state intervention. And this should not be surprising—the quintessential human characteristic, after all, is our capacity for good or evil. Why should we expect any different from such a perfectly human enterprise as the pursuit of economic welfare? □

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Only in Individuals

Society lives and acts only in individuals; it is nothing more than a certain attitude on their part. Everyone carries a part of society on his shoulders; no one is relieved of his share of responsibility by others. And no one can find a safe way out for himself if society is sweeping towards destruction. Therefore everyone, in his own interests, must thrust himself vigorously into the intellectual battle. None can stand aside with unconcern; the interests of everyone hang on the result. Whether he chooses or not, every man is drawn into the great historical struggle, the decisive battle into which our epoch has plunged us. . . .

Whether society shall continue to evolve or whether it shall decay lies—in the sense in which causal determination of all events permits us to speak of freewill—in the hand of man. Whether Society is good or bad may be a matter of individual judgment; but whoever prefers life to death, happiness to suffering, well-being to misery, must accept society. And whoever desires that society should exist and develop must also accept, without limitation or reserve, private ownership in the means of production.

—LUDWIG VON MISES,
Socialism

Privatization: Best Hope for a Vanishing Wilderness

by Lawrence W. Reed

“**W**hat nobody owns, nobody takes care of.” That’s a fundamental rule of human behavior and, at the same time, a powerfully favorable commentary on the institution we call “private property.”

When something is owned by “everybody,” it is often not cared for, either. The worst cases of pollution, for instance, tend to be on lands or in waters that supposedly we all own in common. That says something powerful about “public” property.

In a recent annual report, the President’s Council on Environmental Quality put it this way: “Unowned resources are more likely to be over-exploited than resources privately owned and managed, since a private owner directly benefits from the preservation and maintenance of such resources and is thus more likely to act as a responsible steward.”

These points are so fundamental to human nature and experience that they ought to be cast in stone and enshrined as natural law. Yet, when it comes to conserving America’s natural environment, many people believe that government supervision of “public” property is the only game in town. The truth is that many of the very best examples of environmental preservation are the products of private groups and private property.

In the United States, more than 400 major private conservation organizations are actively engaged in saving natural things and places.

Professor Reed is President of the Mackinac Foundation in Midland, Michigan, and chief economist for James U. Blanchard & Company, based in Jefferson, Louisiana.

Many other enterprises which do not have conservation as their principal objective, such as hunting ranges, end up conserving and enhancing Mother Nature as an important by-product of their activities.

What follows are thumbnail sketches of eight of these groups. That’s not many, but those cited here are among the largest and/or most fascinating of the lot. All of them bear eloquent testimony to the general principle that private property does indeed serve the public good.

The Nature Conservancy

Sometimes referred to as “the real estate arm of the conservation movement,” The Nature Conservancy (TNC) is the biggest outfit in the preservation business. Headquartered in Virginia, it is organized as a nonprofit corporation whose resources, its literature states, “are devoted to the protection of ecologically significant areas and the diversity of life they support.”

TNC boasts current assets worth about a half a billion dollars, including 528,000 acres it owns outright. It manages conservation projects on more than three million acres in all 50 states, Canada, the Caribbean, and Latin America. Dues-paying membership now exceeds 350,000.

This burgeoning giant was founded in 1951. That’s when its first volunteers worked out of their homes to raise funds for purchasing the Mianus River Gorge, an area of hardwood forests 30 miles from New York City. Thanks

to aggressive fundraising and private gifts from landowners, the Gorge preserve has grown from 60 to 400 acres.

Businesses annually donate millions of dollars as well as thousands of acres which the organization's experts identify and approve as being of genuine ecological significance. Foundations and individuals are significant donors, too. Most of the rest of TNC's vast resources are raised by way of members' dues and gifts and a highly successful fundraising network. Though it frequently assists government agencies and sometimes even donates land to them, TNC gets no government money.

While radical environmentalists noisily lobby Congress for more "public" land, TNC goes about the preservation business in a quiet, capitalist fashion. Its approach has been likened to that of a cross between Adam Smith and Henry David Thoreau. After Consolidation Coal Company donated nearly 8,000 acres in central Illinois in 1984, one of that company's executives was quoted as saying of TNC: "They acquire land for, I believe, a very good purpose, but do so within the framework of the free market system. They do not seek to deprive individuals or businesses of their just property rights."

In the October 20, 1986, issue of *Sports Illustrated*, author Bil Gilbert described the way TNC operates:

If, for example, TNC operatives hear of a plan to build a ski resort on a mountain that provides the last good habitat for a certain warbler, some rarish plants and an endangered beetle, they will view this with great alarm. However, they will not spring into action by issuing antidevelopment manifestos or bringing down public opinion or courts on the would-be seller and buyer. Rather, TNC agents will simply commence conventional commercial negotiations to buy the tract outright before the ski people do. If successful they will then exercise their property rights by leaving the place to the birds, plants and bugs and start looking to cut the next real estate deal.

Projects managed by TNC chapters, field offices, and/or professional land stewards are in-

credibly diverse. Among the hundreds of these are:

- Pine Butte Swamp in Montana: a protected wetland habitat for grizzly bear and two endangered plant species which spans 17,550 acres.
- Cache River/Bayou DeView National Wildlife Refuge: 4,398 acres of swamp and bottomland hardwoods, home for the nation's largest concentration of wintering mallards.
- Pelekunu Valley in Hawaii: 5,759 acres of the state's most pristine rain forests, sea cliffs, and free-flowing streams—a purchase made possible by a single anonymous gift of \$1.5 million.
- King Clone creosote brush in California: 17 protected acres, home to an 11,700-year old ring of brush believed to be the oldest living organism on earth.

Some 3,200 species of plants and animals plus 1,700 communities of them are seriously threatened and require special husbanding, according to TNC estimates. All of them could be preserved if about 7.5 million more acres were acquired as sanctuaries. At today's market value, it's been estimated that would cost more than \$3 billion, but it's a goal the organization nonetheless hopes to achieve by the end of the century.

Clifford Messinger once worked for another conservation outfit which spends much of its time lobbying for government to do the job. Disenchanted with that approach, he left and later joined TNC's Board of Directors. He explained his switch this way: "I began to realize that you can win a victory today in Congress but lose it eight years later. But if you actually own the land, it will stay protected."

That cogent remark not only summarizes the philosophy and work of The Nature Conservancy, but it underscores a key advantage of private over public property, too.

The National Audubon Society

Second to TNC in terms of land holdings, The National Audubon Society is now in its 82nd year and boasts 500,000 members.

Named for famed naturalist and wildlife painter John James Audubon (1785-1851), its first members joined together to protest cruelty to birds. That original interest has long since broadened into a multi-million dollar annual campaign on behalf of all wildlife and its natural habitat.

With a 30 million-dollar budget and a staff of 50, the nonprofit Audubon Society is a powerful force for conservation research and education. It regularly hosts ecology camps and runs environmental education centers, research stations, and 80 sanctuaries around the country. Its youth programs, designed to instill in youngsters a deep appreciation for natural things, last year involved 120,000 children in close to 4,000 classrooms. Its widely acclaimed magazines and television specials have brought a superb new dimension in wildlife education to millions of Americans.

Audubon's field programs include protection of marshes, bogs, wetlands, prairie potholes, hardwood bottomlands, endangered animal species and their natural habitats in all parts of the country.

Auduboners as a whole tend to be more politically active than members of The Nature Conservancy, but that often puts them on the same side of public issues as the most diehard defender of the free market. The scaling back of the federal government's controversial Garrison Diversion project in 1986 was perhaps their greatest political victory.

Garrison was a billion-dollar boondoggle designed to move the Missouri River eastward in order to irrigate less than one per cent of North Dakota land for the purpose of growing primarily surplus crops. As originally planned, it was to involve a 3,000-mile tangle of canals, pipelines, and reservoirs, providing each affected farm with what amounted to a \$700,000 subsidy while destroying 70,000 acres of prairie wetlands and waterfowl habitat.

For years, Audubon fought Garrison in the courts and in Washington. Finally, in 1986, Congress voted to curtail the project substantially, thereby saving countless ducks, geese, shorebirds, gulls, and other animals from an unnecessary, State-induced demise.

Perhaps none of Audubon's efforts teaches a greater lesson than its Paul J. Rainey Sanctuary

in the coastal marsh of southwestern Louisiana. The 26,171-acre preserve is totally owned and operated by the Society and is the winter home of tens of thousands of ducks, snow geese, coots, and wading birds. It also supports a thriving population of raccoons, otters, muskrats, white-tailed deer, alligators, and several species of both saltwater and freshwater fin and shellfish.

What's significant and instructive about the Rainey Sanctuary is Audubon's policy of allowing oil and natural gas wells to be drilled within its boundaries. By contract with private companies, all exploration, drilling, and production activities at Rainey are strictly monitored by Audubon. There has never been a blowout, an oil spill, or any measurable environmental damage to the 400 acres affected. All clean-up activities by the energy companies are meticulously scrutinized to ensure that the marshlands are properly restored. The arrangement has even generated revenues for Audubon to use for managing the preserve and for acquiring more land. Chalk up another one for self-interest, the profit motive, and private property.

Sea Lion Caves

Stellar sea lions once swarmed along the Oregon coast by the thousands. Then, in the largely mistaken belief that the creatures were harming the salmon and tuna populations, commercial fishing interests prevailed upon the State of Oregon to declare a bounty on them. In 1920, the state legislature even instructed the State Fish Commission to exterminate the entire population of both seals and sea lions. In just the first year of the program, the top seven bounty hunters collected \$5,000 each from state taxpayers at \$5.00 per animal.

Other private individuals, alarmed at the slaughter, came to the rescue. Their lobbying eventually succeeded in ending the bounty and, in 1972, making the indiscriminate killing illegal altogether. But primary responsibility for saving the seals and sea lions of coastal Oregon must go to a private, for-profit organization called Sea Lion Caves, Inc.

Located just north of Florence, Oregon, Sea Lion Caves is a remarkable geological site—



North Maine Woods

America's largest sea cave and the only mainland rookery (breeding area) of the Steller sea lion. A 215-foot elevator takes visitors for just \$4.00 each down into a large, domed cavern connected by three natural passages to the open sea. In a breathtaking scene, as many as 600 of the animals cast occasional glances at awe-struck tourists.

The 125 acres around Sea Lion Caves also serve as an important refuge for sea birds. Development has been purposely kept to a minimum by the owners to assure the area remains close to its natural condition. It has become a highly valued research location for naturalists, scientists, and students of geology, ornithology, marine biology, and natural history.

In 1977, Oregon Governor Robert Straub wrote that the property "was one of Oregon's great tourist attractions as well as a great and natural resource." He also praised it because it showed that, in his words, "a private organization can, by using a combination of common sense and good management, develop and protect such a great resource—and still show a profit."

The owners themselves, representing the same three families which first started the operation in 1932, make a claim with which few naturalists would disagree: "Had not the area been privately owned, developed and protected, especially in the early days when the

State of Oregon paid a bounty for slaughtered sea lions, the Sea Lion Caves area would undoubtedly be devoid of sea lions and other marine life, and the natural wonder would probably not exist today."

North Maine Woods

A 2.8 million-acre tract of almost entirely private commercial forest and recreational land in northwestern Maine is attracting recognition from all over the Eastern Seaboard. Known as North Maine Woods, Inc., it has been described by the Council on Environmental Quality as "one of the most complex and innovative programs of multiple use of private lands for commercial timber production and public recreation in the country."

Though the principal purpose for the land was to husband and harvest valuable timber resources, North Maine Woods is open to recreational users. Its twenty owners formed the nonprofit corporation in 1974 to accommodate that second purpose. They regularly fund deficits between visitor fees and operating expenses. The owners include Boise Cascade Corporation, Great Northern Paper Company, and Irving Pulp & Paper, Ltd. The State of Maine owns a mere 5 per cent.

All the roads in the area have been privately built. Visitors use them to gain access to 123

camping areas, 11 canoeable rivers, and 252 lakes and ponds. Measures to ensure the safety of the 70,000 visitors each year have helped produce a spotless liability record.

Providing public recreation has been a costly undertaking for the private landowners, but revenues are now finally approaching expenses. Other landowners in the state have expressed interest in having the North Maine Woods organization manage their lands, too.

Extraordinary care for the land and its resources while accommodating recreational tourists has become a hallmark of the operation. This nurturing of the property's long-term integrity and productivity is a natural result of the private owners' direct financial interest in the capital value of the land.

People who make their living from the woods there go about their business near where others come to relax and enjoy the outdoors. Together they see to it, as North Maine Woods' literature puts it, "that, while they take forest products, fish, wildlife, and pleasure from this great region, they take nothing that will make it any less in the future than it is today."

Deseret Land & Livestock

Situated on 201,000 acres in five counties in northeastern Utah, Deseret Land & Livestock is a private, for-profit corporation owned by the Church of Jesus Christ of Latter-Day Saints (the Mormons). Its mission statement is "to make a profit, while at the same time improving the land resource and sharing the knowledge learned in the process," says General Manager Gregg Simonds.

Revenues are generated through a seed farm operation and a hunting range open to the public, but the 12,000 cattle raised on the land are the focal point of Deseret's profit-seeking activities.

What really makes Deseret an extraordinary place are the management's innovative techniques for nurturing the domestic livestock herd and enhancing the wildlife population simultaneously. The cattle are raised to "fit in" and complement the natural environment.

The amount of time the cattle are allowed in each of the ranch's more than 100 pastures is carefully limited. When it comes time to move them, a pickup truck with a police siren at the

lead is all that's necessary because the cattle know that the sound of the siren means a new, fresh pasture. The practice allows the used pastures to recover quickly.

Conventional wisdom used to teach that cattle and wildlife are competitors, but Deseret's wildlife operation has proven that they can be entirely compatible—and profitably so. Large herds of elk and deer roam the ranch and are carefully culled each year by a limited number of fee-paying hunters. Prime fawning grounds are off-limits to livestock during critical times of the year. So successful has the program been that some of the ranch's elk are being transplanted to public lands to improve hunting there.

Additionally, dam-building beavers have been introduced into areas badly scarred by erosion. Ducks take advantage of the numerous reservoirs and catch basins established for cattle watering. And the ranch is moving into a new area—fisheries. It is establishing a natural hatchery for cutthroat trout.

Increasingly, Deseret's innovative methods of making good neighbors of livestock and wildlife are attracting national attention. Its example is likely to be imitated with ever greater frequency.

The remaining three groups are in a slightly different category from the previous five. They own little, if any, land. Private property incentives may *seem* to be a minimal factor in explaining the success of their projects, since much of what they do involves stewardship and improvement of *public* properties. However, their conservation work is private *initiative* in action, financed by private *donors*, all designed to rescue endangered lands, waterways, and wildlife from *public* neglect or mismanagement.

Ducks Unlimited, Inc.

For fifty years, the private, nonprofit group known as Ducks Unlimited has raised funds and conducted programs to restore and develop wetland habitat for wild geese and ducks. Founded in the depression year of 1937, DU has taken in nearly \$400 million from gifts, dues, and fundraisers. Its 600,000 members

and 3,700 chapters are scattered all over Canada, the United States, and Mexico.

DU has built 3,200 habitat projects and reserved some four million acres of wetlands crucial to the survival of waterfowl. Rather than purchasing the land outright, it has cooperated with governments and individual landowners to secure long-term leases and easements. Following this pattern, DU implemented in 1984 a massive habitat construction program in a five-state area in the U.S. which accounts for nearly 30 per cent of the continent's waterfowl production.

Because it is an international organization, DU can cultivate the natural environment for birds beyond the borders of any one country. As one of its informational brochures states,

Waterfowl neither adhere to geographical boundaries, nor do they respond to the political climates encountered along their migration routes. Because of this, and because of DU's unique ability to reach beyond U.S. borders, North American waterfowl are cared for throughout their continental migrations—something the Federal government has not been able to accomplish.

Of the acres DU has conserved, 3.8 million are in Canada, 410,000 are in Mexico, and 136,000 are in the United States.

Trout Unlimited, Inc.

Similar in structure to DU, nonprofit Trout Unlimited is the world's largest citizens' conservation organization dedicated to the protection and enhancement of cold-water fisheries.

In 1959 on the banks of Michigan's Au Sable River, 15 people formed TU. It now has 450 chapters and more than 50,000 members throughout the United States.

TU's activities on behalf of trout and other fish include public education programs, water quality monitoring, watershed protection, restoration of both damaged stream sections and the biological carrying capacity of entire streams, bank stabilization, and stocking of young fish in various water bodies.

The organization's "Embrace a Stream" program has funded over 135 local and regional cold-water conservation projects since 1982.

Conservation International

In July 1987, a new private, nonprofit, Washington, D.C.-based organization known as Conservation International made headlines all over the world. With funds provided by private donations and with Citicorp Investment Bank acting as its purchasing agent, the outfit bought \$650,000 of the Bolivian government's \$4 billion external debt, and then promptly forgave it. In return, Bolivia committed itself to setting aside 3.7 million acres of its public lands as conservation areas in its exotic Amazon basin.

This first "debt for nature" swap may well establish a pattern for reducing a major portion of the Third World's financial obligations. Already, CI and a number of other groups are negotiating to do the same thing again in areas where government policies have ravaged environmentally sensitive lands. The practice still leaves the properties in the hands of the State, but at least they are no longer fully subjected to destruction by uncaring "public servants."

In Bolivia, Conservation International will regularly monitor the government's efforts and provide the technical support needed to manage the site. High on its list for protection are the region's 13 endangered animal species and more species of birds than in all of North America.

CI is only a year and a half old but has already shown in a dramatic way that creative, private initiative can rescue what governments have callously jeopardized.

A Fruitful Partnership

So it is that private people and private property can be the best of friends to Mother Nature. Indeed, it is becoming increasingly apparent inside and outside the conservation movement that the incentives inherent in privatized affairs are potent motivators that many properties now "publicly owned" could sorely use. In any event, as this sketch of just eight groups suggests, it would be a grave mistake for anyone to assume that those doing the most or the best to conserve our natural environment must be wearing government uniforms. □

Communal vs. Private Property Rights

by James D. Gwartney and Richard L. Stroup

What is common to many is taken least care of, for all men have greater regard for what is their own than for what they possess in common with others.

—Aristotle

The point made by Aristotle more than 2,000 years ago is as true now as it was then, and it is as important in primitive cultures as it is in developed ones. When the property rights to a resource are communally held, the resource is often abused. In contrast, when the rights to a resource are held by an individual or family, conservation and wise utilization generally result.

This point is ancient, but it is often missed today. Americans seem to be trying to make more and more property communal by allowing the government broad zoning powers and increasing public ownership of wilderness and parkland. Many people believe that the government protects resources more effectively than private individuals do, even though history shows exactly the opposite to be true.

The following examples, ranging from the sixteenth century to the present day, and from cultures as diverse as the American Indians and Communist Russia, illustrate the value of private property rights and the difficulties posed by communal property.

James D. Gwartney and Richard L. Stroup are Professors of Economics at Florida State University and Montana State University and Associates of the Political Economy Research Center in Bozeman, Montana. This article was adapted from their economic principles text, Economics: Private and Public Choice (Harcourt Brace Jovanovich, 4th ed., 1987).



1. Cattle Grazing on the English Commons

In a famous 1968 essay, “The Tragedy of the Commons,” Garrett Hardin used the England commons to illustrate the problems of communal ownership. In the sixteenth century, many English villages had commons, or commonly held pastures, which were available to any villagers who wanted to graze their animals. Since the benefits of grazing an additional animal accrued fully to the individual, whereas the cost of overgrazing was an external one, the pastures were grazed extensively. Since the pastures were communal property, there was little incentive for an *individual* to conserve grass in the present so that it would be more abundant in the future. When everyone used the pasture extensively, there was not enough grass at the end of the grazing season to provide a good base for next year’s growth. Without private ownership, what was good for the individual was bad for the village as a whole.

In order to preserve the grass, pastures were fenced in the enclosure movement. After the enclosure movement established private property rights, overgrazing no longer occurred.

Each owner had a strong incentive to protect the land.

2. The Property Rights of American Indians

Among American Indian tribes, common ownership of the hunting grounds was the general rule. Because the number of native Americans was small and their hunting technology was not highly developed, the hunted animals seldom faced extinction. However, there were at least two exceptions.

One was the beaver hunted by the Montagnais Indians of the Labrador Peninsula. When French fur traders came to the area in the early 1600s, the value of beaver pelts rose. The Indians hunted them more intensively and the beaver became increasingly scarce. Recognizing the depletion of the beaver population and the animal's possible extinction, the Montagnais began to institute private property rights, as Harold Demsetz has discussed in a 1967 *American Economic Review* article. Each beaver-trapping area on a stream was assigned to a family, which then had both the incentive and the ability to adopt conservation practices. A family never trapped the last remaining pair of beavers in its territory, since that would harm the family the following year.

For a time, the supply of beavers was no longer in jeopardy. However, when a new wave of European trappers invaded the area, the native Americans—unable to enforce their property rights to the beaver or to their land—abandoned conservation. They took the pelts while they could. Individual ownership was destroyed, and conservation disappeared with it.

The second animal that faced extinction was the communally owned bison or American buffalo, which roamed America's Great Plains. For many years, the buffalo and the migrating bands of Indians lived together in relative harmony. Buffalo were difficult for Indians to kill, and when they got one, they used it very carefully. But once native Americans gained access to both the gun and the white man's market for hides, their ability and incentive to kill the buffalo increased. There was no owner to protect the buffalo herds, and any one Indian—or even a tribe—who killed fewer to save more for

next year was unlikely to benefit since other Indians next year were much more likely to take the conserved buffalo. By 1840, reports Francis Haines in *The Buffalo*, Indians had emptied portions of the Great Plains of the area's large buffalo population.

In this case, the communal property problem could not be solved by the Indians. Unlike the beaver, the buffalo ranged widely over the Great Plains. Individual, family, and even tribal rights were impossible to establish and enforce. Like oil in a common pool or the sperm whale on the high seas, buffalo were a "fugitive resource," and their mobility made property rights (and therefore sound management) unattainable. Only the later invention of barbed wire and the fencing of the range solved the problem, after most buffalo herds had already been destroyed by both Indians and whites.

3. Property Rights in the Soviet Union

In the Soviet Union, most farmland is cultivated collectively. The output of the collective farms goes to the state. As a result, most of the benefits derived from wise conservation practices and efficient production techniques accrue to the state rather than to the individual workers.

Families living on collective farms are permitted to cultivate a private plot, the area of which is not to exceed one acre. The "owners" of these private plots are allowed to sell their produce in a relatively free market. Although these private plots constitute approximately one per cent of the land under cultivation in the Soviet Union, the Communist press reported that in 1980 about one-quarter of the total value of agricultural output was generated by these plots. The productivity per acre on the private plots was approximately 33 times higher than that on the collectively farmed land!

Property rights make a difference even in the Soviet Union. Clearly, the farm workers take better care of the plots they own privately than the land they own communally. These three examples assure us that Aristotle would be satisfied with the long-range accuracy of his observation. □

Ethics and Bottle Deposits

by Richard R. Mayer

We seem to have abandoned ethics in our public lives. Bottle deposit laws, which in many parts of the country require mandatory deposits and mandatory payment for returned bottles, are a good example.

I shop in my home town at Sulli's Supermarket. Actually it's not too super, as supermarkets go, but it's convenient and reasonably pleasant. I don't recall ever having been pressured to buy something I didn't want, and certainly Joe Sulli has never threatened to call the police if I didn't purchase a particular item.

Yet, under our state's bottle deposit legislation, I am in a position to do just that to him—threaten sanctions if he doesn't buy from me the bottles I offer at five cents apiece. That I can't do.

It is said that this is merely the refund of a deposit made at the time of purchase, or that it helps improve the environment. Both arguments fail.

The bottle is mine, to do with as I wish (calling the five cents a "deposit" doesn't change that). I may use the bottle at home for a flower vase, bust it up, give it to a friend, or sell it. So when I tender it to Mr. Sulli for a "refund" I am really asking him, under state coercion, to buy something he may not want. That is unfair.

So far as littering is concerned, that's my

problem, not his. Yes, I may toss out the bottle along the street; but that's a fault of mine, not the grocer's.

And if we look more closely we see that littering is mostly a problem with "public" lands, not property which is privately owned. Most people don't throw empties onto their own lawns; for those who do, let them live that way. Nor is it much of a problem in such places as shopping malls, churches, theaters, and social clubs. It usually isn't done there; if it is, the owner cares enough to police it.

Littering is a problem only on such government-controlled lands as highways, parks, and schools. And that is because we have lost respect. The public doesn't care about common lands anymore and state officials don't care enough to pick up litter on their own.

We also hear that the beverage industry realizes a windfall from unclaimed deposits. This may be true, but that's not the issue.

The problem is not with the merchant, and it is not between the merchant and me. Rather, it is between us and the state which requires the merchant and me to do what neither of us wants—otherwise there would be no need to coerce both "deposit" and "refund."

And it is an ethical problem, a question of what is fair and honest. The merchant may not represent my ideal of virtue; indeed I may feel it a rip-off when he tacks on the extra five cents to the price. Still, it was not his idea to begin with. Should I thus do the same to him just because I have the chance? Should I demean myself to the point of calling the cops if Mr. Sulli doesn't buy back from me the bottle he doesn't want? After all, he was thoughtful enough to make available the refreshment I sought in the first place.

No, in my case I have a choice; and I should consider what is fair.

The five-cent bottle deposit may not rank with abortion or terrorism as an ethical issue. Still, it is a matter of ethics and as such is important. Are we to say that some wrongs are less wrong than others? Or that we should only do what we see as right in larger matters? Or that for a nickel I'll do what is rather uncivil? Will we draw the line on harder issues or larger amounts if we won't in the case of five cents?

I think not. □

The Primacy of Freedom

by Brian Summers

There is a time to ask basic questions. Now, as we mark the retirement of Dr. Paul L. Poirot, who has contributed so much time, energy, and wisdom to the cause of liberty, it is perhaps appropriate for each of us to ask himself: Why should I follow this man's lead and dedicate myself to advancing the freedom philosophy?

On the surface, this seems like a trivial question. Liberty is good, and we should devote ourselves to good causes. But, as we all know, there are other things we can do with our lives and other ways to spend our money. Why is liberty so important that we should devote our efforts toward it when there are so many other worthy causes which cry for our attention and support?

One way to answer is to point out that the freedom philosophy, according to all available evidence, is correct. Both rational thought and historical study demonstrate that the free market, private property, limited government system works—it delivers higher living standards than any alternate system. If truth be known, then it is our duty to advance it.

But the same applies to other disciplines. We can find truth in mathematics, the arts, the sciences, and at least parts of various philosophical systems. If one's concern is the truth—and I believe that our allegiance to the truth must precede our commitment to any endeavor—then the freedom philosophy should have no

greater claim on our lives than any other demonstrably true system.

But the freedom philosophy is concerned with more than the truth. It is concerned with people. It analyzes the institutions and laws which enable people to prosper and grow, as well as the institutions and laws which have brought destitution, suffering, and death to millions of victims. The freedom philosophy is important because people are important.

This is not to trivialize other disciplines or to say that no one should work in a field which, for some of us, is less important than our overriding concern with freedom. If everyone were working for liberty to the exclusion of everything else, there would be no farmers, craftsmen, doctors, or any of the other people who keep us alive. Furthermore, if all intellectuals concerned themselves exclusively with the freedom philosophy, the world might be a freer place, but it would be devoid of the arts which enrich so many lives.

However, I think that, from time to time, we should take a long-term look at things. Sure, the arts and sciences are important. What would life be without them? But I think we also should give some thought to the institutions which enable such disciplines to flourish. We should ask ourselves why so many human advances have come from relatively free societies. We should ask why totalitarian nations not only have to steal our technology, they can't even feed their own people.

Consider, in particular, medical care. I marvel at the advances in medicine and medical technology, and I applaud those who freely

Mr. Summers is a senior editor of this journal.

This piece appeared in Ideas on Liberty: Essays in Honor of Paul L. Poirot, an anthology to mark Dr. Poirot's thirty years as Managing Editor of The Freeman.

contribute their time and wealth to support medical care and research. There is no belittling their contribution. But again, I think it is important to give some thought to the social system which creates the wealth we contribute, as well as consider the institutions which best facilitate an adequate diet, sanitation, technological, biological, and chemical advances, and which foster a spirit of open inquiry. It also is instructive to consider first-hand reports of people who have witnessed the appalling medical systems in totalitarian states.

If, as I contend, the freedom philosophy is so important, the question then becomes—not why should anyone devote his life to advancing this philosophy—but why don't *more* people work for liberty? Why—when resources are being squandered at an incredible rate, when billions of people continue to suffer in abject poverty, when statism unleashes its fury in seemingly endless wars and acts of terrorism—why doesn't the great mass of humanity cry "Enough!" and throw off the shackles of enslaving governments?

A Lack of Understanding

The answer, in short, is that they don't understand. And we shouldn't be surprised, since in most cases, people never have been told the basic precepts of the freedom philosophy. For more than a generation, the task of explaining these precepts has fallen largely on the shoulders of Paul Poirot, his colleagues at The Foundation for Economic Education, and the authors and speakers who work with this Foundation.

It is difficult to measure the success of these educational efforts. However, we see encouraging signs in our daily contacts with friends and acquaintances, as well as in the mass media. In particular, there seems to be a growing awareness of the need for economic incentives, of the dangers of protectionism, and of the disruptive consequences of an expansionary monetary policy.

This is a start. And FEE has played a major role in this growing understanding of basic economics. In fact, it can be argued that The Foundation for Economic Education has been the wellspring of this understanding. One can

make an impressive list of the educators, journalists, clergymen, and political leaders who have received our publications and attended our seminars.

But this is not enough. For one thing, the level of economic illiteracy is still appalling. How many people can explain the causes of the Great Depression? How many know that the gas lines which plagued us in the 1970s had nothing to do with OPEC, and everything to do with price controls? How many have any understanding of how government spending is diverting billions of dollars from our nation's capital base? The list could be expanded almost at will.

Beyond the baneful consequences of economic illiteracy lies an even more troubling failing—the inability to make connections. The next time there is a documentary about war, or famine, or death camps, watch it. Look long and hard at the suffering faces. Then ask yourself why these things happen. Can you explain why these are not natural occurrences, that they have economic and philosophical causes?

Or visit a hospital and marvel at the medicines and medical technology. Can you explain why these advances are available now, after several centuries of relative freedom in a few capitalist countries, while for thousands of years and in most nations the diseases we now conquer as a matter of course were a death sentence? Why here? Why now? And why not sooner?

I will not attempt to answer these and similar questions in the space of this essay. These questions have been raised and answered for more than a generation in the pages of *The Freeman*, FEE's various books and pamphlets, and FEE lectures and seminars. The Foundation for Economic Education asks the important questions, and hundreds of thousands of lives have been influenced by this Foundation's work.

But even if we could reach every man, woman, and child with sound economic arguments, even if we could sit them all down and lecture to them on economics for a month, it still wouldn't be enough, because economics isn't enough. Economics isn't even the most important part of the case for freedom. This, in



PAUL L. POIROT

Paul L. Poirot

On December 6, 1987, Dr. Paul L. Poirot was honored for his many years of dedication to FEE, The Freeman, and the cause of liberty. The gathering included FEE trustees, current and former staff members, Freeman authors, and family and friends of Dr. Poirot.

Dr. Poirot joined the staff of FEE in 1949. When The Foundation began publishing The Freeman on a monthly basis in 1956, Dr. Poirot was named managing editor—a post he held for 30 years.

Upon his retirement last year, Dr. Poirot was elected a Trustee, with life tenure, of The Foundation for Economic Education.

fact, is the primary thing for those of us engaged in economic education to remember.

The only reason I can down-play the role of economics in advancing the cause of liberty is that there is something which is so much more important: moral principles. Freedom is right because it is morally right. Government intervention in peaceful affairs—no matter at whose behest, and no matter what the excuse—is wrong.

Fortunately, while many people are turned off by economic arguments or have trouble with abstract concepts, almost everyone has some understanding of right and wrong. The difficulty is in getting them to see that the free market, private property, limited government system is the only social system in keeping with sound moral principles. There is further difficulty in convincing people that when government, acting as someone's agent, harms one person to benefit another, then the person who used the government for his own ends is as guilty of plundering another as if he had committed the act himself.

But this moral education can be done. In fact, for more than thirty years, Paul Poirot and his various authors did a masterful job of explaining moral principles and showing how they apply to public issues as well as to private matters.

By and large, *The Freeman* has been the only publication doing this vitally important work of attracting people to the freedom philosophy by presenting the free market, private property, limited government system as an ideal moral system—one we would want our children to inherit. This, more than anything else, is what has made The Foundation for Economic Education not only unique, but what makes it the hub of the entire freedom movement.

Let us thus, at this occasion, thank Paul Poirot for his tireless efforts, his wise counsel, and his steadfast commitment to the highest principles—and rededicate ourselves to upholding the moral principles which are the key to our success as individuals, as a Foundation, and as a nation. □

Economic Power

by Joseph S. Fulda

Economic power is a recurring theme among political theorists ranging from radical political economist John Kenneth Galbraith on the left to neoconservative intellectual Irving Kristol on the right. The doctrine that wealth is power is almost never challenged in our day and in many rather subtle ways has come to underlie much public policy: Public campaign financing, campaign contribution limitations, equal time, antitrust laws, and estate taxes are examples. This concept, which originated in the late nineteenth century and has since lain dormant in the public mind, needs re-examination.

Any analysis of economic power must begin with a clear conception of power and its antithesis, liberty. Power, as I understand it, is the capacity to rule others: to make decisions for them without their consent and, in particular, to allocate their time and direct their energies. Liberty, in contrast, is a condition of noninterference and self-rule in which people make decisions for themselves without asking any man's leave and in which they themselves apportion their time and channel their energies in such manner as to them seems most satisfying.

An Unholy Alliance

If the capacity to coerce is the sum of power, it is hard to see how it inheres in a pile of riches. The usual reply is that wealth can be used to obtain instruments of coercion along

with those willing to use them, and that power can indeed be found in a stockpile of weapons and men of violence. Now this is all very true, but inasmuch as the unholy alliance between wealth and force, public and private, is universally proscribed in free republics, it cannot account for the tirades, so common in the media, against economic power. Neither bribery nor organized crime, typical examples of the alliance, is the object of their fulminations. Economic power in that sense has no apologists and, therefore, no detractors.

Nor is it the holders of power, as we have defined it, who stand accused of its use in the economic realm. Indeed, government is seen as the enemy of economic power, Galbraith's "countervailing power," the embodiment of Kristol's populist temper. Government may indeed tax, subsidize, regulate, and monopolize, but it is rather the wealthy and the corporations who are said to enjoy economic power. But the only power which properly attends on wealth alone is *dominium*: "the complete power to use, to enjoy, and to dispose of property at will" (*The American College Dictionary*). But is this power? That is, is it control over one's own domain or control over the domain of others? Far from being a "power," *dominium* is a liberty, the liberty to do with the fruits of one's labor and the return on one's investment as one wills.

Market "Power"

Thus, proponents of the concept of economic power must be referring to something other than power over the economy. What they

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mean, in fact, by “economic power” is the ability to influence a variety of social and economic conditions through the use of one’s wealth in a volitive, rather than coercive, manner. In a market society, those with the most purchasing “power” ultimately decide what will be produced in greater measure than those with less purchasing power. Likewise, those with the most to invest will proximately decide what goods will be produced and what services will be offered in greater measure than those with less to invest.

Yet this influence over the free economy is central to its operation: Either what is produced will determine what will be consumed, as in the command economy, or what will be consumed determines what is produced, as in the market economy. Likewise, either profits and losses will take capital from those not satisfying consumer wishes and reward those more sensitive to others’ needs, or capital will be allocated and production decisions will be made in accordance with political, rather than economic, criteria.

The notion of economic power, then, is really nothing other than what an honest socialist would admit is economic freedom, what Marx called “that single, unconscionable freedom.” This freedom, mistakenly labeled power, is often resented when it comes to play in the political sphere; this resentment leads to all manner of “election reforms.” It is also resented in the economic sphere, and leads to a variety of anti-competitive “regulatory reforms.” It is perhaps most resented in the social sphere—just recall Mrs. Reagan’s difficult first months as First Lady—and results in sweeping demands for a new social order.

What is really resented is the necessarily unequal nature of this influence that will always obtain when men are left free. The gurus of the far left denounce concentrations of wealth as power, because the resulting influence over who will lead and what will be produced and consumed is something they feel is best left with them and their plans for our future.

The Hypocrisy of Collectivism

What other explanation can honestly be put forth for collectivist denunciations of wealth in capitalist society, in view of their decidedly hypocritical “solution”? After all, they propose to combine all corporations into one giant Corporation, to endow it with all natural resources, to arm it, to invest it with legislative and judicial powers, to grant it the police power, to imbue it with quasi-spiritual authority, to place its public relations department in charge of the media and its acquisitions department in charge of the military and then, as final sublimating acts, to replace a much-decried self-perpetuating board of directors with a self-perpetuating Party elite and to simply rename this new Corporation, the State.

That is the socialist prescription for concentrations of *both* wealth *and* power, and it is a very clear guarantee of poverty, misery, and tyranny, the three things alone which socialism has produced beyond comparison. Not for nothing is socialism thus sometimes, however inaccurately, described as “state capitalism”! If one is truly interested in limiting economic power, one should consider limiting government—for that is where power properly understood lies. □

In the March *Freeman*:

“‘Blat’: Corruption in Eastern Europe” by Michael Brewer

“Rewarding Uniformity” by Kenneth A. Bisson

“The Great Depression” by Hans F. Sennholz

The Self-Interest of Self-Regulation

by J. Brian Phillips

Proponents of government regulation often overlook the many ways in which the free market itself polices producers, without the need for government involvement. Let us make a quick survey of these ways, in the hope that it will help us better to understand the market process, as well as shed further light on the wisdom of government intervention.

Almost all businessmen realize that to succeed they must please the buying public. A satisfied customer most likely will become a regular customer. A dissatisfied customer will not return, and too many dissatisfied customers will cause a business to fail. Consequently, the businessman has an interest in providing his customers with quality products and services at reasonable costs.

Honest businessmen, who are well aware of the importance of customer goodwill, try to insure that their businesses are not harmed by the unscrupulous actions of others. Many of them have formed voluntary associations to provide self-regulation in their industries.

It is important to understand the differences between a voluntary association and a government agency. The fact that the former is voluntary and the latter is compulsory is the fundamental distinction. But this leads to other differences.

Government agencies are political bodies. Consequently, political expediency often has as much to do with a regulation as any legitimate economic or ethical concern. Furthermore, government regulatory agencies are established

for the express purpose of protecting consumers. And herein lies the unspoken premise: that the interests of consumers and producers are inherently at odds.

Voluntary associations are established precisely because this assertion is false—honest businessmen want to protect both consumers and themselves from dishonest businessmen. Voluntary agencies operate on the premise that the interests of consumers and producers do not conflict and, in fact, are often the same.

Government regulatory agencies ultimately set producers against one another, as each tries to secure political privileges for himself. Voluntary associations operate cooperatively, as producers realize that their mutual needs can be better served by working together.

All of this sounds good on paper. But do businesses really attempt to promote the interests of both consumers and producers? Is practice consistent with theory?

Most trades and professions have some form of professional association. Many of these are little more than fraternal organizations. Others would be more accurately described as political action committees. But many provide some form of self-regulation within their trade through the inspection of facilities, the establishment of a code of ethics, and/or the arbitration of disputes. Businessmen across the nation recognize the self-interest in self-regulation.

For example, the Greater Houston Builders' Association (GHBA) is a voluntary organization whose members include insurance, mortgage, and title companies, banks, subcontractors, material suppliers, and many other

trades, as well as builders. The association's primary purpose is to further the interests of its members through advertisements, promotions, the arbitration of disputes, and by watching for legislation which will adversely affect the building industry.

But the association also promotes the interests of consumers. Its Code of Ethics states, among other things: "Honesty is our guiding business policy. High standards of health, safety, and sanitation shall be built into every residence. Members shall deal fairly with their respective employees, subcontractors and suppliers."¹ GHBA members can use the association's logo in their advertisements, indicating to consumers that the business has pledged to uphold these principles. When disputes do arise, consumers have not only the local GHBA to turn to, but also state and national builders' associations.

On a state level, the Bed and Breakfast Society of Texas (BBST) offers self-regulation to approximately 75 bed and breakfast establishments across the state. BBST is a privately owned business which also serves as a reservation service for its members. BBST owner Marguerite Swanson has a background in guidance and counseling, which she uses to screen potential guests. Because many of the bed and breakfasts are located in private homes, this screening process prevents the dilemma of an unexpected guest suddenly appearing at one's door. This provides members with a degree of protection.

To join the BBST, an establishment must meet Mrs. Swanson's guidelines. These include a separate bathroom for each guest bedroom, fresh fruit for breakfast, and more subjective criteria such as comfort and safety. Mrs. Swanson personally inspects each establishment and looks for "the kind of accommodations that I and all the people involved with bed and breakfast would actually seek ourselves."² She also teaches several courses in running a bed and breakfast, which member hosts and hostesses must periodically attend.

Consumers benefit from the BBST because they are guaranteed quality accommodations at reasonable rates. Additionally, Mrs. Swanson tries to match guests with compatible hosts, making the experience more pleasant for ev-

eryone. She must be successful, because she always has a backlog of bed and breakfasts wanting to join her association, and most guests are repeat customers.

A more widely known example of self-regulation is the Better Business Bureau (BBB). Established in the early 1900s "to combat untrue advertising and set standards for advertisers,"³ BBBs exist in nearly every city in the country. Today the BBB has three primary goals: maintaining truthful ads, early detection of fraud, and arbitrating consumer disputes. A BBB pamphlet states that the organization "is devoted to the protection of the consuming public and to the vitality of the free enterprise system. It works to fulfill its mission by fostering the highest standards of responsibility and probity in business practice, by advocating truth in advertising and integrity in the performance of business services."⁴ Clearly, the BBB and its members recognize the self-interest in self-regulation.

Another form of self-regulation includes authorized and limited dealerships. This method insures consumers that the local businessman is in good standing with the manufacturer and is qualified to sell and/or service a particular product. When dealerships are limited, dealers must maintain high standards or the manufacturer may withdraw its authorization and present it to a competitor.

In addition to these various forms of self-regulation, the free market has provided a number of other means of promoting consumer awareness and exposing fraudulent business practices.

Underwriters' Laboratories (UL), for example, is an independent testing agency established by insurance underwriters. One of the first such agencies, UL tests nearly every electrical appliance put on the market today. Manufacturers are charged a fee to have UL test their products, and those that meet their standards may use the UL label on their products and in their advertising. This label is now widely recognized as a symbol of safety and quality.

The monthly magazine *Consumer Reports* is published by Consumers Union, an independent "nonprofit organization established in 1936 to provide consumers with information and advice on goods, services, health, and per-

sonal finance”⁵ Consumers Union makes anonymous purchases at retail outlets, tests the products, and publishes the results. To avoid conflicts of interest, and maintain its independent status, Consumers Union does not allow manufacturers to advertise in its magazine, nor does it award a “Seal of Approval.” They merely test and report on consumer products, so that consumers can judge for themselves which products best fit their needs.

However, *Good Housekeeping* magazine does award a “Seal of Approval” which manufacturers can use on their products and in their advertising. In awarding the seal, the magazine guarantees to replace or refund the cost of any defective product. Obviously, to make such a guarantee, the magazine is confident of the

product’s quality, and the consumer is guaranteed satisfaction.

Honest businessmen have a vested interest in exposing fraudulent practices. The organizations we have examined demonstrate that businessmen recognize this and are willing and able to protect their self-interest through the voluntary, peaceful means of the free market. In the process, they also protect consumers. □

1. Pamphlet distributed by the Greater Houston Builders’ Association.

2. Interview with Mrs. Swanson.

3. Pamphlet distributed by the Better Business Bureau of Metropolitan Houston.

4. *Ibid.*

5. Masthead statement, *Consumer Reports*.

IDEAS
ON
LIBERTY



Wanted: Cooperation

From the awareness of the limitations of individual knowledge and from the fact that no person or small group of persons can know all that is known to somebody, individualism also derives its main practical conclusion: its demand for a strict limitation of all coercive or exclusive power. Its opposition, however, is directed only against the use of *coercion* to bring about organization or association, and not against association as such. Far from being opposed to voluntary association, the case of the individualist rests, on the contrary, on the contention that much of what in the opinion of many can be brought about only by conscious direction, can be better achieved by the voluntary and spontaneous collaboration of individuals. The consistent individualist ought therefore to be an enthusiast for voluntary collaboration—wherever and whenever it does not degenerate into coercion of others or lead to the assumption of exclusive powers.

—F. A. HAYEK,
Individualism and Economic Order

The “New Socialism”

by John K. Williams

Five years ago my native country of Australia elected a socialist government. A perusal, however, of legislative measures taken by that government leads one to ask precisely what the label “socialist” today means, at least in Australia.

The socialist government floated the Australian dollar, thereby partially entrusting the nation’s currency to market forces rather than to political control. It deregulated banking and numerous other industries. It cut marginal tax rates. It froze, and in some cases actually cut, social security benefits and tightened eligibility requirements for welfare. It is now planning to sell government-owned enterprises to the private sector. Our socialist Prime Minister and Treasurer regularly speak of the importance of incentives, the significance of market forces, the necessity for capital formation, and the crucial role of private property rights in achieving prosperity.

This, on any showing, is extraordinary. Australia embraced the welfare state very early in the twentieth century, well before the United States. The socialist party, traditionally, has defended and sought to expand the welfare state. Yet here is a socialist government cutting back on the welfare state and implementing policies one might expect from a conservative government.

This “new-look” socialism is not unique to Australia. The most startling manifestations of socialists flirting with freer markets are those emerging in the Soviet Union and China. Spec-

ulation is rife as to the significance of Mikhail Gorbachev’s drastic reforms of the Soviet economy, but the nature of these reforms is clear. Factory managers, not socialist planners in Moscow, are to determine what is produced and in what quantities, and this determination is to be related to consumer demand. Profits and incentives are being lauded as the key to economic efficiency. Tony Benn, one of the radical left-wingers of British politics, bluntly stated, after a recent trip to Moscow, “What Gorbachev is saying is that the old revolutionary centralism has ended up in a nightmare, that it has paralyzed initiative. I think he’s right.” (*The New York Times*, July 19, 1987)

China’s experiments with freer markets are further developed. A volume of essays by Chinese economists (D. Xu, *et al.*, *China’s Search for Economic Growth* [Beijing: New World Press, 1982]) anticipated in theory what recent practice has implemented. The essayists without exception stressed the importance of capital, the need for incentives, and the significance of a system of property rights which approximates in many respects what we would call private property. “Authentic” socialism is given a new definition: “From each according to his ability; to each according to his work.”

And so the story goes. Austria is debating selling off 49 per cent of many state-owned businesses to the private sector. Britain under Margaret Thatcher has privatized British Telecom, Rolls-Royce, and other state-owned firms with a total value of more than ten billion dollars. France, with a socialist President, has sold off four of the largest socialist enterprises

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and plans to privatize 65 companies in all. Regardless of the alleged political commitment of whatever party happens to be in power, the trend seems to be toward freer markets and away from old-style socialism.

Why this trend? Let me offer four answers and sketch them by reference to Australia's experience.

First, the socialists began to question a question! For years Australian socialists asked, "Why poverty?" They assumed, as most of us assume, that material abundance is the norm, the state of affairs to be taken for granted. Laden shelves and groaning freezers in supermarkets came to be expected; the oddity requiring explanation and remediation was poverty.

Yet historically the vast majority of people who have walked this earth have known only grinding, soul-destroying destitution. The historical oddity crying out for explanation is not poverty, but material abundance and prosperity.

Australian supporters of socialism and the welfare state had for decades taken wealth creation for granted and concentrated on how wealth should be redistributed. But historical and economic reality have now forced them to ask a different question: How is wealth *created*?

Focusing on that question has forced them to look toward the free market economy. There is still, of course, a desire to redistribute wealth. All that Australian socialists have realized is that goods that do not exist—goods that have not been created—cannot be distributed at all! They are hoping that somehow they can trust the free market economy to create wealth, and then intervene to redistribute that wealth.

Yet that hope turns, I suggest, on a dubious presupposition: that it is possible to separate the way the free market creates wealth from the way this market process distributes goods and services. The catch is that in the free market, private property system, there are no unowned goods to be distributed. Machinery is owned. Tools are owned. Goods are owned at every stage of the production process. A redistribution of goods must be preceded by a forced expropriation of those goods. By definition, that involves a drastic modification of private prop-

erty rights—the key to the market's creative genius, as free market economists long have insisted and the brightest of contemporary historians are confirming.

Second, a preoccupation with the redistribution of wealth inexorably led Australia to progressive taxation and high marginal tax rates. But it was discovered that, like it or not, the simple equation, "High taxation rates yield large taxation revenues" had ignored one vital factor: A high marginal tax rate constitutes a low cost of leisure, and if the cost of leisure is low more people will choose leisure than paid, productive employment.

It makes sense. Suppose you earn \$100 a day. On Monday you pay tax at the rate of 20 per cent. Should you choose not to work and opt instead for leisure, you surrender \$80. That \$80 is the cost to you of choosing leisure. And it's high. On Tuesday you pay tax at the rate of 40 per cent. That means you retain \$60 of the \$100 you earn. The cost to you of not working—that is, of choosing leisure—has dropped from \$80 to \$60. On Wednesday you pay tax at the rate of 60 per cent. A day of leisure now costs you a forgone \$40. Imagine that on Friday you pay tax at the rate which applied in pre-Thatcher Britain: 98 per cent! Choosing leisure now costs you a mere \$2! One would be crazy not to choose that bargain-priced leisure! But when sufficient people so choose, a community's productive output drops.

And that is but the tip of the iceberg. Not only do high marginal tax rates discourage production, they also discourage capital formation—the investing of assets in machinery, tools, and so on. The key to any people's prosperity is the capital invested per worker. A people failing to replenish or increase its capital invested is pleading for drastically reduced productivity.

The Fall of Australia

At the turn of the century Australia was among the three wealthiest nations on earth in terms of that admittedly dubious measure, Gross Domestic Product per person. Seven decades of the welfare state, and the high marginal tax rates such necessitates, have seen

Australia plummet to about thirtieth! Capital invested per worker is at an all-time low. And the poor have suffered the most—for the economically weakest members of a community are also the politically weakest.

In this context, it is worth noting that a massive study in 1980 by the Joint Economic Committee of the United States Congress concluded that the key variable in wealth creation is the capital/labor ratio. The report further notes that this ratio has been falling in recent years, and is far below that of Japan. A crucial factor leading to this fall has been taxation policies to transfer wealth from the allegedly rich to the allegedly poor. (*Special Study on Economic Change*, volume 10, *Productivity: The Foundation of Growth* [Washington D.C.: Government Printing Office, 1980])

Third, wealth transfers have created "poverty traps" for the poorest. A family on welfare in Australia receives approximately \$230 a week in money and in kind. (The Australian dollar is worth about 70 U.S. cents.) Accepting a part-time job at less than \$230 actually results in a *decrease* in family income. Even accepting a job at a wage above \$230 a week may make little economic sense. A person accepts a job at, say, \$250 per week. He or she works forty hours simply to acquire \$20—the difference between the wage and the welfare payments received if not working. The disincentives to productive enterprise are there—and they are working very well.

Fourth, the bureaucracy and veritable army of professional welfare workers presiding over our welfare state continue to grow, and are absorbing resources at an alarming rate. Indeed, if one calculates the total monies devoted to Australia's "war against poverty" and divides that sum by the number of people below the so-called "poverty line," one comes up with a wealth transfer of some \$30,000 (Australian dollars) per poor person. Clearly, the poor do not receive that money. It goes essentially to the middle-class overseers of the system.

Many other factors could be cited in the worldwide move toward more market-oriented economies. I am convinced, however, that one critical factor has been all but missing, and almost entirely overlooked.

Those who, from the sixteenth century on-

wards, defended the free market in a free society, defended the market not simply because it led to material abundance, but because it rested firmly upon the liberty of all men and women peacefully to exercise their skills as they saw fit. What mattered was that people were free to dream their own dreams and strive to make these dreams come true. That such a social order led to unprecedented material abundance, witnessing the conquest of the dread specters of famine and destitution, was a staggering bonus.

I rejoice that economic reality has forced socialists in Australia and elsewhere to look with new openness at a market economy. Yet I am convinced that until there is a fervent commitment to the freedom the market order enshrines, our liberty—and the abundance we dare not take for granted—are tenuously grounded at best.

Mugged by Reality

To be mugged by economic reality—to discover that it is impossible efficiently to coordinate a people's productive activities by political decrees and a master plan—is one matter. To embrace the liberty of all men and women to formulate their own visions of the good life and to pursue those visions is an entirely different matter.

What the authoritarians want is economic efficiency. They have belatedly realized that non-existent goods and services cannot be redistributed, and that a concentration upon wealth distribution and an indifference to wealth creation ill serves their vision of an allegedly just society.

Yet they still cling to the belief that a just society would display a pattern of wealth distribution that they have coercively imposed. They still embrace a disastrous distinction drawn by John Stuart Mill, that the productive capacity of the market, and the allocation of goods and services effected by the market, can be distinguished. Hence the ongoing search for that will-o'-the-wisp, the "neutral" tax, and a level of taxation that will simultaneously maximize taxation revenues without grossly modifying the behavior of productive individuals.

The crucial point is that the new socialists

are not committed to individual liberty and to private property rights as a necessary condition for the realization of that liberty. Indeed, it is more than conceivable that an economically "efficient" new-style socialism may more successfully fetter liberty than the notoriously inefficient, centrally planned socialist states of yesteryear.

Perhaps the most important moral to be drawn is that lovers of liberty must get their priorities right. Admittedly the market works, making material abundance a reality. Yet our primary defense of the market must be that only a market economy takes seriously the liberty of all men and women to dream their own dreams

and peacefully to strive to make those dreams a reality.

When the focus moves from principle to pragmatism, from the moral rightness of the free market to the economic efficiency of the market, trade-offs between liberty and material abundance are to be expected. The moment such trade-offs in principle are allowed, they are destined to become realities. With them, however, comes the fading of the dream that matters most: the dream of a world in which no person is a pawn to be manipulated by another, and in which talk of the dignity of all people—a dignity rooted and grounded in the equal liberty of all—is more than empty rhetoric. □

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Howard Dickman's *Industrial Democracy in America*

by Robert James Bidinotto

Of the enduring myths of economic history, few have hung on as tenaciously as the necessity and desirability of labor unions. Consider a recent editorial in my hometown newspaper, typical of the conventional wisdom:

“While unions today have a somewhat tarnished reputation, most historians generally concede that they played a key role in American economic and social advancement. Unions fought for higher wages and improved benefits for workers, allowing them to participate in the American dream. More money also meant workers could purchase more goods, fueling a consumer economy.

“Without unions and their system of collective bargaining, the U.S. could have lapsed into labor chaos and class warfare. These conditions in other countries led to the establishment of communist-inspired revolutions.” (*The New Castle (Pa.) News*, August 14, 1987)

The editorial is correct about one thing. Today, there is general agreement (even from many on the political right) that, while unions may be too powerful, back in the days of “total laissez faire” they were a necessary counterweight to the unchecked power of “robber baron” employers. Unions are widely credited with raising the standard of living for millions of workers; with introducing democracy into the workplace; with protecting helpless laborers from being devoured by rapacious businessmen and blind market forces.

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Until now, there has been scant literature presenting a systematic, comprehensive challenge to these claims. But some years ago, eminent labor economist Sylvester Petro suggested a project to Howard Dickman. American trade unionism—especially its economic and intellectual rationales—deserved a dissection comparable to Ludwig von Mises’ analysis in *Socialism*.

What were the ideas, the intellectual influences, that shaped today’s labor policies? What popular myths and misconceptions gave rise to those ideas? When did they begin—and where have they led us?

Petro obviously had great confidence in his young listener. Dr. Dickman was then only in his mid-twenties; and his specialty was corporate, not labor, history. But he had an impressive familiarity with the theory and history of the free society, and the diligent temperament of a true scholar. He accepted the commission and went to work.

It would be ten years before the results of his labors were published. Now, readers can see for themselves that Petro’s trust was not misplaced, with the appearance of *Industrial Democracy in America: Ideological Origins of National Labor Relations Policy* (La Salle, Illinois: Open Court, 1987, \$32.95 cloth, \$16.95 paper).

Dickman’s book is a true landmark—a grand synthesis of history and analysis, an extraordinary *intellectual* account of trade unionism and collective bargaining. In its breathtaking scholarship alone, it rivals or surpasses

such standard works as Milton Derber's *The American Idea of Industrial Democracy* and such impressive general intellectual surveys as Sidney Fine's *Laissez Faire and the General Welfare State* or Arthur Ekirch's *Decline of American Liberalism*. And among the distinguished works written by pro-capitalist scholars, it compares with Dominick Armentano's *Antitrust and Monopoly*, Robert Hessen's *In Defense of the Corporation*, and Thomas Sowell's *Marxism*—except that it is far more ambitious, in aims and execution.

Building on the premise that *ideas* are the tidal forces underlying the course of events, the author explicitly avoids a mere “blow-by-blow history of the organized labor movement in America.” Rather, he examines the pedigree of “industrial democracy” as a concept, focusing on the thinkers and theories which made unions and strikes possible. Quoting Friedrich Hayek, Dickman makes clear that his aim is to examine ideas which “often have crept in almost unnoticed and have achieved their dominance without serious examination. . . .”

There are several things unique about Dickman's treatment of labor history. First, his own philosophical and economic framework is explicitly laissez-faire capitalism, building on the ideas of Ludwig von Mises, Ayn Rand, W. H. Hutt, Sylvester Petro, and Friedrich Hayek. This allows him to place labor relations policies within the much broader context of the general rise of anti-capitalistic, anti-competitive doctrines and institutions. And unlike others who have plowed the same field, Dickman begins not in Civil War America, but as far back as fourteenth-century Europe, “in order to track down the intellectual sources of industrial democratic thought to their wellsprings.”

From this unusual theoretical and historical vantage point, *Industrial Democracy in America* offers withering refutations of the historic, empirical, moral, legal, and economic arguments for compulsory collective bargaining. The result is a comprehensive case against coercive unionism unprecedented in scope, rigor, and persuasiveness.

For example, Dickman challenges the historical claims typified by the newspaper editorial cited earlier. As he summarized for this writer:

“It is not true that unions were indispensable, that without unions workers would never rise. It is not true in history that most industrial violence was the fault of employers. And it is not true that unions were fighting for the working class.” To refute these contentions, he traces the history of unions back to the medieval guild system.

The arguments offered for medieval guilds were strikingly similar to those put forth today for labor unions. “The guild monopoly was rationalized as necessary to protect the unsuspecting public from shoddy goods and unscrupulous artisans, on the theory that unrestricted competition would force producers and traders to cut corners to seize one another's business and exploit the hapless consumer,” Dickman observes. “Guilds also existed to protect the social and economic status of merchants and craftsmen—probably their true *raison d' être*. In a society which valued security over liberty, the guildsmen were entitled to a customary, secure position in the social order, *a property in their job or way of life.*”

“Owning” One's Job

This premise of a property right to one's occupation led inevitably to hostility toward free market competition, and ultimately to violence. Dickman cites accounts of fourteenth-century merchants waylaid for underselling competitors; of guild members hiring thugs to murder non-members who refused to be bound by guild rates; of frequent “bloody battles for the monopoly of work in a particular town,” as one historian put it. The premise of a proprietary interest in one's job also led to the rewriting of history. Employers are typically portrayed as *initiating* industrial violence by depriving workers of their “rightful” jobs or wages while workers merely “fought back” for what was “theirs.”

Besides corrupt “rights” theories, economic arguments were advanced to buttress the pro-union position. There was the argument (endorsed by Adam Smith) that workers must be at a disadvantage when bargaining with employers; that labor was the cause and measure of all economic value (Smith's “labor theory of value”); that laborers should get “the full

product of their labor"; that business recessions occur when workers are not compensated enough to "buy back what they produce"; etc.

Dickman raises and challenges each of these contentions on economic grounds, displaying a formidable grasp of free market theory. Take just one example—the notion of the "competitive disadvantage" of workers bargaining with employers.

This remains a central pillar of the case for labor unions. Even Adam Smith argued that it "is not . . . difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms." While in "the long-run the workman may be as necessary to his master as his master is to him, . . . the necessity is not so immediate." Dickman observes that such passages by capitalism's founding father "constituted an important legacy to the radical socialist and syndicalist critics of capitalism—who purported to demonstrate that employers kept wages at subsistence. . . ."

But are workers, in fact, at a true disadvantage? Due to the mobility of capital, Dickman notes, "an above-normal profit *due to a below-normal wage rate* creates a competitive imbalance which employers will exploit by bidding wages up." He quotes economist J. R. McCulloch, who pointed out that "a discrepancy of this kind could not be of long continuance. Additional capital would immediately begin to be attracted to the department where wages were low and profits high; and its owners would be obliged, in order to obtain labourers, to offer them higher wages. It is clear therefore, that if wages be unduly reduced in any branch of industry, they will be raised to their proper level without any effort on the part of the workmen, by the competition of the capitalists."

Dickman also rigorously examines the even more basic collectivist moral premises upon which such economic theories frequently rest. He points out, for example, that Adam Smith's well-known advocacy of self-interest, natural rights, and *laissez faire* was qualified and ambiguous; that Smith himself embodied the conflict between the premises of individual rights and social utilitarianism.

"The wise and virtuous man," wrote Smith,

"is at all times willing that his own private interest should be sacrificed to the public interest of his own particular order or society . . . [and] that the interest of this order or society should be sacrificed to the greater interest of the state or sovereignty of which it is only a subordinate part . . . [and] that all those inferior interests should be sacrificed to the greater interest of the universe. . . ."

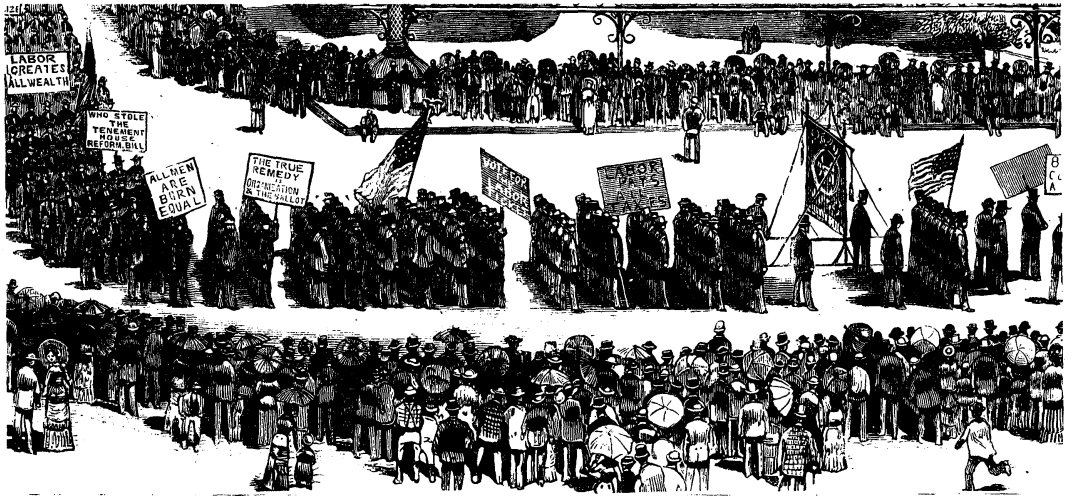
Similarly, John Stuart Mill's commitment to individual rights had a utilitarian escape clause. "All persons," said Mill, "are deemed to have a *right* to equality of treatment, except when some recognised social expediency requires the reverse."

It is impossible to discern any basic moral distinction between these two statements, and such anti-individualistic slogans as, "Ask not what your country can do for you; ask what you can do for your country"—or, "From each according to his ability, to each according to his needs." Because such collectivist philosophical premises were shared even by capitalism's most prominent defenders, they have remained largely unchallenged to this day. Dickman painstakingly isolates and dissects each of these in turn, as he traces their historical progression through academia, popular opinion and, eventually, into the law itself.

Of course, these isolated empirical, economic, and philosophical premises slowly congealed into full-blown theories, which Dickman broadly categorizes as "socialism" and "pluralism." The heart of the book traces the origins, implications, and consequences of these two schools, both of which profoundly shaped the American union movement.

Socialism and Pluralism

These competing collectivist theories proposed differing forms of industrial organization. Under socialism, all the means of production would be under the *exclusive* control of society, via the central government. Most American unionists, such as Samuel Gompers, did not buy the socialist call for abolition of private property; they feared (correctly, as modern history has shown) that the socialist state can be as repressive of labor as of business. However, they did swallow much of the



A labor demonstration in New York City's Union Square, 1882

socialist critique of the competitive marketplace, particularly socialist theories of unemployment and class conflict, and its moral attack on the profit motive.

Competing with the socialists were the so-called pluralists, who were equally hostile to individual rights, but were suspicious of centralized state power. Their solution was to favor the "rights" of *groups*. "Pluralism . . . was a vision of industrial democracy that amounted to what we might dub 'private government'—to a system in which the state would delegate to private social groups the traditionally sovereign legislative power to make rules for all individuals similarly situated in the economy—rules that overrode their contractual liberty," Dickman explains.

Pluralism cut across the left-right spectrum. In its right-wing, or corporatist form, society "would be reorganized into compulsory economic groups that would conduct economic affairs under the supervision of the state—that is, some kind of tripartite entente of government, business, and labor unions." (This, of course, was the form of collectivism that eventually led to fascism, and to modern industrial policy proposals.) "On the left, pluralism sought to eliminate the capitalist class and parcel out control of the economy between guilds or syndicates of workers and the state." (This syndicalist or guild socialist approach led

to the contemporary movement for "decentralized, participatory democracy," in both the economy and society.)

One of the book's mere peripheral triumphs is its unmasking the facade of collectivist benevolence. Before the advent of modern public relations techniques, socialists and syndicalists were more forthcoming about their nature and aims.

Thus early German socialist Johann Gottlieb Fichte spelled out the state's ascetic expectations of the individual. "He who thinks *at all* of his own person and personal gratification, and desires any kind of life or being, or any joy of life, except *in* the Race and *for* the Race," he wrote, is "at bottom, only a mean, base, and therefore unhappy man."

French syndicalist Louis Blanc added: "If you are twice as strong as your neighbor it is a proof that nature has destined you to bear a double burden. . . . Weakness is the creditor of strength; ignorance of learning." (Today, John Rawls says the same things, much more opaquely.)

Nor were such sentiments foreign to our shores. American socialist Edward Bellamy, in his famous utopian novel *Looking Backward*, proposed dealing decisively with any laborer shirking his work duties: ". . . the discipline of the industrial army is far too strict to allow anything whatever of the sort. A man able to do

duty, and persistently refusing, is sentenced to solitary imprisonment on bread and water till he consents."

These few samples from among many Dickman has unearthed suggest something of the animating spirit of modern collectivism, of which the labor movement has played a key part. It is a measure of the richness of his scholarship that these quotations are drawn not from the text, but from his exhaustively detailed footnotes, which are an education in themselves.

An Anti-Empirical Approach

Dickman's methodological approach is as refreshingly unfashionable as are his conclusions. Because he takes ideas seriously, his approach is strongly anti-empirical—if we take "empirical" to mean dwelling on the concrete details of historical events. But if "empiricism" is simply taken to mean exhaustive scholarship, no one can fault him on that score.

Inevitably, his deliberate decision not to wallow in journalistic minutia affects the narrative, sometimes in startling ways. For instance, the book concludes with the effects of the National Labor Relations Act (Wagner Act) of 1935, essentially ignoring subsequent developments. That is because Dickman regards the Wagner Act as an ideological "watershed in American life," which not only "drastically altered the legal framework of the market economy in America," but also "transformed the very meaning of unionism and collective bargaining as they have hitherto been known."

Later efforts to mitigate its onerous consequences—e. g., the Taft-Hartley Act (1947) and the Landrum-Griffin Act (1959)—were largely cosmetic, he maintains. The ideological war which he chronicles really ended with Wagner. It is that law's basic premises which still dominate conventional thinking on labor unions, and have a continuing impact in such areas as civil rights policies and affirmative action regulations governing the workplace.

The decision not to bring the account "up to date" then, is in keeping with his thematic intent, his focus on ideas—even though it is a decision which more conventional empiricists may criticize. But in any event, Dickman succeeds brilliantly in showing how abstract theories become embodied in the concrete reality of human actions, institutions and, eventually, laws. To supplement his analysis, he appends the text of thirteen pivotal pieces of Western labor legislation, from the Ordinance of Labourers of 1349, to the Wagner Act of 1935. (The Fascist Labor Charter of 1927 is also reprinted, for its unnerving similarities to American labor legislation.) The reader can see for himself the ultimate destination of "mere" theories.

Free market advocates have always been long on theory, but too often short on scholarship. Dickman's formidable work (complete with 158 pages of appendices, footnotes, and index) shows the powerful persuasiveness of a union of the two approaches. *Industrial Democracy in America* is a revolutionary contribution to the literature of industrial relations. Its long-term effects cannot yet be gauged; but for our time, Howard Dickman has provided scholars and thinking laymen with a brilliant interpretive alternative to popular interventionist mythology. And he has exposed, with thundering finality, the fascistic portents inherent in "our quasi-syndicalist system of industrial democracy." □

Industrial Democracy in America, by Howard Dickman, is available in paperback for \$16.95 (plus \$1.00 U.S. mail or \$2.00 UPS shipping and handling). To order, or to request a complete free catalogue of books on liberty, write Laissez Faire Books, Department F, 532 Broadway, New York, NY 10012-3956. (212-925-8992)

**A REVIEWER'S
NOTEBOOK**

Out of the Poverty Trap

by John Chamberlain

In their *Out of the Poverty Trap: A Conservative Strategy for Welfare Reform* (New York: Free Press, 264 pp., \$17.95), Stuart Butler of The Heritage Foundation and Anna Kondratas of the Department of Agriculture's Food and Nutrition Service have a go at remedying what they perceive as the deficiencies of Charles Murray's epochal *Losing Ground*.

It is not that Butler and Kondratas disagree with Murray's analysis of the perverse effects of Lyndon Johnson's efforts to create a Great Society in which poverty would be abolished forever. The Murray statistics are irrefutable. Aid to Families with Dependent Children had actually broken up families. What had happened was that the man of the house would disappear so that his woman could qualify for government money for her children. Bill Moyers, an LBJ man, proved this for black families in a notable TV dramatization. But the Moyers' account went for white families as well.

Butler and Kondratas's own summary of the situation might have come directly from Murray's study. "Whether or not the system's financial incentives encourage dependency," they write, "the 'rights' view of welfare, whatever its humane intent, would probably have been enough by itself to undermine the War on Poverty. The structure of welfare eligibility and incentives has merely aggravated the problem. Assistance is based on need, rarely linked to

efforts at self-improvement. Failure is rewarded, and 'deficiencies' are the key to one's well-being. When an unmarried mother shuns the support of her family and home, she is more deficient and so receives more help. If the father of her child would rather live off her than provide for her, so be it, welfare checks will not stop arriving. If he marries her and gets a job reflecting whatever skills he may have, the assistance will be cut, of course."

Most conservatives would presumably say that the Welfare State "entitlements" philosophy cannot be continued forever. Paying for it requires an economy-wrecking combination of taxation and inflation. Nevertheless Butler and Kondratas commend Lyndon Johnson for asking all the right questions. They think the American people, out of the goodness of their hearts, will insist on continuing entitlements until some way is found to make them less necessary.

Butler and Kondratas say they have no stomach for charging machine guns. What they advocate is a strategy of building small coalitions in favor of reform while eroding the power of those who would resist it. They talk about giving the poor the resources and responsibility for making their own choices in housing, child care, education, and other things, much as Margaret Thatcher has done in Britain.

In a succinct paragraph Butler and Kondratas specify "ideas like public housing tenant management, where the residents call the shots. Ideas like education vouchers so that poor families no longer have to put up with schools that seem to be run in the interests of the teachers' unions, not the children. Ideas like switching service contracts from outsiders to groups from within the community, who are more in tune with community needs. Ideas like changing day care rules so that Mrs. Smith is no longer a law-breaker if she looks after the kids of mothers who want to work."

Workfare

The idea of workfare is now stirring in various stages. Butler and Kondratas approve, but they realize it will cost money. They are not against measures that might be considered harsh, such as compelling teenagers to remain in their parents' homes with illegitimate children until the fathers can be located.

"Efforts to step up the collection of child support payments from absent fathers," Butler and Kondratas write, "are an appropriate and long overdue step toward encouraging parental responsibility. In the case of unwed mothers, especially teenage mothers, enforcing paternal responsibility is more problematic. Yet we have an obligation, for the child's sake, to attempt to enforce it. There is no reason why the new wave of workfare reforms should not include job clubs, mandatory job search, and fathering courses for unemployed fathers of illegitimate children. Whether or not they 'worked' initially, society would be sending a firm message to tell those parents what is expected. Government should not allow children to be held hostage so that parents can have their chosen lifestyles financed at public expense. . . . Both sets of grandparents of illegitimate children born to minors should be held legally responsible for supporting their grandchildren."

Since delinquent fathers are so adept at fading into the woodwork, it will surely be a long time before much can be done about them. Butler and Kondratas are more convincing when they talk about such things as the growing momentum for tenant management in public housing.

"A few years ago," they say, "tenant management was a mildly interesting and controversial curiosity. Today tenant managers are regularly featured in newspaper articles, in national news magazines, and at congressional hearings. The reason? The Washington-based National Center for Neighborhood Enterprise started to work closely with a number of management groups. Reporters eager for a good story were directed to showcase projects by the National Center's president, Robert Woodson."

Robert Woodson is apparently somebody with whom to conjure. Together with Kimi Gray, he has promoted the Washington Kenilworth Tenant Managed Project. A study of this project by Coopers and Lybrand has found enormous cost savings, service improvements, and job creation attributable to resident control.

The approach of Butler and Kondratas won't satisfy those conservatives or libertarians who want to get rid of the whole rigmarole of food stamps and the rest of the entitlements programs. But Butler and Kondratas are obviously right when they say we are a nation of altruists willing to dally with state compulsions. Ayn Rand has failed to convert enough people. The mitigating approach may be the best that can be managed until the ravages of what has been called the "malarial economy" have convinced enough people at the grassroots that something more fundamental is required. □

HAYEK ON LIBERTY

by John Gray

New York: Basil Blackwell • 1986 • 270 pp. • \$12.95 paperback

Reviewed by Richard M. Ebeling

In the 1930s Friedrich A. Hayek was recognized as one of the leading opponents of the emerging Keynesian Revolution in economic policy. In the 1940s he was equally recognized as one of the most articulate and incisive critics of socialism and government central planning. But the 1950s and 1960s were the intellectual highwater marks of both Keynesianism and socialism, and Hayek was "forgotten."

By the 1970s, however, Keynesian economics and socialism were in retreat and their demise was symbolized by the 1974 awarding of the Nobel Prize in Economics to Professor Hayek. Since then interest has reawakened in his earlier writings, he has published several important new works, and a number of volumes have appeared analyzing his contributions to the various social sciences.

One of the best of these critical evaluations is John Gray's *Hayek on Liberty*, which recently has been published in a second, revised edition. Professor Gray's training is in philosophy, politics, and economics, and he brings these skills to bear in offering an integrated analysis of Hayek's ideas as a coherent system of thought.

The heart of Hayek's system, as Professor Gray emphasizes, is his view of man and the constraints on man's ability to know and understand the world in which he lives. Being one of the elements forming the world, man lacks a privileged position that would enable him to step "outside" and see objectively how reality and its "laws" all fit together. His knowledge of the natural and social world, as well as of himself, is, therefore, always limited, uncertain, and incomplete. There is always more to know than the human mind can ever hope to fully comprehend.

Professor Gray explains that this led Hayek to question those social theories that claimed that the order and patterns discernible in social and economic life were the result of overall planning and design. Rather, Hayek turned to and developed further the theories of Adam Smith and Carl Menger (the founder of the Austrian School of Economics) which explained how the social and economic order, that we take for granted and which enables a high degree of interpersonal coordination in human affairs, is the result of rational actions but has not been created out of intentional designs. Instead, much of what we refer to as the "social order" emerged, evolved, and has taken shape out of the interactions of a multitude of individuals pursuing their respective self-interests. And the institutionalization and habituation of their actions in particular forms have generated a "spontaneous order" of human intercourse.

The realization that society and its structures are the cumulative, evolutionary product of many generations of people interacting and contributing some element and reinforcement to the social order made Hayek suspicious of those who proposed to redesign society "according to plan." Professor Gray lucidly explains and evaluates Hayek's writings on the origin and purpose of law, the limits and dangers of interventionist and socialist economic policies, and the disastrous consequences of government management of money in the form of the business cycle.

Finally, Professor Gray contrasts Hayek's ideas with those of John Stuart Mill, Herbert Spencer, Karl Popper, and Milton Friedman. This leads Gray to his own critical evaluation of Hayek's system. Here he shows himself to be a sympathetic critic. He believes that Hayek has seen and explained essential aspects of a successful theory of social and economic order. Yet, he says, Hayek fails to "ground" his system on any explicit moral principles, other than that a spontaneous order is more natural than any attempted created one and, therefore, a spontaneous order is "good" and superior. And, second, Professor Gray criticizes some of Hayek's writings where the argument seems to imply that any social order that has spontaneously evolved and "survived" has proven its worth. Gray correctly asks, I believe, why we should assume that evolutionary processes never lead to undesirable social outcomes or dead ends.

Professor Gray concludes with a suggestion that an improvement on Hayek's theory may possibly be found in the "Contractarian" approach of James Buchanan and the Public Choice theorists. This approach suggests that society be viewed as the result of a constitutional contract among free men, guided by rational choice, concerning the general "rules of the game" under which agents act and interact in society. But, as Gray admits, the tacit assumption is that the participants share a common belief in the Western individualist tradition. This still avoids, therefore, the crucial question: What are the moral and philosophical bases of individual liberty and rights, upon which a free society flourishes? □