THE FREEMAN

IDEAS ON LIBERTY

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IDEAS ON LIBERTY

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The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

PERSPECTIVE

The Way of Freedom

The human spirit seeks full and free expression in every department of life: in the spoken and written word; in music, sculpture and architecture; in sport and play. And also in work.

Man's work, when people are free, takes form as the market economy; and the free economy generates the material support the human spirit needs for its intellectual and aesthetic fulfillment.

Economic liberty makes for a broadly shared prosperity which provides the wealth a people need to build schools, churches and factories; hospitals and laboratories; theaters, concert halls, art galleries, and museums; gardens, playing fields, and stadiums.

These cultural artifacts reflect the several facets of human nature striving for full and harmonious realization; they are the fruits of freedom. Only tend to the roots, and these miracles—and more—are possible.

—EDMUND A. OPITZ

Age-21 Drinking Laws

"[T]he enactment of minimum [drinking] age laws around the country has led to an increase in illegal drinking by those under 21.

"Just as those under 21 are not stopped by law from acquiring drugs, so too do those under 21 acquire alcoholic beverages. And instead of paying higher prices in taverns, they now buy more for the same dollar in unsupervised offpremise outlets. That increase in illegal drinking may be the cause of the increase in deaths of 15-to-19-year-old drivers and passengers.

"In fact, recent data from the National Highway Traffic and Safety Administration show that the number of alcohol-related deaths of 15-to-19-year-olds increased from 3,115 to 3,540 between 1985 and 1986. In the prior years, before the very wide enactment of the 21-year-old minimum age laws, alcohol-related deaths of 15-to-19-year-olds had decreased from 4,135 to 3,115 from 1982 to 1985. In

1986, there was, therefore, a sharp reversal of the trend, possibly because of the enactment of minimum-age-21 laws and despite the continuing campaign against drunken driving.

"Those who have sought to reduce the number of fatalities by enacting laws that lead teenagers to drink more illegally on campus and off campus have created the opposite result of what they intended. More youths are dying because of a foolishly enacted law.

"As things stand now, those ardent advocates of the minimum 21-year-old law must now explain why alcohol-related deaths of teenagers and those from even a lower age group increased in 1986 after they had declined consistently for a number of years."

—JERRY STEINMAN,
publisher of *Alcohol Issues Insights,*
in a letter to *The New York Times*
(November 27, 1987)

Push the Button

Should the welfare state be eliminated all at once or phased out over time? Some of the most committed freedom devotees waffle when it comes to that question. They maintain that the immediate elimination of the welfare system would be unfair or harmful to those who benefit from the welfare apparatus.

We must never lose sight of the fact that the welfare state is founded on an immoral principle. The political process is used to coercively take the wealth and income of some and transfer it to others. The person whose property is plundered is denied the basic right to dispose of his property in the manner he chooses.

We must also take care not to doubt the efficacy of freedom and the market process. When people are unable to turn to the political system for sustenance and support, and instead must rely upon their own efforts and the voluntary efforts of others, the resulting economic vitality benefits everyone.

In Germany after World War II, Ludwig Erhard one day surprised everyone by lifting the extensive economic controls which the Allies had imposed on the German people. Despite all the dire predictions of the harmful effects Erhard's action would have on the German economy, the result was the beginning of the German economic miracle.

In the 1930s, serious doubts began to be raised about the effectiveness of the National Industrial Recovery Act, the pervasive economic controls which regulated American businesses. Many argued that the regulations would have to be removed gradually, rather than all at once, because so many people had become dependent on them. One day the Supreme Court declared the Act unconstitutional and immediately the American economy began to revitalize.

Perhaps the best example of a sudden removal of a welfare system took place when Lee surrendered to Grant at Appomattox. Prior to the Civil War, blacks in the South were provided their food, housing, employment, and other necessities of life. There were those who argued that the slaves were too dependent on the system to be immediately permitted their freedom. Nevertheless, the newly freed blacks rapidly adjusted to their new lives of liberty and self-reliance.

To eliminate the welfare state, the "button" should be pushed. Why? Because to argue for the continuation of an immoral action, even for a short period of time, is itself immoral. Furthermore, freedom works: the creative abilities of human beings enable them to respond quickly to the market process. —JGH

Arthur Shenfield at FEE

We are pleased to announce that Arthur Shenfield, eminent British economist and barrister, will be Visiting Scholar at FEE for the month of June. He will devote his time to writing and lecturing.

Dr. Shenfield has been economic director of the Confederation of British Industry, director of the International Institute for Economic Research and president of the Mont Pelerin Society. He has held visiting professorships at a number of U.S. colleges and universities, including the University of Chicago, Temple University, University of Dallas, University of San Diego, and Rockford College. This past year he was the Ludwig von Mises Distinguished Visiting Professor of Economics at Hillsdale College.

THE FREEMAN
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Dimensions of Competition

by Joseph S. Fulda

Competition on the free and open market has long suffered criticism for its alleged imperfections. True market competition, it is averred, requires both buyers and sellers to have perfect knowledge of all alternatives. It likewise requires that buyers purchase with full knowledge of the composition, use, and possible weaknesses of the product being offered for sale. It requires further that convenience of purchase—location, wrapping, queues, delivery, etc.—be equalized, and that extraneous factors such as personal relationships between buyer and seller be discounted.

Obviously, the argument continues, these conditions are never met in practice. Advertising, salesmanship, packaging, and displays take the place of perfect knowledge of the market. Product information is all too scarce, unless required by law. Convenience of purchase and other factors unrelated to the product itself bias market decisions in countless ways. Who has not often heard arguments along these lines,[1] together with suggestions for "correcting" the market and "compensating" for its imperfections?

But the critics betray that they do not grasp the subtlety of competition on the market, its many aspects and dimensions. The rigid price-quality contest portrayed with the aid of computer models is more nearly a caricature than an idealization of the multidimensional workings of the market, for as we shall see, market processes are broad enough to encompass the many facets of exchange mentioned above.

Once stated, the nature of competition on the market can hardly be denied: *whatever* inclines a man to choose one product over another or to patronize one supplier over another is a dimension of competition. The man who seeks to influence the choices of his fellow man must thus be sensitive to *all* that may affect those choices. He must demonstrate an imaginative understanding of his neighbors' wants and, then, be ready, willing, and able to act on that understanding. Far from being a system of insensitivity as is so often charged, the market system uniquely rewards sensitivity to others in its broadest sense. Such sensitivity is marked along each of the many dimensions of competition and measured, in the aggregate, in profits or losses.

One such dimension, and the first hurdle facing a competitor, is the *quest for attention* from prospective buyers or sellers. As infants, we are unable to assimilate the stimulation which explodes all around us, and we attend only to that which is necessary, physically filtering out almost all the din of life. Later, as we mature, we learn to do the same on a more conscious level. It is doubtful whether we could long endure life without such filtering processes.

Knowledge of all possibilities of exchange and all market opportunities is thus not only impossible; it is undesirable. What is both helpful and possible is knowledge of many of those opportunities that, given the chance, we would act upon.

Since those presenting possibilities for exchange or other market opportunities seek partners to their transactions, it is hardly surprising that market institutions for the dissemination of information about market opportuni-

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ties have evolved so as to satisfy the demand for such matches. Advertising, salesmanship, packaging, and displays are among these market institutions. They serve to penetrate the barriers of inattention we have erected to screen out much from our experiences and surroundings that we do not deliberately seek.

Successful market penetration is both unusual, statistically speaking, and mutually beneficial when it occurs. It is also quite an individual matter. It is the individual's special tastes, interests, and inclinations which will determine which appeals for attention will be successful and which will not. That this is so is evidenced by the large investments in marketing research: potential buyers are sampled to find out what publications they read, what media they attend to, what shops they frequent, what other interests or characteristics correlate to purchase of a given product, and so on. All this aids the competitor's understanding of why and when people choose his product. This is crucial, for as with all dimensions of competition, success in the quest for attention depends on understanding what makes others choose and acting upon that understanding.

But this is only the first hurdle, the first step of the marketing process. We may know the jingle and avoid the product, compliment the manager on his fine display but turn away empty-handed. Having secured the attention of consumers, the competitor must now demonstrate the value of his product to them at several levels.

How Is the Product Valued?

At the first level, persuasive marketing will show that the need which the product satisfies is itself valuable to consumers. This is important since we have many competing needs to which we assign different values. Advertisements extolling education are at this level. At the second level, persuasive marketing will show that the product being offered to the public best satisfies (or best satisfies at a given price) some underlying need of consumers. Advertisements by farmers' associations praising the virtues of good, wholesome milk as well as promotions of schooling are at this level. Then, at a third level, the producer must demonstrate the attractiveness of his particular brand.

This classification of the levels of marketing activity brings into relief the corresponding levels of competition: among needs, among products, and among producers. (A fourth level of competition, among suppliers offering the same stock, will be treated later.)

Yet to some extent this division, like any other, remains arbitrary, with its boundaries somewhat vague. Thus, advertising for many products (e.g., mouthwash, breakfast cereal, and book clubs) typically crosses levels, while for other products (e.g., food and shelter) the first level may not even be at issue. For still other products, those on which the producer holds a patent or copyright, the third level is not at issue.

It is well to remember that classifying competitive activity by level and dimension is much like classifying any part of free human action: it may be useful as an expository device, but it is not to be a means to argue for differential legal treatment based on the chosen categories.

Thus far, our discussion of the persuasive component of marketing, unlike our earlier treatment of the quest for attention, has been unidirectional: sellers attempt to persuade buyers to exchange their money for the wares offered for sale. This is no accident, for while buyers, too, must often partake of the quest for attention, the remainder of the marketing process is nearly superfluous when the most marketable commodity, money, is offered in exchange. The first level of marketing activity is obviated by its very nature as a medium of exchange: its need lies in the need for any economic good whatsoever. In theory, the second and third levels of competition apply to money as much as to anything else. The contest between gold and silver typifies the former, while that between institutions offering promissory notes redeemable in specie or warehouse receipts typifies the latter. In practice, however, as the state has usurped the market in money, there is no real competition along the dimension of persuasive marketing among buyers.

That success in marketing is determined by the degree to which the competitor and his publicist understand the needs and wants of consumers, as consumers see them, does not mean that marketing of a product cannot seek to

PAT WATSON

"Location is a part of virtually every dimension of competition one can imagine: the quest for attention, persuasive marketing, information, price, convenience of purchase, pleasantness of purchase."

change the way people choose to allocate their resources, satisfy their needs, or decide among competing needs. That, on the contrary, is its *raison d'être*. It does mean, however, that effective marketing is based on understanding how people currently make their choices, including how, why, and under what conditions they might be influenced—they might choose—to alter their patterns of choice.

Another dimension of competition often ignored in models of "perfect" competition is *information*. Information, it should be recalled, is an economic good: it is both scarce and valued.[2] Information about a product will thus sometimes be available and sometimes not, depending on whether it is more profitable to procure and disseminate it or more profitable not to do so. This, in turn, depends on whether consumers value the information more than the resulting increment in price or not. We have treated the whole issue of product information comprehensively in an earlier study.[3]

In addition to information about product quality, information on pricing is also an aspect of competition. For example, computer-printed, itemized bills, electronic scales, and comprehensive price labeling each lowers the risk of overcharging consumers and their apprehension of being overcharged. Consumers may thus be inclined to prefer the supplier who provides this information over one who does not. As always, the amount of information provided is determined by the supply and demand schedules.

The information dimension is one along which buyers, too, must compete. When the seller accepts personal checks or purchases on the books, he exchanges his merchandise for something about the value of which his information is incomplete. In doing so, he bears a risk in return for a hoped-for profit from the policy (which includes gains from cash transactions by customers attracted by the policy) after subtracting defaults, penalties, and lost interest. Buyers who provide more information are at an advantage in dealing with sellers who value that resource highly. Other buyers, transacting with sellers less concerned with this, gain from paying in a more convenient fashion or at a later date.

For all this, however, price and quality do remain the most important dimensions of competition, for they epitomize the process of exchange: value given for value. Yet price and quality, even aside from the various marketing and information dimensions, do not entirely exhibit the full richness of competition.

Convenience of purchase is a most important dimension of competition in an age of harried consumers, and *pleasantness of purchase* has been important in every age. Such factors as the location of the store, the length of its queues, the quality of its wrapping of products, the availability of delivery, the interior decorations, displays, music, the courtesy and helpfulness of sales personnel, and the like must all be taken into account by the competitor who would know success, since consumers allow them to affect their choices.

True, inconvenience of purchase could be figured in as *part* of the price and pleasantness of purchase as *part* of what is received, necessitating no change in the traditional view. The problem with such an approach, however tenable in theory, is that the monetary value that consumers place on such aspects of exchange as information, convenience of purchase, and pleasantness of purchase varies with the time of day, the consumers' mood, how tired they are, and a myriad other factors. The real world, that is, is in a constant state of flux, with the array of subjective values consumers hold being adjusted constantly. This reflects neither whimsicality nor irrationality on the part of the consumer, but rather rational and adaptive adjustment to external and internal changes.

These often elusive factors—hard to identify, harder to quantify, still harder to track as they change—may defy computer simulations of competition. But in an age of relative affluence, with small differences in price of lesser import, these factors become increasingly valued by consumers as the reader's own experiences measured against that of his grandparents will attest. Far from being extraneous factors that "bias" market decisions, convenience and pleasantness of purchase are integral parts of the exchanges of value for value that collectively comprise what is figuratively known as the marketplace.

Location

A final aspect of competition which deserves special mention is *location*. Location is a part of virtually every dimension of competition one can imagine: the quest for attention, persuasive marketing, information, price, convenience of purchase, pleasantness of purchase. Location also figures at many levels: which country, which province, which town, which district. At the higher levels, prevailing wage rates and business climate as determined by the presence or absence of particular government interventions are often the most important factors. At the lower levels, centrality of location, proximity of resources, availability of transportation, proximity or distance from competitors (depending on the business), etc. are often more important.

Location is also a factor within a shop, even within a product (think of a newspaper or magazine)! Indeed, it would be quite impossible for the casual observer to list all the dimensions or levels at which location figures, but even a cursory examination of one's own patterns of economic choice should persuade one of both its ubiquitousness and importance.

In sum, while competition occurs on many levels, along many dimensions, and with a fullness as rich as human choices can be, success is measured only in the aggregate, by profits or losses. The competitor will thus be told in no uncertain terms whether or not he is succeeding, and to what extent. He will never be told why. Just how he favorably or unfavorably affects the choices of those with whom he transacts is something to which he must be sensitive. That is the essence of competition on the market. □

1. See, for example, Gerson Antell, "Imperfect Competition," *Economics: Institutions and Analysis* (New York: Amsco, 1970), pp. 100-103.
2. Gary North, "Exploitation and Knowledge," *The Freeman* 32(January 1982):3-11.
3. Joseph S. Fulda, "Product Information on the Market," *The Freeman* 36(January 1986):29-33.

Touchstone of Truth

by Carl Helstrom

Frederic Bastiat wrote a book called *Economic Harmonies* because he thought that the basic principles of economics were intellectual guides that all men could follow to work together and improve their material and moral condition. All of Bastiat's writings are concerned with these simple axioms and their explication. In a preface to *Economic Harmonies* he wrote, "The central idea of this work, the harmony of men's interests, is a *simple* one. And is not simplicity the touchstone of truth?"

This is the beauty of the deductive maxims that men live by. They are elementary, yet they are "touchstones" for discerning truth from falsehood, right from wrong, good from bad, and correct from incorrect, within the realm of human action. Like the stone that tests the purity of gold and silver, a deductive theorem is a sure test to determine the value of an idea.

There are many such axioms. The Golden Rule, for example: Do unto others as you would have them do unto you. The Silver Rule of Immanuel Kant: Act only on that maxim through which you can at the same time will that it should become a universal law. Leonard Read's motto: No man-concocted restraints on the release of creative human energy. Most people have their own short credo or proverb that is really only a simple idea, but which, for them, constitutes the test for all their personal decisions.

Bastiat believed that adherence to the principles of economics would civilize men so that little coercion by governmental force would be needed to check the occurrence of ill-doing and to protect the integrity and property of right-acting people. For Bastiat, it was freely enterprising private citizens, and not government officials, who were the mainstay of civilization. Living by the simple truths of economics would promote moral behavior and increase the standard of wealth, without encumbrance by a patronizing bureaucracy, whether well-meaning or not.

Yet Frederic Bastiat's ultimate touchstone was his belief in freedom. Economic laws, or "laws of Providence" as he called them, were ancillary, for "If the laws of Providence are harmonious, they can be so only when they operate under conditions of freedom, for otherwise harmony is lacking. Therefore, when we perceive something inharmonious in the world, it cannot fail to correspond to some lack of freedom or justice. . . .we must not lose sight of the fact that the state always acts through the instrumentality of force. Both the services it renders us and those it makes us render in return are imposed upon us in the form of taxes."

A free society is a just society because men will live by the basic principles that govern human conduct in a world of scarcity—the principles of economics. Some will work because they have to eat, and because doing so will improve their material wealth. Others will labor because they believe that work is in keeping with higher ideals. But, all of them will work as harmoniously as possible because,

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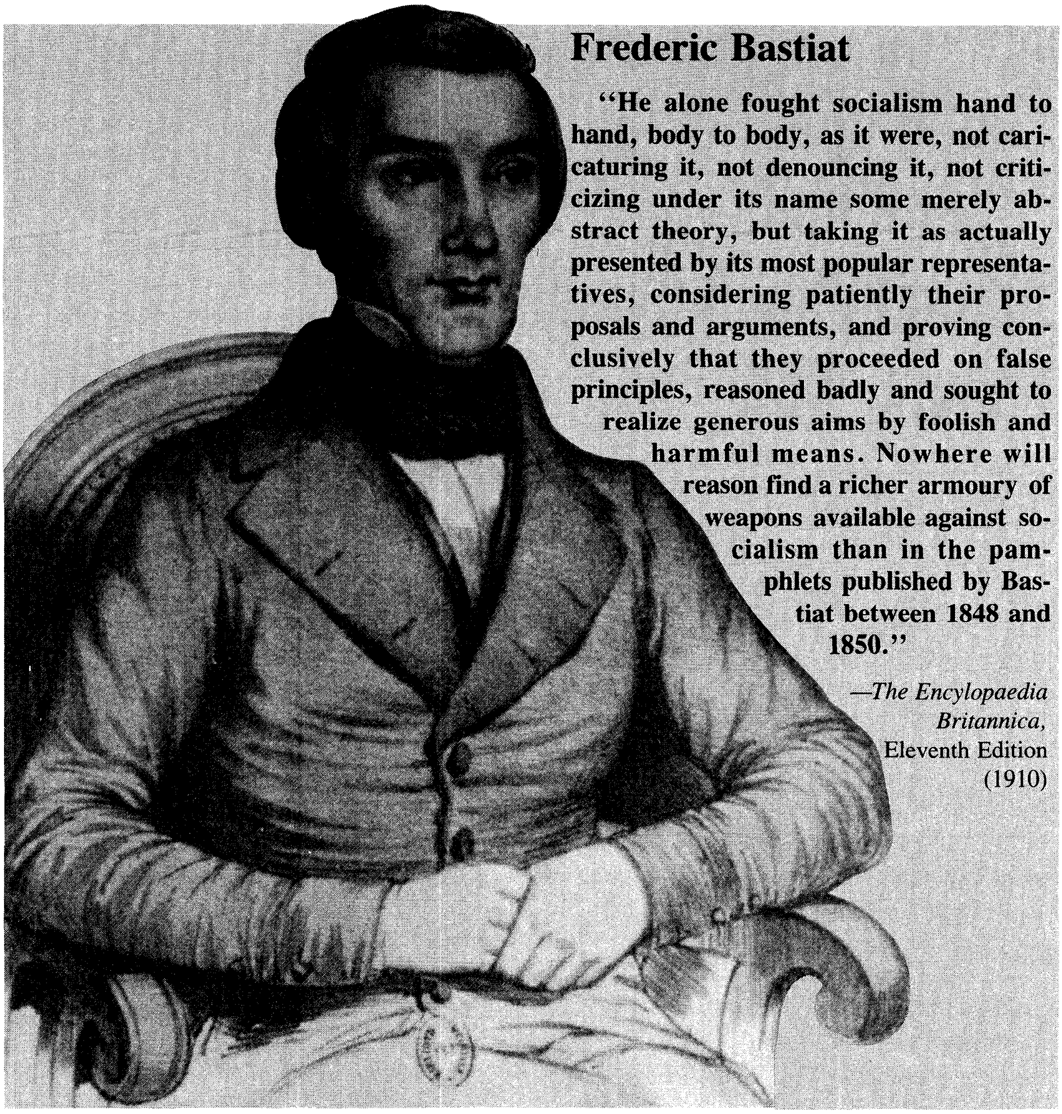

Frederic Bastiat

"He alone fought socialism hand to hand, body to body, as it were, not caricaturing it, not denouncing it, not criticizing under its name some merely abstract theory, but taking it as actually presented by its most popular representatives, considering patiently their proposals and arguments, and proving conclusively that they proceeded on false principles, reasoned badly and sought to realize generous aims by foolish and harmful means. Nowhere will reason find a richer armoury of weapons available against socialism than in the pamphlets published by Bastiat between 1848 and 1850."

—*The Encylopaedia Britannica,* Eleventh Edition (1910)

in a free society, people own what they earn and are secure in the knowledge that a force exists to protect their earnings. No one, not even this potential force, can take their property. This is the touchstone of a free person: Is it mine? Did I earn it? Only in a truly free society can you ask yourself these questions.

Like Frederic Bastiat, I fear the potentially harmful government more than the potentially harmful criminal. The government gone awry is shielded by the guise of officialdom, but the man who commits a crime is guilty before all society. A government has the ability to force circumstances upon me that are coercive and detrimental to my principles, but the criminal has at most only temporary, terroristic control over me. When I am reasonably sure that my life and property will be protected from attack or confiscation, and that I have recourse in the event of wrongdoing, then I will be content with the role of government.

I, too, have adopted the ideas of freedom in a free society, acting in accordance with economic principles. I try to make all my decisions according to the axioms I have learned in the study of freedom. Each day I marvel at the verity of these tests, whether I am analyzing economic, moral, or social issues, and I second the teachings of Bastiat. Simplicity, indeed, is the touchstone of truth. □

Mom's Monopoly, Part III

by Susan J. Osburn

After my son Sam's class moved into more complex topics in its economics unit, he came up with another question:

Sam: Mom, I'm going to ask you one last tricky question about economics. Can you explain about competition and antitrust laws? Why is the government opposed to trust?

Mom: It's not trust in the sense of relying on someone's faithfulness or honesty. A trust in this definition is like a conspiracy to control an industry and create a monopoly.

Sam: Oh! What's a monopoly?

Mom: First, you have to think about the free market system we learned about earlier. In a free market, buyers and sellers make lots of transactions. Prices, supply, and demand conditions interact and adjust themselves naturally according to the market expressions of people's changing wants, what the firms offer, and many other variables.

Some economists, however, think that for the free market system to work right, things have to stay perfectly balanced. They believe, in essence, that no firm should do better than its competitors and start to get bigger and more powerful. They want all firms to remain more or less equal in terms of their share of the market for their respective industries. This is called a *perfect competition model.*

But nothing is perfect in the real world, and when a firm becomes larger and stronger than the others in its industry, it's said to have a monopoly. There are various definitions of monopoly, but they all have to do with having a large share of the market.

Take hamburgers for an example. If Hallie's Hamburgers got really popular and the H.H. Company made a lot of money, maybe H.H. would buy McDonald's, Roy Rogers, Burger King, and Hardees. Then H.H. would be so big, it supposedly could control the price and supply of hamburgers to benefit just the H.H. Company. Since only little corner hamburger stands would now be competing with H.H., some economists believe that H.H. could wipe out these last competitors by lowering prices temporarily. After wiping out all competition, H.H. could then raise the price of hamburgers sky-high, limit the number available, pay hamburger cooks poorly, and even pay beef farmers poor prices.

That's the fearful picture of monopolies which gave rise to antitrust laws. Some people think a free market economy always turns into a nest of evil monopolies and has to be regulated by government. In fact, there's a big statue in Washington representing the idea of rampant markets being controlled by a benevolent government.

Susan Osburn is a medical technologist, classical singer, and mother of a fourteen-year-old son and a three-year-old daughter. She is currently taking graduate courses at George Mason University, Fairfax, Virginia.

Sam: A statue about *that*?

Mom: Yes. In front of the Federal Trade Commission building on Pennsylvania Avenue, there's a statue of two huge, muscular draft horses straining forward, and a giant nude man reining them in. The title of the statue might well be "Man Restraining Trade."

Sam: Whoa.

Mom: Exactly.

Sam: But back to Hallie's Hamburgers. If the H.H. Company got so mean and made their hamburgers so expensive, people would make their own hamburgers at home or switch to tunaburgers or hot dogs! Also, people would start to hate Hallie's and might boycott them.

Mom: You're right. The existence of substitutes is one of the arguments against the theory of *market failure,* which is what some people think even a partial monopoly represents. In almost every case there's at least one alternative to the product the monopolizing firm supplies. Sometimes it's an imported product.

Also, as you said, people may reduce their demand for the product because of price or even because of bad publicity, tending to make the firm behave itself. So the market process can bring monopolies back into line. In the long run, some other firm would arise to compete with any monopolizing firm. The only firms that get to hold on to a monopoly are those to which government gives special privileges such as licenses, tariffs, and other barriers to entry.

Sam: So have antitrust laws been a good thing?

Mom: They approach problems in the wrong way. Very often, antitrust suits have been brought by losing competitors, so you could say that the laws have been helping weak companies at the expense of efficient, well-run companies. Sometimes big firms may be better able to accomplish things than small separate companies. People can benefit from the efficiency of a big organization; its reduced costs can be passed on to consumers.

Sam: Then government should just leave trade alone.

Mom: Maybe. You can see the flaws in the perfect competition model on which the antitrust laws are based—unreal assumptions like all hamburgers tasting alike, all hamburgers selling at the same price, all buyers and sellers having perfect, complete knowledge of the market, and so on. Government shouldn't interfere just because a firm is successful.

There's a lot of pressure on politicians to eliminate even short-term negative consequences of market concentration, rather than waiting for competition to correct them. Some of these consequences are hard to accept, like restricted choice when one firm provides most of a product or service, or effects on a specialized labor force when there is basically only one employer. But the free-market argument is that the medicine society takes for these headaches makes it sicker in the long run, since government regulation also restricts choices and affects those specialized labor forces, and not always in the intended ways.

Anyone who's experienced in business knows that profit-seeking can lead unscrupulous people to very harmful acts. So society as a whole has to exert some control, but laws should be against misrepresentation or infringement of property rights, not against sheer size and success.

Maybe a true free-market system is something people will manage at a future higher level of mental and moral development. But at present many people even in America lack the educational background to operate effectively in a free market. But that's an argument in favor of educational improvement, not against free markets.

I guess I'm pretty much a free-market supporter. I do think the government is doing too much now, and particularly, doing the wrong things. It comes from understanding things wrongly. Depicting trade as a dumb animal is the wrong image for that FTC statue. The market is an expression of collective human intelligence.

Sam: Mom, I think you have a monopoly on this conversation.

Mom: But such a beneficial monopoly! Didn't you learn a lot?

Sam: We'll have to get the Federal Mom Commission to restrain you!

Mom: Then you can erect a statue of yourself holding onto my apron strings and call it Kid Restraining Lady.

Sam: Oh, *Mom.* □

The Crash of 1987: An Excuse for Government Intervention?

by John Semmens

On October 19, 1987, the U.S. stock market suffered its largest single-day loss in history. The 508-point drop in the Dow Jones Industrial Average was five times greater than the worst previous drop. In percentage terms, the 22 per cent decline exceeded the worst day of the infamous 1929 stock market crash.

If the market were free from government interference, a decline in stock prices wouldn't pose a serious threat to the economy. Of course, there would be need for some adjustment, as infeasible investments were liquidated and prices fluctuated to clear the market. But there would be no cause for great alarm.

Unfortunately, however, the market isn't free from government interference. In fact, government manipulation of the quantity of money and credit is a prime cause of speculative booms and busts in investment markets. The dramatic rise and fall of the stock market in 1987 surely was abetted by the Federal Reserve's actions to accelerate, then decelerate the growth in the money supply.

A critical danger at this point is that the stock market crash and the economic adjustments which must follow will serve as an excuse for further government intervention. As Robert Higgs points out in his recent book, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (Oxford University Press, 1987), crises, real or contrived, provide a convenient excuse for the expansion of government and the suppression of individual freedoms.

The crash of 1929 need not, by itself, have resulted in the Great Depression. However, the policies applied to a faltering economy by the Hoover Administration, Congress, and later, the Roosevelt Administration, stifled market adjustments and plunged the nation into a prolonged economic contraction.

President Hoover, acting under the mistaken idea that high prices mean prosperity, urged businesses not to adjust to economic changes. Firms were persuaded to refrain from lowering prices and wages and from liquidating malinvestments. Not surprisingly, widespread failure to adjust worsened an already bad situation.

While President Hoover was arguing against adjustment, government policies in the monetary, fiscal, trade, and regulatory arenas were sabotaging rational business and consumer responses to the changed environment signaled and precipitated by the stock market crash of 1929. On the monetary front, the Federal Reserve engaged in manipulations of the money supply that resulted in a 30 per cent decrease in monetary reserves over a three-year period. On the fiscal front, Congress enacted huge tax increases, while simultaneously appropriating funds for wasteful boondoggles like the Reconstruction Finance Corporation. Meanwhile, international trade was dealt a crushing blow by the Smoot-Hawley Tariff Act of 1930. Finally, a program of government harassment and med-

John Semmens is an economist with the Laissez Faire Institute, a free-market research organization headquartered in Tempe, Arizona.

dling with the marketing and employment practices of business was to become the mainstay of the new Roosevelt Administration through its alphabet soup of new Federal laws and agencies like the NRA (National Recovery Administration), the AAA (Agricultural Adjustment Act), and the NLRB (National Labor Relations Board).

What *Not* to Do

The crash of 1929 and the disastrous government policy responses over the ensuing years could serve as an example of what not to do in the wake of the crash of 1987. The deleterious effects of the policies chosen in the earlier era could be a useful warning of the hazards to be avoided. Tragically, it seems more likely that the errors of the past will be repeated. Government seems poised to duplicate the policies that led to so much hardship in the 1930s.

Monetary manipulation is, if anything, more entrenched as a policy now than it was in the 1920s and 1930s. In recent years, many devotees of this manipulation confidently asserted that Federal Reserve authorities would take action to assure rising stock prices through the election of 1988. The bursting of this bubble of optimism in October of 1987 has done little to diminish the manipulators' confidence that monetary authorities will prevent an economic recession from occurring prior to the 1988 election. The notion is that the Federal Reserve will create enough money to maintain purchasing power.

Life would indeed be easy if the mere creation of money could increase purchasing power. The harsher reality is that only production can create real purchasing power. The creation of money only achieves the transfer of purchasing power from the productive to those favored by access to the easy credit provided by the monetary authorities. The productive elements of the economy are penalized by having some of the real value they have produced, in effect, stolen from them via exchange for inflated money. The financial capacity to regenerate the next round of production is reduced by this process. The growing awareness of the expropriation effected by money creation diverts erstwhile productive endeavors to actions aimed at minimizing the damage of inflation. The result is lower real output and lower real purchasing power.

Inflating the money supply and depreciating the dollar's purchasing power is a government scam that has been perpetrated for decades. It enables the government to avoid paying back the full value of the funds it borrowed from those who bought its bonds. The expectation that an acceleration of this scam will produce prosperity is a dangerous fantasy. The fear that the desperate circumstances facing the U.S. government will prompt runaway inflation has already sparked a "run" on the dollar in the international marketplace. The likelihood that other governments will retaliate with inflations of their own (thus repeating the rounds of competitive currency devaluations of the 1930s) threatens to spread the ill effects of monetary expansion into a worldwide epidemic.

Coping with the declining real purchasing power engineered by inflationary monetary policy will not be the only problem confronting businesses and consumers. Governments at Federal, state, and local levels are bent on intensifying the fiscal burden on all taxpayers. Despite the widespread awareness of the huge amounts of waste in government budgets (the Grace Commission spotted $140 billion per year at the Federal level, alone), there are no plans for significant cuts in spending. Neither the highly publicized compromise plan announced by Congressional and Administration conferees in December, nor the Gramm-Rudman sequestration process, invoke any actual net reductions in Federal spending. Under either approach, Federal expenditures for the current year (or any other year covered by either approach) still will continue to grow. The highly touted "cuts" consist solely of a slowing in the rate of increase in government spending. In fact, all of the "cuts" in spending during the Reagan years have amounted to nothing more than a slight slowing in the rate of growth in Federal outlays. Even at this slowed pace, Federal spending has still grown faster than the rates of inflation and population growth combined.

While still continuing to increase spending on blatantly wasteful programs, politicians are furiously concocting schemes to expropriate more resources via tax hikes. The search for a so-called "painless" tax, of course, is an exercise in futility. There are no taxes that have no negative impact on economic activity. Whatever is taxed will be discouraged.

The quaint notion that corporations can be made to bear more of the burden, thus sparing hard-pressed individuals, is the most alluring delusion of the tax-raisers. To survive, corporations must cover all costs—including taxes—from available cash flow. Increased taxes must be covered by higher prices to consumers, reductions in other operating costs (for example, wages), or smaller profits. Real human beings will bear the brunt no matter how the costs are distributed.

To many proponents of higher corporate taxes, the prospect of smaller corporate profits appears the most acceptable outcome. Some tax bills even attempt specifically to target corporate profits and to bar the sharing of the burden with consumers or employees. Even if the full burden of the tax could be nominally restricted to corporate profits (a doubtful undertaking, at best), a tax that is effected via a reduction in corporate profits will tend to reduce stock prices. A further lowering of stock prices would aggravate the problems caused by the initial crash—the emergency used to support the call for government action in the first place. Lower stock prices will mean businesses will have a harder time acquiring capital. Making it harder for businesses to acquire capital will not help to relieve recessionary conditions.

The refusal to accept real reductions in government waste, and the insistence on increased taxes, will place even greater burdens on a weakened private sector. Thus, while scarce resources will continue to pour into redundant military bases, agricultural surpluses, money-losing rail passenger service, public project cost-overruns, welfare fraud, and other "essential" expenditures, funds for private-sector business purposes or consumer purchases will be severely curtailed. The ramifications of this chain of events are further business contraction, lower output, more unemployment, lower tax collections, more filings for unemployment compensation and welfare. If the private, productive sector must bear the total burden of an economic decline, the economy could be sent into a downward spiral that would be difficult to reverse under government's determination to tax and spend.

At the same time that government is prepared to deal the private sector a one-two punch composed of monetary inflation and fiscal profligacy, it is also proposing to preserve and protect American industry by imposing punitive trade barriers on imports and by offering to formalize government/business/labor partnerships through industrial policy initiatives.

Avoiding the Blunders of the Past

Trade barriers played a critical role in deepening and prolonging the Great Depression of the 1930s. Apprised of this, you would think current policy-makers in government would steer clear of so obvious a blunder. Unhappily, it seems that repetition of the blunder cannot be ruled out. The assertion of trade barrier advocates is that this time is different. When the Smoot-Hawley tariff was enacted in 1930, the U.S. had a trade surplus. Now, the U.S. has a trade deficit. However, the whole trade surplus versus deficit issue is an arbitrary concoction that has little relevance to actual business dealings.

Trade takes place because each party to a transaction willingly exchanges something he has for something he wants. Therefore, trade is always in "balance." Adding up and comparing the flows of merchandise, while excluding the flows of cash or financial assets, as the conventional balance-of-trade calculation does, is an exercise in self-delusion. There is no reason to expect the flow of merchandise ever to be in balance, much less for it to balance in any fiscal year. Nor is it the case that a surplus is "favorable" and a deficit "unfavorable." Attempts to engineer a reduction in imports in order to produce a more favorable balance of trade are more likely to impede efficiencies and lead to unfavorable results for all trading partners.

Regardless of how self-destructive trade barriers are, any U.S. action to block imports is almost certain to generate so-called retaliation. That is, if the U.S. government acts to prevent U.S. citizens from buying cheaper foreign goods, foreign nations will retaliate by barring their citizens from buying cheaper U.S. goods. The most efficient producers in each nation will be the ones hurt the most. Harming the most efficient firms in world commerce will raise the cost of living for the people of each affected nation. This will reduce real purchasing power and promote economic hardship.

Even if other nations are sensible enough not to retaliate, the U.S. still will be harmed by erecting import barriers. Barring U.S. businesses and consumers from acquiring goods from the most efficient producers in the world will obstruct efficiency and prosperity in America. U.S. businesses will be forced to substitute second-best, more costly inputs in the production process. The final output will be of lower quality and higher cost. This will further diminish the competitiveness of U.S. firms in the international marketplace. Consumers of American-made products will be forced to pay more in order to get less. While it is true that government-mandated trade barriers will help some firms and individuals, the net impact for the economy, as a whole, will be negative.

There are some advocates of trade legislation who aver that barriers are not intended as a policy, but, rather, as a threat. Once foreigners become convinced that the U.S. is bent on a punitive course, it is argued, they will take steps to remove some of the trade barriers they have in place against American exports. Such a "doomsday" sort of threat must surely denote a state of confused desperation in U.S. government policy-making circles.

Sound economic analysis has long demonstrated that trade barriers are damaging to the economies of the nations that impose them. If two centuries of evidence and logic have failed to prevent or remove existing trade barriers, we can hardly be sanguine about the chances for removing barriers by first threatening to increase them. It will be of little comfort to the average American to know that others probably will suffer as much, or more, from the mutual stifling of international trade that is likely to result.

The most irresponsible position on trade barriers is demonstrated by those who court partisan political advantage by supporting legislation that they hope will be killed by someone else. Import barriers are proposed by those posturing as friends of American industry and labor. The proposers of import barriers portray themselves as persons willing to do something about the trade problem. Though they know that the import barrier "cure" is pure poison, the plan is to denounce anyone who would dare to be more responsible by opposing this remedy. Thus, the political support of key special interests can be curried while the disastrous bill is defeated by "do-nothing" Congressional colleagues or vetoed by an "insensitive" President. In the unhappy event that no one is courageous enough or potent enough to block trade barrier legislation, then no one will be to blame because everyone went along. Disasters enacted by consensus are politically safer and, therefore, preferred by officeholders whose highest priority is re-election.

As bad as trade barriers are, their potential for mischief and abuse could easily be exceeded by "public-private partnerships"—collaboration among business, government, and labor in making decisions on production, hiring, marketing, distribution, and the like—established through so-called "industrial policy" initiatives. The force which disciplines the private sector and ensures its attention to customer service and efficiency is competition in the marketplace. It is the fear that rival producers will do a better, more cost-effective job of serving customers that stimulates private sector firms to improved performance. In contrast, the monopolistic, noncompetitive, tax-supported public sector is legendary for its inefficiency and indifference to customer service.

A "Partnership" with Government

"Helping" U.S. businesses by joining them in partnership with government would be akin to expecting a sprinter to run a better race as a member of a chain gang. The federal government, remember, is the operation with at least $140 billion per year in waste. The federal government loses money on virtually every undertaking it attempts. The federal government is unable to dispense with anachronisms like the Tea-Tasting Board. The federal government pays $600 each to buy hammers for the Pentagon. Partnership with these guys is going to make American industry more competitive and vigorous?

Enmeshing the private sector with government industrial policy holds no prospect for salutary consequences. Firms are apt to become bogged-down in red tape or in schemes to fix prices or tap into the public treasury. Attention to cost is likely to atrophy. Competition will be undermined. Customers will fade in importance relative to bureaucrats and legislators. Real output cannot help but suffer.

By this time, readers will have noted that the current menu of policies for dealing with the difficulties facing the U.S. economy bears an unpleasant resemblance to policies adopted during the Great Depression of the 1930s. We know better; but lust for power and the desire to use government to obtain resources that cannot be earned seem to be more potent motivators than knowledge and reason.

When this country plunged into the Great Depression, the dead-weight burden of excessive government was only a fraction of what it is today. In order to get elected, Franklin Roosevelt at least had to promise to rein in the spending taking place under the Hoover Administration. Today, not even a pretense of fiscal responsibility is considered necessary by those seeking elective office. In this respect, the future looks exceedingly grim.

On the positive side, the U.S. economy is wealthier than it was in 1929. There is more of a cushion between our current standard of living and the rock-bottom that was hit by many people in the 1930s. This gives us a little more margin for error. At the same time, though, the public sector and the private interests that feed off public funds are much more voracious than 50 years ago. The higher level of wealth enjoyed today could mean that the drop to rock-bottom will be steeper and deeper this time around.

If we are to avoid this steeper and deeper depression, we will need to pursue policies diametrically opposed to those currently being touted. Instead of monetary manipulation and inflation, we need a dollar that preserves its value and purchasing power. Instead of more government spending and taxing, we need substantial reductions in government expenditures and we need real tax cuts. Instead of a suicidal program of trade barriers, we need to remove all impediments to the efficiency gains of specialization and comparative advantage that naturally flow from free trade. Instead of a stuporous partnership between public and private sectors, we need less interference by government in the workings of a competitive marketplace.

Knowing what needs to be done and getting it done through the political process are two different things. Whether the nation avoids repeating the policy mistakes of the past remains to be seen. □

Preserving the Joy of Giving

by Kenneth A. Bisson

The bicentennial of the U.S. Constitution served as a wonderful opportunity to explore the ideals of limited representative government with my oldest son, Adrian, who is in the third grade. He had enjoyed participating in a local writing competition called "Young Authors," so I suggested we work together on a book. We drafted a children's book to convey some of the principles of the Constitution to an elementary reader.

Our plot involved the adventures of some young Americans developing the rules for their friendship club as their parents gathered in Philadelphia in the summer of 1787. This was an exercise in explaining individual rights and how they need to be protected from an unrestrained democracy. I realized how committed he was to those ideas when he came home from school quite irritated one December day.

It is customary in our local school to have a Christmas gift exchange among classmates. Those choosing to participate buy a $1.50 gift and, upon providing this for a classmate, receive a gift purchased by another student.

As a way of expanding the joys of holiday giving, Adrian's teacher proposed the following to the class: They could make a charitable gift of the money they would otherwise spend on a classmate's gift and instead bring a wrapped discarded toy from home for a "junk exchange." She also proposed that each student make a contract with his or her parents to earn the $1.50. The class accepted these proposals, which seemed splendid to me.

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The joy of giving depends on its voluntary nature. Webster's dictionary defines *gift* as, "something voluntarily transferred by one person to another without compensation." For gifts to exist, property rights must be recognized. One must personally own the thing being transferred for it to qualify as a gift. Thus, the students' decision to earn the donated money was important.

The choice of the recipient must remain with the giver. He may delegate that choice (as with general contributions to United Way), but a transfer of property to an unintended recipient is not a gift. If you are delivering cash collected for United Way and a masked gunman "persuades" you to deliver it instead to him, you are not giving him a gift. Even if he uses the funds to help his needy family, you would not experience the joy of giving from such a coerced transfer.

The harmony of voluntary giving becomes disrupted when the conditions of the transfer are coerced. It was the method of choosing the recipient that bothered Adrian. The class suggested the local Humane Shelter and African Famine Relief as potential recipients. Discussion began and the advantages and disadvantages of the alternatives were raised. Some wondered whether their "hard-earned" money would actually bring food to the hungry Africans. Apparently they had heard of diversions of some previous famine aid. Adrian was certain he wanted his gift to go to the Humane Shelter.

The teacher decided that the choice should be made by a vote of the class. The choices offered were: 1) all the money would go to the Humane Shelter, 2) all the money would go to African Famine Relief, or 3) the money would be divided equally between these two causes. Choice three received the most votes and the class was told that half of their donation would go to each cause.

Adrian remembered from our book that "majority rule" is an inappropriate way to make many decisions. He felt it wasn't right for others to determine the destination of his gift. This experience had a happy ending. Upon Adrian's suggestion, the teacher permitted each contributor to give his or her donation to either cause in the proportion each student preferred. The potential conflict that was produced by requiring a collective decision was removed. The harmony fostered by allowing individual choice was restored to the holiday giving.

Adrian also became motivated to complete a writing assignment which was due that week. He used the idea from one chapter of our book to write his story. With his permission, I have reproduced it here for you.

Martha's Blueberries

A. BISSON

By Adrian Bisson

One day a long time ago there was a group of children who decided to have a club. Their names were Tom, Martha, Bill, John, Rebecca, and Jim. Soon it was time for a club meeting. So they all met by the clubhouse. Just as they were about to start the meeting they realized that Martha wasn't there. Martha had been in the woods picking blueberries. When she realized that she was late for the meeting she ran as fast as she could to the clubhouse. When she got there Tom saw the blueberries and said, "Why don't we vote to see if we should eat Martha's blueberries." Everyone except Martha smiled and nodded. So Tom said, "Everybody who wants to eat all of Martha's blueberries raise your hand." Everybody raised their hand except Martha. Suddenly Martha cried, "It isn't fair to take away what I worked so hard to pick." After thinking about it for a while the others agreed and they finished their meeting.

From this experience the children learned that things should not always be decided by majority rule. □

Beyond Hayek: A Critique of Central Planning

by Tibor R. Machan

In his critique of central planning, for its inability and inefficiency in allocating society's resources, F. A. Hayek summarizes his reasons for preferring the price system to the planned economy:

> The most significant fact about this [price] system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action. In abbreviated form, by a kind of symbol, only the most essential information is passed on and passed on only to those concerned. It is more than a metaphor to describe the price system as a kind of machinery for registering change, or a system of telecommunications which enables individual producers to watch merely the movements of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never know more than is reflected in the price movement.[1]

For this reason Hayek holds that central planners could never allocate resources efficiently or coordinate society's activities for the purposes which they wish to achieve. They would lack the price system, which carries the information throughout the economy that contains the record of individual market choices.

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Hayek holds that the belief in the efficacy of planning betrays an unwarranted trust in human reason. When he finds reason inadequate to the task of centrally planning an economy, he appears to have in mind a particular conception of reason—Cartesian deliberative reasoning. But this is not what is meant when we refer to the reasoning faculty of individual human beings. It is by this reasoning faculty that individuals identify their needs, wants, values, and constraints within their individual contexts. And in Hayek's criticism of central planning, or rather in his grounds for that criticism, he seems to agree that the faculty of reason is a means by which we identify our situations and guide ourselves within them. He seems also to be aware of this conception of reason when he refers to John Locke's characterization. "By reason . . . I do not think is meant . . . here that faculty of the understanding which forms trains of thought and deduces proofs, but certain definite principles of action from which spring all virtues and whatever is necessary for the proper molding of morals."[2]

Despite his awareness of this idea of reason, and despite the implicit recognition of its vital necessity for the efficient operation of an economic order, Hayek tends to demean reason in general and praises a kind of spontaneity that suggests the absence of rational choice in human behavior. He is committed to the operations of human action as a kind of irreducible factor in the economic life of a society, rather than a product of reasoning. And this seems to be because Hayek equates reasoning with deliberation or design. The two, however, are not the same.

Deliberation vs. Simple Intentional Conduct

Deliberation is a kind of reasoning that compares to double checking in calculation or accounting. This is the kind of reasoning stressed by Hobbes and Descartes, a sort of monitoring activity, overseeing what one has done before.

There can be reasoned conduct that is not deliberative. Simple intentional conduct, which comprises the bulk of what we do, is not accompanied by double checking or monitoring. For example, as we enter a room at night we reach to turn on the light and once this is accomplished we move on to do numerous other things, all rather "spontaneously," i.e., non-deliberatively, with no explicit design. Yet this kind of conduct is neither nonrational nor arational. It is the kind of reasoning that we need to learn in childhood, the kind that we'd better learn very well, to the point of its being almost automatic, lest we waste too much time on the ordinary details of our lives and cannot reserve the more deliberative thinking for more complex tasks such as analyzing markets and designing rocket boosters.

Still, in the final analysis, the discovery of the principles an individual must adhere to and the goals an individual should pursue requires use of the individual's faculty of non-deliberative reason. It is just this sort of reasoning faculty that collective bodies of human beings do not as such possess. And when it comes to satisfying our needs, wants, desires, goals, purposes, and so on, we must rely on our reasoning faculty to obtain the particular information that we can gain only from the point of view of our own individual situations.

Despite the fact that Hayek is famous for stressing the importance of this kind of knowledge and the need to rely on it for purposes of obtaining an efficient economic system, he seems not to wish to credit human reason for being able to obtain it. The reason for this seems to be his equation between deliberative and non-deliberative reasoning.[3]

But something must be added to the Hayekian thesis because by itself it is not a sufficient criticism of central planning. As E. J. Mishan observes, the Hayekian critique

> would be more compelling . . . if the declared aim of [e.g.] a Communist regime were that of simulating the free market in order to produce much the same assortment of goods. We should bear in mind, however, that the economic objectives of a Communist government include that of deliberately reducing the amounts of consumer goods which would have been produced in a market economy so as to release resources for a more rapid build-up of basic industries.[4]

Some have argued that Hayek can reply that he does not simply criticize the economic inefficiency of central planning as a matter of the satisfaction of individual demands but as a matter of any kind of successful planning. In other words, efficiently coordinated planning itself requires the knowledge that only the price system, backed by the judgments of particular circumstances carried out by individuals, can supply. And by its nature this can be done only by individuals who are aware of their own circumstances, including their budget constraints, the extent of their wealth, and so forth.

But all of this still leaves it open whether we ought to worry at all about fulfilling individual wants, needs, and so forth. Why not just plan by reference to the goals of the state?

Another objection to the type of rebuttal offered by Mishan is that even a fully effective dictatorial system requires knowledge of production costs and this is best communicated via a price system. But here again lurks the assumption that what is crucial is economic efficiency. Suppose that a system values discipline and this can be fostered through regimentation of work. Such a system, which may well have been the essence of the Egypt of the pyramids, would command production and not be concerned with cost. Cost of production is only important where producers have the right and inclination to demand payment for services. In convents and monasteries no such demand exists, and in a totalitarian system none is permitted.

In the last analysis, then, we must add to what Hayek teaches us something his criticism actually presupposes. This is that an economy *ought to be fashioned* to function (e.g., by way of a "constitution of liberty," one Hayek himself supports) so as to satisfy individual preferences. But this is a controversial idea in political economy and philosophy. The scientism of neo-classical economics and the value-free stance of even the Austrian School tilts forcefully against it.

Yet, if ethical individualism is true, nothing is taken from the scientific character of economics. Assume that each person has the moral responsibility to be individually successful in life. Then each must have a determinate sphere of sovereignty or authority for action. That implies a system of private property. It also implies freedom of trade, since any regimentation would violate the moral sovereignty of the individual. If so, then collective planning is not only inefficient but morally reprehensible. It implies the undermining of the moral nature of individual human beings.

But why should this conflict with science? Once the system is granted from a moral point of view, the economist can ask, what can we expect of people within such a system? What can we predict of the institutions of that system, given that people ought to and very often will act prudently and economize? Virtually all the postulates of "economic man," barring its imperialist extrapolation to a dominant posture in non-market spheres, will remain intact.

Some of the reasons for the present position may be summarized here, based on points discussed elsewhere.[5]

1. The capacity for rationality must be exercised by *individuals*. There is no such thing as a collective cerebral cortex or collective reason. The initiation of the process of thought is necessarily an individual human project. Collectivism is a mistake in part because no collective capacities exist apart from those which individuals create through pooling their individual faculties and other resources.

2. The truths which rationality can unearth for individuals are mostly about individuals and their individual traits, needs, opportunities, goals, and fortunes. And it is in terms of such information that the moral guidelines by which individuals should conduct themselves must be identified.

Here is where the Hayekian point about central state planning is brought home very clearly. We should add that any centrally planned system, even one conceived along democratic lines, aims largely to avoid the "anarchy" of the market and thus would construe efficiency along lines very different from mainstream economics.[6]

Preserving the Sovereignty of the Individual

The present account, in which individual purposes are deemed worthy of shielding from state intrusion *on moral grounds,* rejects central planning on grounds that such planning substitutes for individual sovereignty the will of the leader, leading group, or some politically active majority. Thus it supports the Hayek/Mises thesis on grounds that the understanding of efficiency along neo-classical economic lines is largely sound, since it is indeed individuals whose purposes ought to be served by economic systems, even when it is admitted that some of these purposes are objectionable now and then. But since it is individuals who ought to be setting their own goals and be held responsible for their having set the goals they chose, an economic system ought to adjust to this, and not try to adjust to some end-state conceived independently of the sovereign choices of individuals.

The individual's plans are very different in kind from any sort of collective plan in part because individuals may face different sets of challenges in life and so, of course, may have different goals. (This, by the way, precludes the possibility of their *uniformity,* which is what collective planners must assume so as to be able to ignore the facts pertaining to individuals as individuals.)

3. By collectivist strictures, as Marx puts it, "The human essence is the true collectivity of man."[7] Accordingly, rational collective economic planning does not consider individual traits, goals, and talents as crucial. Only our common traits matter to collectivists. And if this were a warranted stance, it could be consistent with the aim to centrally plan society's

economic affairs. This is because any ranking of preferences, wants, wishes—i.e., the allocation of resources—would be a matter of the unilateral decision of the central planning board, somewhat as this occurs in a monastery or kibbutz. Where conformity to the planner's ranking of preferences can be secured—either by choice or via force—the price system (which communicates divergent needs, wants, wishes, goals, etc.) is not essential.

But the assumption of such global or society-wide collectivism is a drastic and devastating metaphysical and moral oversight. Individuality is essential to being human precisely because every person is a rational being—a concrete biological individual with the capacity for original, creative rationality. Both one's concrete biological individuality and one's capacity for rationality are necessary to being human. So when one considers the nature of a human polity—as Marx and Plato did—one must treat as vital what any person must be, namely, a human *individual*.[8]

Persons are not able to escape their humanity—they are *human* individuals. Treating them as isolated monads or atoms—an idea promptly seized upon and denounced by socialists—has to be rejected. And with this we must reject the impossibility of any degree of political-economic collective "planning," the notion from Hayek that gives anarchists so much intellectual fuel. With respect to their equality as moral agents, individuals must be understood to share certain features which require a human social order to be constituted in certain ways—that is, it must rest on natural, individual, human rights to life, liberty, and property, and be protected in an integrated, principled manner.

Based on a clear understanding of our human nature, certain natural rights may be identified and a political order *can* be planned or designed. But the collective planning must be confined to the genuine concerns of the public at large, that is, to everyone's few identical concerns.

Within this context, The Constitution of the United States may be seen as a suitable general plan or design. What is different in such a plan from those spoken of in connection with socialist planning is this: Socialists model their planning on the business firm or social club; they treat all property and persons as if they had a common purpose and were available for use in the realization of this purpose. Socialist planning, then, is regimentation, not bona fide economic planning, on the model of the business firm!

But a constitution only spells out certain prohibitions and procedural rules, not goals. It does not specify the goals for society but makes goal-seeking possible to all members of society. If we can consider a constitution as a design, its purpose is to serve the innumerably varied purposes of individuals with equal respect for everyone's task of pursuing the best possible purpose that he or she has come to identify. And the rules in terms of which a constitution aims for this purpose are to make possible for everyone to practically follow through on his or her moral task. □

1. F. A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), pp. 86-7.
2. John Locke, *Essays on the Law of Nature*, ed. W. von Leyden (Oxford: The Clarendon Press, 1954), p. 111.
3. Of course, the requirement of this individual faculty of reason for an efficient economic system does not deny the utility of general principles of human conduct. Yet even the identification of such general principles, not to mention the decision to apply them in particular circumstances, is necessarily the task of individuals, albeit possibly the outcome of the work of many of them over time.
4. E. J. Mishan, "Fact, Faith & Myth, Changing Concepts of the Free Market," *Encounter* (November 1986), p. 66.
5. See Tibor R. Machan, *Human Rights and Human Liberties* (Nelson-Hall, 1975), "The Classical Egoist Defense of Capitalism," in T. R. Machan, ed., *The Main Debate: Communism versus Capitalism* (Random House, 1987), and "A Reconsideration of Natural Rights Theory," *American Philosophical Quarterly*, Vol. 19 (January 1979), and *The Moral Philosophy of Individual Liberty* (Stockholm, Sweden: AB Timbro, 1987).
6. See Paul Craig Roberts and Matthew Stephenson, *Marx's Theory of Exchange, Alienation and Crisis* (Hoover Press, 1973). The authors show that what Marxist central planners are most critical of in the market economy is the presence of free exchange, which then creates uncontrolled demand. In place of this Marx advocates a command economy, not because it will be more efficient, in the neo-classical economic sense, but because it will lead to the production of what *ought* to be produced.
7. Karl Marx, *Selected Writings*, ed. D. McLellan (Oxford University Press, 1977), p. 126.
8. For a clear exposition of this point, see David L. Norton, *Personal Destinies* (Princeton: Princeton University Press, 1976).

Fractional versus 100% Reserve Banking

by Morris J. Markovitz

There has been a long-standing conflict among Austrian economists about the nature of the best or most "freedom-consistent" banking system for a true laissez-faire society. The issue is important because the two viewpoints are not merely differences of degree. Both sides invoke the same fundamental moral and economic principles, yet each comes out in opposition to the other.

How can this be? This article contends that it can't be—that there's a logical flaw at the base of both arguments, a very minor but logically critical one—and that actually both sides are right when the issue is restated in the proper terms.

To show this, let us first summarize both sides of the debate. The 100-percenters say that in a free society, force is outlawed, a statement both sides can endorse. Next, since fraud is a form of (implicit) force, it too must be banned. Since a fractional reserve system promises to pay specie in amounts greater than what actually exist, that promise is a fraud. Therefore, the 100-percenters contend, a fractional reserve banking system has no place in a free society.

The fractional reserve advocates, who disagree with the 100-percenters, also base their arguments on free market principles. In a free market, they say, anyone can do what he wants as long as he doesn't use force against others. This includes banks. If a bank issues notes that aren't 100 per cent backed by specie, by what right do we stop them? They aren't forcing people to accept the notes.

Notes of the less-well-backed banks will circulate at a bigger discount than notes that are more well backed. A promise to pay the bearer doesn't have to be backed 100 per cent at all times. Otherwise, a promissory note from an individual who had no gold, but who expected to be earning a gold paycheck in future weeks, would be just as guilty of fraud. That's obviously not the case, and yet, the fractional reserve advocates conclude, there is no difference in principle between an individual's unbacked promissory note and a bank's fractionally backed note.

In summary, the 100-percenters have shown that the fractional reservers are advocating fraud. The fractional reservers have shown that the 100-percenters advocate force (by legally prohibiting the freedom to issue partially backed notes). This is why the debate, while never really hitting the headlines, is such a serious one: from each side's view, the other side is guilty of a severe moral transgression.

Periodically the debate flares up, and each side reasserts its logically self-consistent argument. Neither side, however, refutes the other's argument. Finally, everyone throws up his hands in exasperation and the debate peters out once again. Each side tries to be cordial to the other, but, because such moral issues are involved, the debate has to be an obstacle to genuine goodwill between the two factions.

Having stated the problem, we now come to

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the resolution. The apparent contradiction arises out of a subtle fallacy, named "intellectual package dealing" by Ayn Rand. Besides accepting the same explicit moral principles, each side, unfortunately, has also accepted the same implicit "package deal."

A "package deal" is the inappropriate "packaging" of two or more different concepts under a single label. It can be used consciously to mislead, or unwittingly, causing confusion. In this case, two completely separate things are meant by the term "banking system," each of which, combined with the same set of free market principles, will support only one side of the debate while refuting the other. Once we separate the two different concepts, there will be no difference of opinion left.

The package deal arises subtly because, in today's mixed economy, institutions called "banks" actually perform more than one function. They are supposed to be safe havens for capital. They are also loan brokers. Throughout most of modern history, "banks" have performed both functions, and in fact both functions have been melded into differing aspects of a single, complicated banking system.

That's probably why the error occurs so naturally and automatically. The two functions have become inextricable from each other in a government-mandated system that tries to have its cake and eat it: to provide 100-per cent guaranteed safety of bank deposits, while employing a fractional reserve method.

The Warehouse Function

One of a "bank's" functions is to be a safe warehouse. This is obviously a valuable function, and in a free market people who desired this service would pay for it. Its analogy in today's world would be a safe-deposit box: a protected stronghold for the storage of valuables, for which the user pays. In a free market, those availing themselves of this "banking" service would deposit their specie in a "bank" where it would be held under lock and key. They would receive, essentially, a warehouse receipt or claim check for it, and in some fashion the service would have to be paid for. The claim checks would then circulate as fully backed money substitutes. This is the image in the minds of the 100-percenters, who nevertheless fear that temptation would lead the "banks" to cheat.

Laws against fraud, however, would prevent this, as applied to this particular banking function. Even in today's market, banks are not allowed to break into private safe-deposit boxes and "borrow" their contents without the owners' consent. The 100-percenters are correct that the same ought to be true in the ideal laissez-faire economy, and for this aspect of banking, the fractional reservers should be able to agree completely. Clearly, stealing from safe deposit boxes is force.

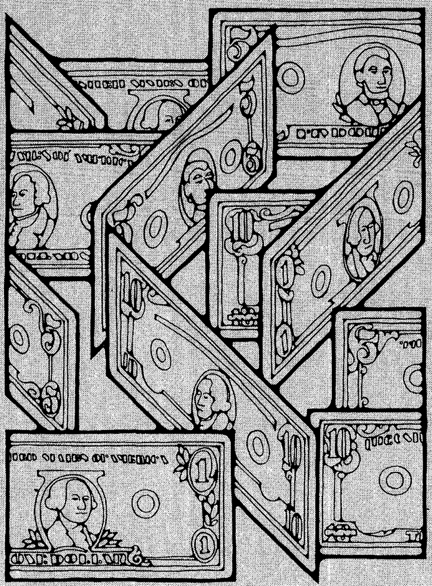
Banking today, however, also entails another completely separate function. Banks act as loan brokers, accepting deposits for which they pay interest instead of getting paid for safe storage. They then lend out these deposits at higher rates and profit from the difference, as well as (and more so) from the creating of deposits via the fractional reserve system.

Today the citizen has no real choice between the two functions. He has nowhere to put his money for safekeeping except into a loan-brokering operation at a bank. (He could put green cash into a safe deposit box, but the inflation engendered by the very system he's trying to avoid precludes this as a sensible option.)

As the fractional reservers point out, there's nothing wrong with loan-brokering. What's wrong is forcing people to deposit into a loan-brokering scheme by forbidding the alternative, while simultaneously falsely advertising the loan-broker outfit as a safe warehouse. That's what today's banking system does and both sides would agree that it's wrong.

In a free market, both functions ought to be permissible, but clearly defined and separated. This doesn't mean government regulations, but rather legal definitions that distinguish the two concepts, clarify their differences, and serve as the basis for legal redress if and when a loan-brokering operation fraudulently advertises itself as something else, and someone sues.

The 100-percenters want a clean, stable, no-questions-about-it currency that serves the role of money. This they will have without prohibiting the fractional reservers' loan-brokering "bankers." The notes of these loan brokers, in practice, probably will not even circulate as



Today the citizen has nowhere to put his money for safekeeping except into a loan-brokering operation at a bank.

money, but as interest-bearing notes, similar to commercial paper today. If they were clearly identified as a loan-broker's fractionally backed (promissory) notes, then no one would accept them unless the notes paid interest appropriate to the financial risk they entailed. (Remember, it is only the existence of legal tender laws that allow Gresham's Law to work. If people aren't *forced* to accept bad money, then *good* money will drive *bad* money out.)

The 100-percenters can confidently acquiesce in allowing the existence of fractional "loan-brokering" by "banks," knowing that without legal tender laws, these notes will have to show their true colors in the marketplace, as the equivalent of commercial "promissory notes," and never would achieve the status of money. Since a genuine need for safe storage does exist, there will also be someone, somewhere, who issues 100 per cent backed notes for the convenience of his customers, and those pieces of paper will circulate as money, by the natural workings of the market.

In practice, it may well turn out to be most efficient to house these two functions under one roof, but *never to blend them into one "system."* Just as we have money-market versus bond "switch funds" today, a single institution could offer both services. A cautious citizen might avail himself of only the warehouse facility, where his gold deposits would be physically segregated, and he would pay for this service. If he wanted to lend to industry, he could have some or all of his gold transferred to the other side of the "bank" and accept the risk in return for the interest.

In sum, if we:

a) separate the concept of "banking" into its two distinct functions (warehousing and loan-brokering);

b) recognize this distinction in law, as part of the general body of law on fraud; and

c) eliminate legal tender laws,

the result will be a money and credit system that satisfies all the requirements of both camps. □

Making Every Drop Count: The Case for Water Markets

by Don Leal

Nearly every summer, cities and farming regions in the West experience water shortages. Such shortages may seem inevitable in the arid West, but, in fact, much of our precious Western water is actually wasted.

One reason for such waste is that it is difficult for people to trade water. Enormous amounts of water have been made available through government-financed dams like Hoover and Glen Canyon, but the people who received the right to that water many years ago don't have the freedom to sell it to others today. Fast-growing municipalities may be willing to pay more than the water is worth to the current users—but such trades are usually impossible to arrange.

Legal restrictions also discourage owners of water rights from saving water and protecting the environment. If the owner decides to save some of the water for fish by leaving it in the stream, the owner usually forfeits the right to that water. Given Americans' growing interest in sportfishing and environmental amenities, such a restriction is out of step with the times.

The purpose of this article is to show how water markets can solve water shortage problems and enhance environmental quality, and to suggest what institutional changes are necessary to make this happen.

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The History of Water Trading

During the last half of the nineteenth century, the early California gold miners initiated a system of property rights to water that allowed buying and selling. The system, known as the "prior appropriation" doctrine, allowed miners to establish rights to divert specific quantities of water based on who diverted it first. This "first in time, first in right" ownership, which was upheld by the mining districts and later by state courts, provided the basis for water trading. For a time, the West had in place a system which fostered efficient water use.

For most of the twentieth century, however, courts and state legislatures have been chipping away at the foundations of the prior appropriation doctrine. Critics of private ownership contended that water was a "necessity of life," too precious to be controlled by the market and thus in need of state administration to guide its usage. The water rights that evolved from the quasi-legal setting of the early mining districts were replaced by permits to use state-owned water, with decisions on water use ultimately determined by state water officials.

At the same time, growing interest in instream uses from navigation to recreation began to collide with demands to divert water for agricultural and mining purposes. A general belief that only government could meet these demands for instream water meant that private ownership was limited to diverted water, not instream water.

Furthermore, in response to the claim that private owners could never support the huge capital investments needed to meet water demands in the developing West, the federal government became a major factor in providing water. Starting in 1902, the Bureau of Reclamation began to build massive delivery and storage systems "to make the desert bloom like a rose," supplying water to farmers at a fraction of its total cost. Today, much of the water used in agriculture is effectively owned by the federal government. Irrigators may derive benefits from water, but they are not at liberty to transfer their water to other than agricultural uses. Water must stay where it is, and other users who want water have to come up with expensive alternatives, such as building new dams and reservoirs.

The Problem That Water Markets Would Solve

For many years, engineering marvels like Hoover Dam and Glen Canyon Dam seemed to make water scarcity a thing of the past. The federal government had the deep pockets, the Bureau of Reclamation had the bureaucratic savvy, and the Western farmers had the political clout to push for more such projects. This "iron triangle" encouraged overinvestment in water storage and delivery, wasteful water practices, overdevelopment of marginal agricultural land, and destructive environmental practices.

During the Carter Administration, this triangle began to break down. In spite of massive water projects such as the Central Arizona Project and the Garrison Diversion Project, water shortages continue to exist, and building new dams is no longer automatic. The best sites have disappeared, and environmentalists, opposed to the destruction caused by dams, have more clout. With Congress facing large budget deficits, congressmen can't appropriate money for dams and large reclamation projects as easily as in the past. Out of this breakdown is emerging renewed interest in the water marketing system devised by frontier entrepreneurs.

If water rights were fully owned—that is, clearly defined, enforced, and transferable—owners could be expected to act very differently. A true water owner faces the full cost of using water, including its value in other uses. To use water himself, an owner must forgo other offers. If these alternative uses are more valuable, the owner has the incentive to reallocate the scarce commodity to its higher-valued use by selling it.

Consider the potential gains to many groups from water trading. If a city is willing to pay more for drinking water than the water is worth for irrigating crops, farmers gain by selling or leasing it to the city. The city obtains a new water source without large capital outlays. Taxpayers gain by not having to finance water projects, and citizens generally gain by not having dams and canals which harm the environment. It is from these gains that political coalitions favoring water marketing are being built.

Such a coalition is emerging in support of water trading between farmers in California's San Joaquin Valley and southern California's burgeoning metropolitan population. The Metropolitan Water District (MWD) of Southern California is forecasting significant supply shortages for the 1990s unless new sources can be acquired. Simultaneously, three hundred miles north, the San Joaquin Valley is experiencing a steady deterioration of soil quality from years of salt build-up and high concentrations of selenium in its agricultural drainage water. In fact, it became evident in 1985 that drainage water into Kesterson Wildlife Reservoir was causing bass, catfish, and carp to die and newly hatched waterbirds to display crippling deformities. As a result, water to the San Joaquin's Westlands Water District was shut off temporarily and now millions of dollars are being spent to correct the problem caused by cheap agricultural water.

A water trade between the MWD and the Westlands Water District could, according to the Environmental Defense Fund senior economist Zach Willey, "take us a long way toward defusing the water crisis." Since MWD will have to pay as much as $500 per acre-foot to divert river water into new reservoirs, it surely could strike a bargain with farmers. Farmers could make a profit—even if they invested in water-saving drip irrigation costing $175 per acre-foot. The environment would be better off, too, since less high-salt water would drain into lands such as the Kesterson Refuge.

This trade may never happen unless the Bureau of Reclamation, which supplies the water to the Westlands Water District and controls its use, allows farmers to sell the water. In the past, the Bureau typically would not allow such a transfer of water it controls, but new coalitions are changing the political climate for the Bureau, putting it under increasing pressure to allow water trading.

While the trade between the MWD and the San Joaquin farmers offers one of the better examples of gains from water trading, others are waiting in the wings. A recent report from the Water Efficiency Working Group of the Western Governors' Association suggested that many potential transfers "probably are thwarted simply because the procedures for making the transfers and the Bureau's willingness to approve them are not clear."

Enhancing the Environment Through Instream Flows

In addition to encouraging the efficient use of diverted water, water trades have untapped potential for enhancing the environment. In recent years, Americans have increased their demand for water-related recreation and for environmental amenities. Both are greatly influenced by the quantity and quality of streamwater, neither of which is now represented in market transactions.

Currently, the job of assuring adequate water in streams and rivers belongs to state agencies. Understandably, they are reluctant to reserve instream flows when such reservations collide with existing diversion rights, as they may in streams where all or nearly all the water has been allocated.

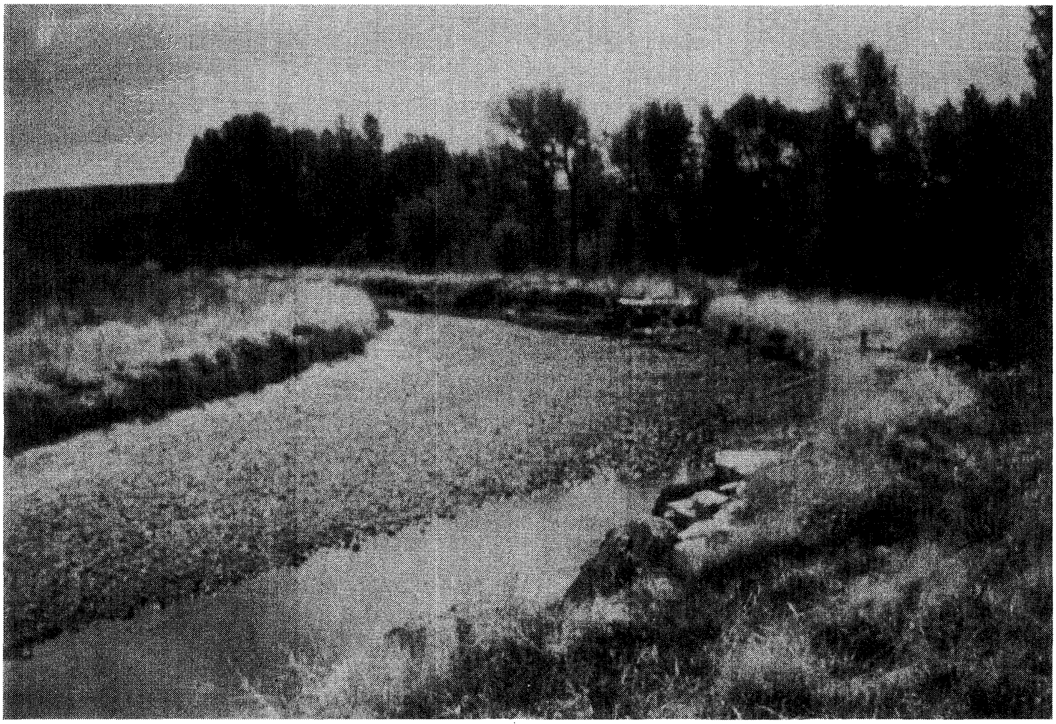
An excellent alternative would be for private owners to purchase water rights and keep the water in the stream. Unfortunately, legal obstacles abound. To obtain a right to water, the owner must put it to what the courts or administrative boards consider a "beneficial use." And in most states, courts have looked upon claims as non-beneficial if there is no diversion. For example, in *California Trout, Inc.* v. *State Water Resources Control Board,* a 1979 case, a private non-profit corporation was denied an appropriation of water to protect fish habitat. The argument was that there was no evidence that California Trout, Inc. was diverting or physically controlling the water it wanted.

If legal obstacles to private ownership of instream flows were removed, conservation groups such as Trout Unlimited and the Nature Conservancy could make great strides in protecting fish and wildlife. On the Gunnison River in Colorado, for example, Pittsburgh and Midway Coal Company has agreed to donate a large water right to the Nature Conservancy to maintain instream flow, and has promised not to divert additional water from the Gunnison Gorge, even though it has the right to do so. The Conservancy will have to turn this water over to the state to keep it in the river. (Currently, the only way that the water can be kept instream is for the state to have control of it.)

A far better solution would be for the Conservancy to hold the right. The Conservancy serves only one interest, protecting habitat, while the state must serve many interests. During dry periods the state will be under pressure from farmers and ranchers to allow diversion of water it holds.

If ownership of instream water were allowed, private owners could also respond to temporary demands. During a recent drought, resort owners on the Guadalupe River in Texas got together and purchased water releases from an upstream authority, temporarily increasing instream flows from 20 to 100 cubic feet per second. This example indicates that market alternatives do sometimes exist, but they are risky. Owners of downstream rights on the Guadalupe may still be legally entitled to the water that has been added to the river.

Conflict between diversion and instream use was illustrated on the Ruby River in southwestern Montana during a dry period in the spring of 1987. Excessive irrigation reduced the water flow so drastically that over 500 fish died. The fish kill could have been prevented had the flow of the river been increased by 150 cubic feet per second. The state's Department of Natural Resources and Conservation eventually did this—but not soon enough to save the



The Ruby River after draw down.

fish. Furthermore, this modest action by the state created conflicts with downstream diverters, who claimed they had the right to the water.

A market for instream flow rights could have solved the problem. Indeed, while the fish were dying, farmers had water standing in nearby fields! If an organization such as Trout Unlimited could have purchased or rented some of the water of marginal value, the farmers probably would have been happy to supply it.

Ownership of instream rights could enhance recreational opportunities and habitat protection in another way as well. The Yellowstone River Valley south of Livingston, Montana, offers some of the finest opportunities in the world to flyfish on spring-fed creeks. Yet it is the private, not the public, sector which is providing these opportunities to the public at between $30 and $35 per person per day. Since the creeks begin and end on private property, owners can collect fees for fishing. They have strong incentives to ensure quality fishing by protecting the stream banks from cattle grazing and by avoiding overfishing. If instream water could be owned, other opportunities for quality fishing would probably develop because owners would be able to capture benefits from maintaining and improving habitats.

In England and Scotland, private ownership of fishing rights has long been accepted. With rising demand for fishing in England, "there are few landowners . . . who can afford to ignore the commercial aspect of the sporting rights which they own," writes Douglas Clarke in his book *The Landowner*. Privately managed fisheries have proliferated in Britain in recent years, placing many kinds of fishing within easy reach, both geographically and financially. To protect their investment, British owners hire private fish and game managers and invest in capital improvements to the streams.

What Future for Water Marketing?

Some states are beginning to take positive steps to encourage voluntary water transfers. State legislators in New York, Colorado, Utah, and California have recently made it legal to transfer surface water rights temporarily from one person or agency to another without giving up future rights. The California legislature has also taken steps to encourage voluntary water conservation by allowing those who conserve to sell the water they save. Previously, those who saved water lost it. Steps like these will further efforts to conserve water and move it to higher-valued uses.

Another promising development is the endorsement of water transfers by the Western Governors' Association. In 1986 the Association identified voluntary water transfers as a productive way to increase efficient use of water and formed a working group to figure out how to encourage water transfers. The resulting report urges the governors to work with the Interior Department (which houses the Bureau of Reclamation) to develop legislation facilitating trades of Bureau-supplied water.

In addition, the Bureau of Reclamation recently announced that it is planning to scale down its operations by, among other things, emphasizing "water conservation" and "finding opportunities to turn over projects to local agencies." Such a move may mean that the Bureau will more readily allow local irrigation districts to conduct water transfers.

Enter, the Public Trust Doctrine

But at the very moment that the idea of full, transferable private ownership of water is emerging, a new threat to water markets has arisen. It is called the public trust doctrine.

Originally, this legal theory was used to assure that waterways would be navigable, but this changed dramatically with a 1983 court case in California, *National Audubon Society* v. *Superior Court of Alpine County*. The state of California was forced to limit diversion of water from Mono Lake—a major source of Los Angeles drinking water. The court decided that the public has a "trust" relationship to the environment and wildlife of Mono Lake, and must protect them.

This concept was codified in Montana law in 1985 following two Montana court decisions. Montana law now specifies that 17,000 miles of streambeds be open to the public. Since owners of the land adjacent to these streams no longer have any right to control access, they may well decide to discourage access by allowing the water quality and fish habitat to deteriorate.

But the implication of the public trust doctrine is much greater than this. As it creeps slowly into legal decisions throughout the West, it has the potential to undermine the private right to use water. If the public holds all water in trust, the state may have a right or even obligation to interfere with existing water diversion and water trades. The doctrine also would serve to dampen motivation for private parties to improve instream water since any improvements can prompt the state to claim it in the name of the public trust.

Conclusion

In sum, the prior appropriation doctrine provides the basis for trading water in the West, but legal and bureaucratic restrictions are stifling trades. At the same time, the public trust doctrine threatens to erode what progress has been made.

To make water marketing viable, the Bureau of Reclamation must take steps to encourage exchange, and private ownership of water rights must be extended to instream water. Fortunately, the outlook for developing political coalitions to bring about such reforms is promising because water markets offer something for nearly everyone: They can eliminate water shortages, reduce environmental degradation, and reduce governmental spending, too. The recent announcement changing the focus of the Bureau of Reclamation's efforts, the work by the Environmental Defense Fund supporting water marketing, recent legislative changes in the West, and reports from the Western Governors' Association are indicating that support for water marketing means "going with the flow." □

Celebrating the Constitution—and Village Fires

by Richard R. Mayer

The really interesting thing about a fire isn't watching the fire, or even the fire engines and firemen who are fighting the fire; rather, what's really interesting is to watch the people who are watching it all.

So with our recent celebration of the Constitution. What seemed most interesting was what we as spectators made of its anniversary.

The same was true of other celebrations during the past several years, dealing with the Declaration of Independence and the Statue of Liberty. They were mostly pageantry.

In the case of the Declaration it was hard to detect any serious contemplation of the document or its theses. The Statue's celebration was even more bizarre. It was capped by fireworks and plush yachts in New York harbor and, ironically, the almost simultaneous enactment of a new immigration law requiring not only proof of worth by those who would heed the spirit of the beckoning Lady but, even more so, proof by those of us already born here.

And so with our recent celebration of the Constitution; it seemed mostly irrelevant, even contradictory.

Three emphases were notable: the Preamble, the Amendments, and the Pledge of Allegiance to the flag. The first two seem peripheral, the last, unrelated. What's wrong with emphasizing the Preamble, Bill of Rights, and Pledge of Allegiance? Let's look at each more closely.

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The Preamble

The Preamble is just that, a preface. It is not the Constitution itself but rather a setting forth of the reasons for the law which follows. Thus the Preamble speaks of a more perfect union, justice, tranquility, defense, general welfare, and liberty. These were the purposes of the Constitution, but they were not the law itself. The Constitution proper was the nuts and bolts of how officials are selected, who has what powers, and the like. It is political engineering designed to promote the Preamble's purposes. Whether such goals would be gained by this structure was a matter of conjecture on the part of the founders. Yet it must be clear that their product was machinery, not goals. It was the means; whereas the Preamble was the ends.

And here we enter the treacherous thicket of means and ends. The ends sought in the Preamble could not be guaranteed. The best that could be hoped for was to establish a favorable climate. To concentrate on ends is always dangerous; it places us in the position of justifying any means to accomplish them. To emphasize the goals (justice, general welfare, and so on) is to make what followed immaterial—any means would be acceptable. No, it was the means, the constitutional machinery itself, which were agreed upon. The Preamble merely set forth the reason or logic, the guiding star, for that which followed.

This is not unlike other agreements or contracts. A father and son may covenant that in order to win at sports, get a diploma, and stand on his own feet, the lad will practice faithfully, attend classes, and get a job after school. What is actually agreed to here is practicing, going to school, and earning money. The recital of winning, diploma, and self-sufficiency are merely reasons for the agreement, its preamble.

To allow these introductory reasons to become the primary concern is to permit any means to their end. Thus the boy could justify fouling his opponent, cheating on exams, and robbing banks, since these would advance him toward the goals of victory, a diploma and wealth, which are sought.

So it is with the Constitution's Preamble. Emphasizing the Preamble has allowed us to erroneously think that any means toward general welfare, tranquility, liberty, and so on are justified. But these, in fact, are goals. The only thing really justified by the Constitution is the means set forth in the actual document which follows the Preamble.

This is the danger in emphasizing the Preamble. Yet that is what we saw so much of in the recent celebration. Commemorative postage stamps quoted the Preamble; citizen responses declared that the Constitution's value was that it "guarantees my success" or "freedom" and the like—all of which is not the actual Constitution, but rather its purpose. This is dangerous thinking.

Amendments

A second emphasis was on the Amendments to the Constitution, particularly the Bill of Rights.

Obviously amendments are not a part of the Constitution proper. An amendment, by definition, is something which alters the original. Yet here is where, again, great emphasis was placed.

Probably this is because, as with the Preamble, the Amendments deal largely with goals or ends, rather than means. Most of the Amendments (at least the exciting ones) deal with various freedoms and rights, prohibition of alcohol, equality, and the like. These are what we want, rather than how we plan to get there. That is why they are so much more of interest than is the Constitution proper with its nuts and bolts machinery of the journey.

Again, this is dangerous, for such a view tends to unleash any means to the acquisition of these ends. And this is what the founders feared and intended to proscribe—the unbridled power toward any end. Again we hear the trumpet call (as in the Preamble) of "We the People!" and let's not pay too much attention to the rules (the Constitution itself) lest it frustrate the accomplishment, by any means, of our chosen ends.

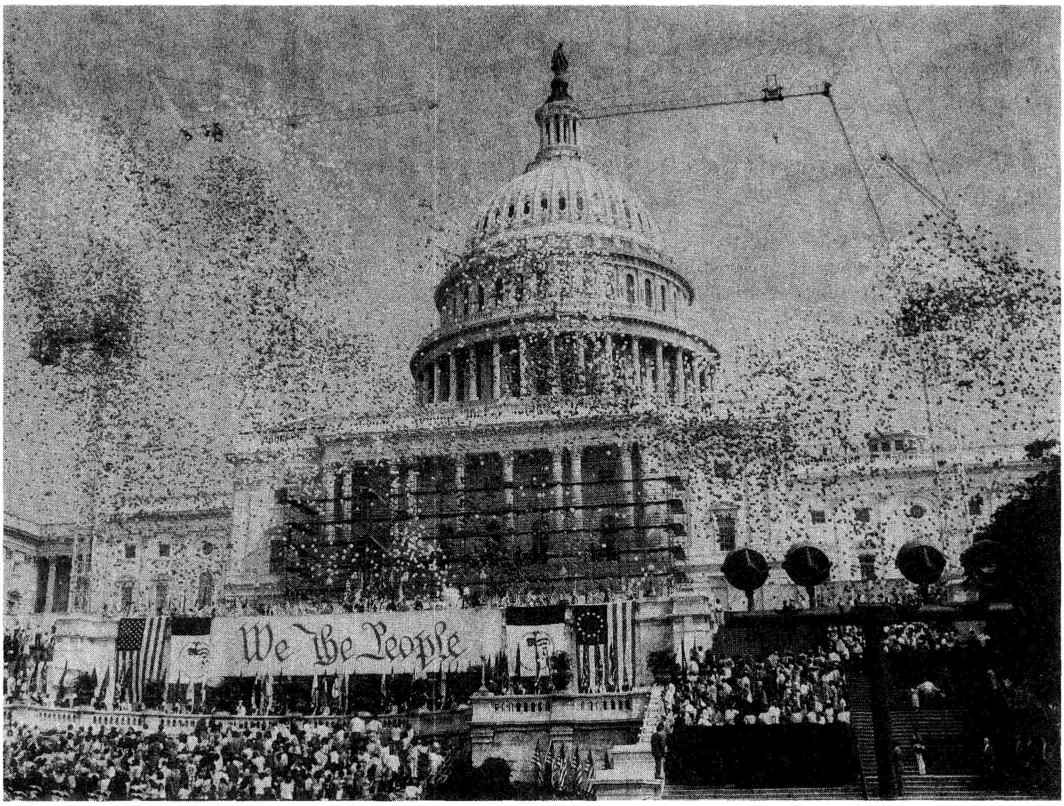
The Pledge of Allegiance

Finally, a third emphasis so noticeable was the Pledge of Allegiance to the flag—a strange gesture in celebrating the Constitution, both in regards of time and intent. The Pledge came only much later in the evolution of our political ceremonies, and its spirit seems unrelated, even incompatible, to the Constitution.

Any pledge of allegiance has the sense of subservience or loyalty of a people to their state or its symbols. Such expressions have little relevance to the machinery of government, to the Constitution we were purporting to honor—indeed, a Constitution which was designed to limit state power. The Pledge sounds forth a people's obligation to their country, rather than the Constitution's restraints on that country's power over its people. Particularly troublesome was the specter of massed children, under duress of their mentors in compulsory state schools, rotely reciting allegiance to a political talisman which suggests a fealty at odds with the true spirit of the Constitution.

Now if the Preamble, Bill of Rights, and Pledge of Allegiance seem peripheral or unrelated to the Constitution, how would a true celebration of that noble document appear? Probably quite boring! Yet that was the problem with which we were faced.

To be honest in our celebration, a more appropriate 200th anniversary probably should have addressed the mechanics of the Federal form of government, separation of powers, constraints on the state, the actual enumeration of the powers granted to the various branches, tests for office, and the like. If we did get to the



AP/WIDE WORLD

More than 100,000 red, white, and blue balloons were released over the Capitol during the September 16, 1987, celebration of the Bicentennial of the U.S. Constitution.

Amendments we should not have ignored such critical ones as the ninth and tenth.

Legal Fiction

This was not to be. Perhaps it is because the Constitution has become what historians call a legal fiction. Like the Crown for many Englishmen, the Constitution has become for us something which, though important as a symbol and rallying cry, is little more than that. Hence we emphasized the Preamble which states its purpose and tends to justify any means to these ends, the Amendments which changed it to satisfy more recently desired ends to be acquired through the state's coercive powers, and a Pledge of Allegiance which generally regiments everyone into a mental state of going along with society's agenda. It all seemed a non-celebration of the Constitution—or, perhaps better, a celebration of the non-Constitution.

A local newspaper was illustrative in this regard. Of the six page special section devoted to the forthcoming celebration, a mere quarter page was given to a not altogether cogent paraphrasing of the Constitution itself, and this on the back page at that. The other 5¾ pages were devoted to the Preamble, the Amendments (two full pages), some rather shallow commentary, trivia type questions, editorial expressions of how certain current goals could be achieved by further flexing or amending the document, and sundry notices of planned pledges of allegiance.

As we did indeed see, the celebration culminated in a mass Pledge of Allegiance led by the President and former Chief Justice, all of which seemed more sideshow than main event—the celebration of our organic law.

And so, more interesting than studying the Constitution itself was observing our public celebration of it; so reminiscent to running down the street at the sound of sirens, to watch the people who are watching the fire. □

Liberty in Great Britain: The Present and the Future

by Nick Elliott

In Great Britain, liberty is making a strong run in the competition of ideas. Margaret Thatcher's Conservative government has given a public face to a body of ideas which preceded, and will outlast, her administration.

The most notable changes since 1979, when Thatcher was first elected, have been in economic policy. "Privatization" is the popular term for three classes of policy: the sale of state-owned industries to private shareholders, the contracting out of state services to private firms, and deregulation of private markets.

Stock offerings in state industries and public utilities are now a regular event. The public offering of British Telecom shares in 1982 pioneered the policy, and quelled popular suspicions by yielding easy profits for the small investor. Public offerings since then have included British Gas, British Airports Authorities, Rolls Royce, British Airways, and Jaguar. Those lined up for dispatch at the moment include water authorities, electricity, and coal mines. So far, the policy has entailed a transfer of asset ownership from state to private. The public utilities, however, remain statutory monopolies, with rival producers being excluded.

Debates are raging in economics journals over whether privatization has brought improvements in efficiency. One problem is that the government is concerned with other things besides efficiency. Privatization is often used as a means of filling Treasury coffers, and the asset value of any newly privatized company would tend to be reduced if competition were permitted. It also seems prudent to make changes gradually, to evade the organized hostility of public sector unions and other interest groups, so that private sector monopoly may appear to be a necessary step on the road to free capitalism.

The second method of privatization involves competitive bidding by suppliers for the provision of public sector services such as refuse collection and hospital cleaning. This policy has saved local authorities much money, but as John Blundell of the Institute for Humane Studies has contended, money saved may not be returned to citizens in the form of lower local taxes.[1] The policy is not an unambiguous improvement. Despite these reservations, the policy has at least been discussed and—most importantly—accepted by the public, as an advance of market forces.

Most praise should go to the third policy of privatization, the deregulation of private markets. Two examples are worthy of note. The introduction of private sector competition into local passenger transport has worked quite well, and has become an accepted part of life for many people.

The other example is the "Big Bang" deregulation of financial services, which allowed for the combination of the roles of broker and jobber, and abolished the requirement of fixed commissions for jobbers. This has ensured that London will remain a major center of financial activity, and employment will continue to move into the financial sector. Significantly,

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many more workers in financial services have a share stake in the continued prosperity of capitalism. In addition, the market remains relatively unregulated, characterized by continual change. In this environment, workers are far less likely to endorse welfare state attitudes.

Regrettably, the deregulation of the financial sector has been tempered by two policies. The first of these, in 1985, made "insider dealing" a criminal offense; the law was rushed through Parliament in an attempt to conciliate Members of Parliament ruffled by trading scandals. The second, a greatly ominous piece of legislation, established a "self-regulatory" organization, the Securities and Investments Board. Effectively this has established a system of licensing for investment firms, and the probable danger is that established operators will use these new powers to exclude competitive beginners.

But these policies have not been nearly as significant as the shift in popular ideas that has taken place since 1979. Partly as cause, and partly in consequence of Thatcherite economic policy, there has been a favorable movement in popular opinion. The unspoken presuppositions which define the limits of debate have moved distinctly in favor of the market. Competition and efficiency are now regarded by most people as necessary and desirable; people no longer believe that the welfare state is faultless; all politicians now clamor to be defined as "libertarian."

Why the Ascent?

It is instructive to look at the reasons for this shift in thinking and for the economic policies outlined above. Circumstances and an independent change of ideas are responsible.

Margaret Thatcher was elected in 1979 following a decade in which socialism demonstrably failed. Support for Thatcher was a rejection of what had gone before. The 1970s were a period of turmoil when the inability of government to control events was exposed in sharpest detail. These years were characterized by a lack of realism in which consequences seemed to belong to the distant future. Trade unions were at their strongest because government courted them. Union leaders were regularly welcomed at Downing Street for discussions on economic planning. At the same time, with a Labour government, unions could afford to be militant. In 1979, however, people remembered strikes and electrical power cuts, and voted against them.

Prime Minister Thatcher

Until 1976, monetary policy was highly inflationary. Prices rose from the late 1960s onwards, peaking at a 33 per cent annual rate in the first quarter of 1975. The culmination was the balance of payments crisis in 1976. To avoid a plummeting pound, the government applied to the International Monetary Fund for a loan; this was popularly perceived as a national disgrace. From that time onwards, printing money was discarded as a policy solution. From 1976 to 1979 the Labour government maintained tight monetary control. Profligate spending was no longer a viable policy. This fact was recognized, most significantly, by Prime Minister James Callaghan speaking at the Labour Party conference of 1976:

> We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you, in all candor, that that option no longer exists; and that insofar as it ever did exist, it only worked by

injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history of the last twenty years.

Public choice theory, at its simplest, gives gloomy predictions about what voters will vote for: the most attractive party will be the one offering the most handouts. Fortunately for Britain, voters in 1979 did not decide based on their immediate pecuniary self-interest. They recognized that, while their long-term interests would be advanced by the Conservatives, austerity would have to be endured in the short run.

These were the events which brought to prominence a revived system of classical liberal ideas. The intellectual tradition of liberalism was kept afloat in the interwar years by a handful of intellectuals like Edwin Cannan, Ludwig von Mises, and Wilhelm Röpke. The genesis of a new intellectual movement began after the Second World War. Under the auspices of the Mont Pelerin Society, politicians met with academic proponents of the free economy to compare notes. At the very time when policy, more than ever before, was conceived amidst the misapprehensions of state planning, libertarian ideas were reviving in academia. Milton Friedman began his notable efforts to bring the market to the masses with the publication of *Capitalism and Freedom* in 1962. At the same time, F. A. Hayek was working on an analysis of the economy of knowledge in markets and, reciprocally, a destruction of the conceptual foundations of central planning. Both these economists have been a major inspiration to the British Conservative government.

In the same period, the Institute of Economic Affairs was founded in Britain to promote the work of liberal economists. IEA papers have covered every imaginable topic of economics, they have been read by politicians, and are an acceptable component of university courses. In some cases, such as passenger transport and exchange controls, a direct influence on policy has been evident, but their more important function has been to alter the general limits of academic debate within which policy is conceived.

Public choice theory has been fundamentally important in explaining why societies fall prey to creeping collectivism, and why this trend is difficult to reverse. However, if this were the only application of the theory, then free-marketeers would be only helpless onlookers in the relentless extinction of liberty. Fortunately, there is more to it than this.

The Adam Smith Institute was conceived as an antidote, as an organ for the other side of public choice—the theory of micropolitics. Public choice theory tells us that radical reforms will be resisted by organized interest groups. The micropolitical solution is to make small, gradual changes, "death by a thousand cuts," so that even if opponents realize what is planned, individual changes do not justify the commitment of resistance. Just as public choice theory explains that concentrated benefits accrue to organized lobbyists, micropolitics looks for groups with an interest in the maintenance of markets.

This approach has proved to be a stroke of genius. The first Thatcherite policy contrived with this in mind was the sale of public housing to private dwellers. At the start, the policy was denounced by opposition parties. Now the program has proved to be popular, and no party will risk alienating the thousands of voters who have benefited from it by threatening to repossess houses for the state.

The other policy formulated from the insights of micropolitics is the sale of state industries and public utilities. When the sale of British Telecom was first announced, telecommunications unions pledged obstinate resistance. The response was to give shares in the company to the workforce; consequently there was very little resistance. Whenever a sell-off occurs, preference in share allocations is given to small investors. This ensures that shares are widely distributed (the total number of individual shareholders has increased from 3 million to 8 million since 1979). Again, the Labour Party at first pledged to reclaim Telecom, but since then, realizing that this would not be welcomed by the 1½ million voters who hold shares, they have dropped the pledge.

In summary, the Thatcher government has its intellectual origins in the postwar revival of liberal economics. Policies have been successfully implemented through a political strategy which circumvents opposition and gives visible benefits to new interest groups.

Signs of Progress

In the past I saw it as a limitation of micropolitics that the strategy relied upon a receptive government ear; I feared that a change in power could end the gains of eight years. Following developments in discussion among the Left, I now have fewer reservations. The fact is that the shift in ideological boundaries is not confined to the Conservative Party, but is in progress in all parties.

To illustrate, consider two recent articles. Colin Ward, writing in *The Guardian,* a soft socialist newspaper, called for the Left to abandon reflexive endorsement of state action:

> How sad that in Britain—birthplace of friendly societies, trade unionism and the cooperative movement—socialists should have been so intoxicated with power and bureaucracy and the mystique of the state, that they should dismiss their own inheritance as a path not worth taking. It's their own fault of course, for rejecting their history and origins for the sake of a version of socialism which is governmental, authoritarian, paternalistic and unloved.[2]

Similarly, David Selbourne, writing in the socialist journal, the *New Statesman,* argues that the Left should rediscover individualist roots:

> It was, in essence, a libertarian politics of working-class and community self-reliance, underpinned by a strong moral sense of citizenship, justice and individual entitlement. It is a legacy which the left and Labourism have squandered; much of its surviving impulse has been co-opted and rearticulated by the Toryism which is now in power.[3]

The Future

Acceptance of the market is now widespread. Within a decade the place of free enterprise no longer will be a matter of debate; its acceptance will be an unspoken presupposition upon which all debate proceeds.

Next the arguments must be won on social services—education, health care, and welfare payments. At the moment, a micropolitical plan is in progress to introduce, in stages, competition among schools. The aim is to avoid the organized hostility which meets education vouchers. The state National Health Service is yet to be tackled. Nor has a reform scheme been advanced for Social Security benefits and pensions. Reform has sufficient intellectual support; what is needed is a politically feasible method of introduction. These are the debates which will dominate the politics of the next ten years.

The last eight years have been a gain for economic freedom, but in the sphere of civil liberty, policy has followed a course of despotism. Britain has the strictest censorship of pornography in Western Europe. Following a scare campaign in the tabloid press, a law was passed in 1984 making the sale of "video nasties" a criminal offense. This scare ensued from the report of a Parliamentary Group Video Enquiry. Survey methods used in the enquiry were highly dubious, and the presentation of the report was partially selective and misleading.

To give one illustration, the popular press seized on the finding that 45.5 per cent of 7–16 year-olds had viewed at least one pornographic film. This figure includes, as the most widely seen film, "The Evil Dead," a film passed for viewing by the British Board of Film Censors and therefore, under the stated terms of the report, not illicit. It is hard to avoid the conclusion that the whole enquiry was conceived and staffed with the aim of making a case for legislation.

In common with the United States, the Conservative government has pursued an anti-drug campaign. In 1986 a Drug Traffic Act was passed which, in an abandonment of the principles of common law, provides that the assets of the accused may be seized, and thus makes a preliminary assumption of guilt. Evidence indicates that this whole policy has failed. The street value of heroin is largely untouched by customs seizures, suggesting that narcotics importers have no difficulty in eluding law enforcers. A significant source of illness among addicts is the use of contaminated syringes; the purchase of sterile syringes is illegal so that users often share them, or use them more than once. Fears over the spread of AIDS brought home the discomfiting truth that government policy has been responsible for one problem which it was supposed to solve. In Scotland, where spread of the disease has been particularly rapid, addicts are now permitted to trade in used syringes for fresh ones.

The most recent target of criminal policy has been the use of offensive weapons. Talk of new restrictions on firearms was already in progress when a multiple murder occurred at Hungerford. A chorus of demands for tighter controls followed. Greater limitations have now been introduced on the possession of semi-automatic rifles, and it seems highly likely that new laws will follow relating to other weapons. This will not be an effective policy against crime, since crimes which yearly proliferate do not entail the employment of guns (and least of all machine guns). Knives have also now been the subject of stricter legislation. Again with disregard for the common law principle of demonstrated guilt, an intention of malicious use is now assumed.

The policies of the Conservative government originate in the ideological inclinations of groups within the Conservative Party. To simplify greatly, there are three factions: wets, old right, and libertarians. Wets are paternalists, in the tradition of Disraeli, who advocate a pragmatic, as opposed to ideological, approach to policy. They seek a return to the mixed economy consensus of postwar governments. Members of the old right are supportive of draconian law and order policies, advocate the imposition of reactionary moral standards, oppose immigration, and are quite enthusiastic about the free market.

The Thatcher government is founded upon the support of the old right and libertarians. This explains the need for the government to maintain support among the old right in matters of criminal policy.

In future years this alignment will change. Many of tomorrow's Conservative Party leaders will rise from the Federation of Conservative Students. This body became dominated by libertarians in the late 1970s, and was disbanded by the party in 1986 because its unconservative behavior had become an embarrassment to the government. By the time this ascendancy has come about, a large portion of the intellectual community will have been won over to the libertarian position on civil liberties, and public discussion will be under way. Those in the Conservative Party with an earlier libertarian background then will feel free to take openly the libertarian side in these debates. This shift in the focus of discussion will change the alignment of factions. In debates on drugs, pornography, and immigration the old right will line up with the wets to oppose libertarians. However, this does not mean that libertarians will lose because the sizes of factions will change also.

I noted above the growing acceptance of libertarian ideas across the political spectrum. If this continues, then fewer and fewer will hark back to the mythical golden age of the postwar consensus. In other words, there will be fewer Conservative wets. For those centrists who remain, the center will have moved, so that going along with the consensus will involve being more libertarian than it does at the moment.

On the left there has always been a current of libertarian thought. This stream is rarely manifested today because the focus of political discussion is on economic policy and on social services. The Left (other than a few dissidents) is not libertarian on economic policy, and rarely so on social services. The Left remains tethered to a command state outlook, and will continue to miss the political initiative for some time to come.

Optimism is justified. Hopeful predictions for the future of liberty cannot be dismissed as wishful thinking, because of the momentum behind the modern libertarian movement. While not denying the significance of our forebears, I regard our movement, in ideological consistency and in determination, as unique. My optimism is based on the sincere belief that the future is ours. □

1. John Blundell, "Privatisation—by Political Process or Consumer Preference?" *Economic Affairs,* Volume 7, No. 1.
2. *The Guardian,* October 12, 1987.
3. *New Statesman,* October 16, 1987.

A REVIEWER'S NOTEBOOK

Privatization

by John Chamberlain

Privatization goes slowly in America, but it is undeniably a world issue. E. S. Savas sums the story up ably in his *Privatization: The Key to Better Government* (Chatham House Publishers, Chatham, New Jersey, 308 pp., $14.95 paper, $25.00 cloth). Britain's Prime Minister Margaret Thatcher has led the way by her divestiture of either all or parts of state-owned enterprises including the aerospace industry, automobiles, radio, telecommunications, chemicals, oil, ferries, and hotels, involving a transfer of 400,000 jobs to the private sector. After privatization, the total profits in the first seven British enterprises to be denationalized rose by 49 per cent.

Practicality more than ideology has sparked the world divestiture movement. The dominant political party in Mexico would prefer to keep the state-owned services going if only to provide jobs for the faithful, but it is now selling off its hotel and automobile businesses. Both Argentina and Canada have appointed Ministers of Privatization. The Japanese have taken the first steps toward getting the telephone, tobacco, railroad, and airline enterprises out of government hands. In Brazil they are either selling or closing some of the 20,000 government-owned companies. Spain has chosen to turn textile, travel, tourist, truck, and automobile businesses over to the private sector, and Italy has sold shares in its largest bank and its pipeline-laying companies. In the Philippines, government-owned resort hotels, cement plants, soybean processing plants, pulp and paper mills, a shoe factory, and a copper mine have been put up for sale.

The most dramatic thing, says Savas, is what happened in China after the death of Mao Tse-tung. Here a billion people living in a totally collectivized state have been exposed to a form of privatization. "Farming communities," says Savas, "were disbanded and most farmland was returned to private ownership, with the result that food production skyrocketed." The Soviet Union's Mikhail Gorbachev has been following developments in China with an envious eye.

Savas, who sticks largely to generalized abstraction, is sparing with his individual anecdotes. But they crop up occasionally in interesting parentheses. In Britain there were no buyers for the state-owned cross-channel hovercraft ferry service. So the Thatcher government gave the company to the workers, who forthwith turned it into a profitable private enterprise.

Margaret Thatcher's prize exhibit is her sell-off of public housing to individual families. "In the first six years after being granted 'the right to buy,' " says Savas, "13 per cent of public housing tenants purchased their units, at discounts of up to 50 per cent. . . . "

The British experience with housing divestiture has excited some American legislators. But it would be impossible to replicate the British story in the United States. Fewer than 2 per cent of Americans live in public housing. Savas suggests that tenant management might solve some of the problems of this 2 per cent. He is also high on voucherization. The value of a housing voucher would be equal to the current annual subsidy per unit. Individual families would be free to shop around for housing accommodation. "The effect," says Savas, "would be to integrate public housing into the local housing market, and to give freedom of choice to tenants who are now trapped—in effect, institutionalized—in public housing and have no chance to move."

Savas is quite aware of the libertarian objection to the use of vouchers, which would involve the use of taxpayer money. But it is practicality, not ideology, that guides Savas's pen. He is not after philosophical purity. What he wants is competition in as many fields as possible. It suffices for him that the Canadian Pacific railway, which is privately owned, can compel the government-owned Canadian National railway to meet its rates.

Housing vouchers and food stamps subsidize the consumer. Savas thinks that this is preferable to government ownership of housing units and farms. Governments all over the world have done badly when they have gone into direct production. In another of his few anecdotes Savas tells about the experience of tennis players in New York City. The city kept its public courts in such poor condition that the tennis players had to rent their own private courts. Eventually the city decided to lease its courts to private operators. It was a franchise operation.

Load-Shedding

Savas speaks of load-shedding or transfer by default. "The growth of private tennis facilities and private policing," he says, "are examples of this process." There is load-shedding by default in public education in large cities, where parents even of limited means have been withdrawing their children in droves and enrolling them in private schools.

Quite early in his book Savas makes a series of distinctions among ways of delivering goods and services. These ways can be categorized under the headings of "private, toll, common-pool, or collective goods." Ten different institutional arrangements or structures can be devised for delivery. They are direct government provision, intergovernmental agreements, franchising, contracting for service, voucher systems, grants, voluntary associations, self-help or self-service, the marketplace, and government vending.

The economic advantages of load-shedding are obvious. But Congress is not disposed to listen. "There is too much fun," says Savas, "in spending other peoples' money." In one-party countries the existence of such government-owned companies as Mexico's Pemex provides a convenient way of getting full employment. It hardly matters in government eyes that job redundancy imposes a tremendous cost on all citizens, although over-staffing and over-building detract in obvious ways from efficiency.

In Russia it will take more than *glasnost* and *perestroika* to bring a halt to over-staffing. But a beginning can be made if Gorbachev, harkening back to the Lenin NEP period, decides to let the peasants make their own planting and marketing arrangements. A prosperous peasantry would mean that fewer people would be seeking city jobs.

In America, the post office is a prime candidate for privatization. This is something that is brought home to me as I rush to get this review into the mail before a first-class stamp goes to 25 cents. □