THE FREEMAN

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

Chip Cartel: An Update

In the February 1987 issue of *The Freeman,* Michael Becker reported on the agreement between the United States and Japan to fix minimum prices for computer memory chips, assign market quotas for these chips, and guarantee that the Japanese would not undercut the agreement with sales in third countries. He predicted that "consumers will likely pay hundreds of millions of dollars more for home computers, videocassette recorders, microwave ovens, and other products which use computer chips."

Little more than a year later, on March 12, 1988, *The New York Times* reported:

"Prices for memory chips have doubled or tripled in recent months as customers clamor for supplies. Soaring prices and limited supplies of vital components have prompted manufacturers of computers and other electronic equipment to raise their own prices, slow their assembly lines and delay introducing products that require large amounts of memory. Profits are likely to suffer and some layoffs may follow.

"Although the shortage reflects several forces within the electronics industry, the one receiving the most attention is the agreement signed by the Governments of the United States and Japan in the summer of 1986."

Funny Money

"Last month, the newspaper *Sovetskaya Kultura* published a letter from a dispirited Odessa film director complaining about all the privileges available to foreign tourists and to Russians who use foreign currencies or coupons.

"Reporting that ordinary Soviet citizens were refused service at many places along the Black Sea coast because they lacked foreign money, he recalled a brief conversation with a Russian child from the area. 'Vovochka, what do you want to be when you grow up?' he asked. 'A foreigner,' she replied."

—from *The New York Times,* July 22, 1987.

Training Wheels

In the late 1970s, the National Highway Traffic Safety Commission, a federal regulatory agency, became alarmed by the high accident rate of motorcyclists. At great expense, NHTSC ordered the construction of a radically new motorcycle, which would steer with the rear wheel, not the front. The prototype was found to be much safer, far more stable, at all speeds over 30 m.p.h. However, at all speeds less than 30 m.p.h., the prototype fell over, crushing the rider's leg. The Commission was undaunted: it added two training wheels to the machine. Thus it succeeded in producing the world's safest motorcycle, while at the same time proving beyond doubt that the safest motorcycle is an automobile.

—JOHN ADAMS WETTERGREEN
of San Jose State University,
speaking before The Heritage Foundation,
February 11, 1988

Medicare in Australia

State hospitals require a large share of the taxpayer's dollar. The government has many ways of controlling hospital expenditures, but the most effective is simply by closing them under the guise of "rationalization." In hospitals that still are functioning, wards are closed and many beds are empty, despite ever-longer waiting lists. While the government makes excuses that the wards need repainting or refurbishing, the truth is that there are not enough nurses willing to accept current salaries and working conditions.

Not content with controlling just the state-owned hospitals, the Socialists now are trying to control the private hospitals. Private patients' Medicare reimbursements have been reduced for procedures done in private hospitals, while their contributions to private hospital insurance funds have soared because of the diminishing pool of contributors. Physicians who own private hospitals are accused of profiteering, and patients are warned away. Small private hospitals face closure when they fail to meet standards set by a government-supported committee—standards that state hospitals are not required to meet.

Meanwhile, state hospitals are so besieged with people wanting free treatment that their waiting lists have become a public scandal.

—PETER C. ARNOLD, M.D., writing in the
February 1988 issue of *Private Practice*

An Army of Principles

"An army of principles will penetrate where an army of soldiers cannot. Neither the Channel nor the Rhine will arrest its progress. It will march on the horizon of the world and it will conquer." This is the inscription on one side of Rose Wilder Lane's tombstone in a Mansfield, Missouri cemetery.

—CARL WATNER, Editor
The Voluntarist

Clarification

"Freedom Footnote," by Paul Rux, which appeared in the April 1988 *Freeman,* contained a quotation from *School Finance: The Economics and Politics of Public Education,* by Walter I. Garms, James W. Guthrie, and Lawrence C. Pierce. The article should have mentioned that the original source of the quotation is James M. Buchanan, "Economics and Its Scientific Neighbors," in Sherman Roy Krupp, ed., *The Structure of Economic Science: Essays on Methodology.* We apologize for this oversight.

—BJS

Reader's Digest Reprints "David"

"David: From Beggar to Entrepreneur—In a Day" by Bruce Alan Johnson was reprinted in the June 1988 *Reader's Digest.* This article originally appeared in the November 1987 issue of *The Freeman.*

We have extra copies of the *Digest* version of Mr. Johnson's article. Please write to FEE, stating the quantity you'd like.

THE FREEMAN
IDEAS ON LIBERTY

The Wall Street Journal's Second Language

by William H. Peterson

Why the growth of *The Wall Street Journal?*

In November 1883, Wall Street news agents Charles H. Dow and Edward D. Jones introduced their first publication, "Customers' Afternoon Letter," two pages which summarized messenger-delivered, hand-written financial bulletins (onion-skin carbon copies called "flimsies") which they had issued during the day. A year later the "Letter" published the first Dow Jones Stock Price Index.

With subscriber and advertiser lists growing and reaching beyond downtown Manhattan, the two entrepreneurs hit on a rather radical idea—a daily *financial* newspaper. On July 8, 1889, the first issue of *The Wall Street Journal* rolled off the presses. It was four pages in length and cost two cents. In 1902 circulation hit 7,000, in 1927 40,000, in 1947 100,000.

Today, with more than two million daily circulation and an estimated readership of five million, and with 18 printing plants across the nation linked by a satellite facsimile transmission system, the *Journal* is America's largest daily newspaper. It proclaims itself "the daily diary of the American dream." Pulitzer Prize judges and schools of journalism have acclaimed its well-written English, its smoothly flowing text, its investigative "scoops."

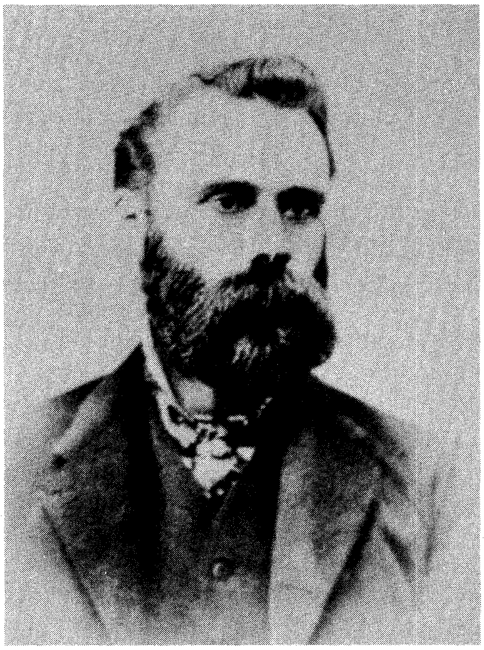
To me, though, the growth of *The Wall Street Journal* is mainly attributable to its remarkable second language—prices. Prices, like music, are a common tongue, a universal language, even understood by the illiterate. It is a language also copiously available, of course, in the business sections of city papers across the country and in other financial publications such as *Investor's Daily* and *The Journal of Commerce*.

For its part, the *Journal* publishes a torrent of daily financial data, with scores of tables, charts, bar graphs, rates, and indexes. The Dow Jones Stock Price Index of yore, for example, has now evolved into an Industrial Average of 30 stocks, a Transportation Average of 20 stocks, a Utilities Average of 15 stocks, and a 65-Stock Composite.

Prices of stocks and bonds are covered not only in exchanges such as New York (popularly known as the Big Board), American, Boston, Philadelphia, Midwest, and Pacific, but in over-the-counter (NASDAQ) markets. Foreign stock markets reported include Toronto, Montreal, London, Amsterdam, Brussels, Frankfurt, Zurich, Paris, Milan, Stockholm, Hong Kong, Sydney, and Tokyo.

Too, of special interest to speculators and hedgers, the *Journal* (as do most financial sections) details daily commodity cash or spot prices as well as expected future prices (called futures) such as those for soybeans, gold, cotton, coffee, crude oil and other raw materials, and for financial futures such as British pounds, Japanese yen, Canadian dollars, Swiss francs, interest rates, and stock indexes (notably the Standard & Poor's 500).

Dr. Peterson, an adjunct fellow at The Heritage Foundation, is a Washington, D.C., consulting economist. For fourteen years he wrote The Wall Street Journal's *"Reading for Business" column.*



Charles H. Dow, cofounder of *The Wall Street Journal*

Daily interest rate and yield figures are also reported. Money rates include those for the prime, federal funds, discount, mortgages, call money, commercial paper, certificates of deposit, bankers acceptances, London late Eurodollars, London interbank offered rates (LIBOR), foreign prime, Treasury bills, and Federal Home Loan Mortgage Corporation (Freddie Mac).

So the *Journal* offers, in its second language, literally thousands of prices and price-related figures on a daily basis, with all manner of weekly, monthly, and quarterly summaries, with even, in a special section, a yearly summary, the last one dated January 4, 1988, and headlined "Crash Casts a Giant Shadow on Investment Outlook."

Hence what the reflective reader of the *Journal* or any other financial section sees is a moving panorama of economic, business, and financial news, almost all bearing directly or indirectly on prices.

Reflecting further, that reader may also see in those prices the broad sweep of a market society, of a global economy, of supply and demand at work to help satisfy human needs and wants—of division of labor and social cooperation in action.

But how and why do masses of people cooperate—people who, for the most part, don't know each other, who perhaps are separated by thousands of miles, who quite conceivably speak different languages, hold different customs, practice different cultures, and may even be, here and there, on unfriendly terms with each other?

Consider. The *Journal* reader wakes up via his Hong Kong-produced alarm clock-radio, switches on the lights powered by electricity carried on copper mined in Chile, reads his morning *Journal* printed on Canadian newsprint, drinks his Brazilian coffee, eats wheat flakes from grain farmed in Kansas, consumes a banana grown in Ecuador, puts on his clothes made of Alabaman cotton and Australian wool, and drives to his office on tires made partly from Malaysian rubber, using gasoline refined from oil pumped in Saudi Arabia.

In such remarkable seemingly mindless global integration and peaceful cooperation—without, in the main, the intervention of government—we witness what Leonard Read called "the miracle of the market."

This is social cooperation, Adam Smith's invisible hand, F. A. Hayek's division of knowledge, Ludwig von Mises' praxeology—the science of human action—at work, all knit together by prices, by everybody's second language, by a vast globally connected price network. These prices may be expressed in different currencies. No matter. Currencies translate readily into each other in the marketplace, so that whatever the good, the Mexican peso price and the comparable U.S. dollar price are interchangeable, as the American tourist in Acapulco soon finds out.

Human incentives—human nature—are also at work. These are the incentives impelling the reader of the *Journal* and of financial sections generally. Producers and consumers, buyers and sellers, savers and investors, dealers and speculators, hedgers and bankers, brokers and commission agents, private individuals and corporate executives, and many others (including quite a few college and university business and economics students and their professors)—all communicate or try to communicate with each other *through prices* as they pore over financial pages, driven by innate incentives, broadly by the will to live and, if possible, to live better, as each views life.

But to live is to choose, to exchange one state of affairs for another. An exchange may be autistic, within oneself, swapping, say, working time for leisure. Or an exchange may be social, involving another person. Whatever the type of exchange, the human family around the globe invariably engages in what Mises referred to as catallactics, the subjective determination of ratios of exchange or prices within broad margins.

Exchanges—this for that—are motivated strictly by gain, by a sense of improvement. Thus a market exchange is—to quote from Mises—"effected only if each party values what he receives more highly than what he gives away." Price or a perceived favorable cost-benefit relationship is hence central to any exchange.

Market Exchanges

Market exchanges, then, are at once both intrapersonal and interpersonal. The buyer values, intrapersonally, the good more than the money, just as the seller values the money more than the good. If so, a transaction generally takes place, interpersonally, with gain perceived by both parties. What the buyer regards as a purchase is regarded by the seller as a sale.

And so through prices, subjectively determined, through free markets, the national and international division of labor, the broad sweep of individualistic human action the world over, the intricate link-up of differing currency and financial systems, the diverse work of various market societies, here and abroad, go forward, price by price, transaction by transaction—social cooperation literally on a global scale.

Worldwide mutuality and sociability emerge. The individual, from one ethnic origin to another, from one culture to another, from one race to another, serves so as to be served. And society tends to become peaceful and progressive.

Also central to this pricing and division of labor process is the role of the entrepreneur. The entrepreneur is the spark of the free enterprise system, a profit-seeker and opportunity-discoverer, an innovator and initiator, alert to prices and inadequate market responses in ever-dynamic commerce. He is in this sense something of an arbitrager and speculator. He buys when and where he thinks the price is too low. He sells when and where he thinks the price is too high.

For the entrepreneur, then, gnawing questions: When? Where? How? For many an entrepreneur, apart from the investor, speculator, business executive, etc., the financial pages mark a starting place to search out market opportunities, find entrepreneurial ideas, keep "abreast of the market" (to quote a *Journal* feature).

Thus in one way or another the entrepreneur discovers, advertently or inadvertently, unmet or imperfectly met market demands or social needs, perhaps employing formal market research, perhaps not. In any event, he tries to anticipate future prices, knowing that if he anticipates wrongly, he incurs a loss.

On discovering what he thinks is a market opportunity, he dickers with the owners of the factors of production—land, labor, capital—and is thereby intimately concerned with their prices—rent, wages, interest rates—with income and outgo. If he projects a profit, he may undertake production and scout consumers for his wares, attracting them, perhaps with advertising, on the basis of price, quality, or convenience—or possibly some combination of the three (although quality and convenience are at bottom but aspects of price).

Without the entrepreneur, the wheels of commerce and industry would not turn. The story of Charles Dow and Edward Jones and their founding of *The Wall Street Journal* is not untypical of entrepreneurship and its discovery process.

So throughout the process (call it capitalism or the profit-and-loss system) prices serve as guideposts for entrepreneurship and society, and serve as man's universal language, a language spanning continents and frequently moving with electronic speed—Hong Kong to New York, for example, in nothing flat.

The language addresses everyone, and everyone listens, hard usually, as in the reading of a will. This language is mostly quantitative and assumes many forms—wages, employee benefits, interest rates, rents, profits, losses, legal fees, insurance premiums, jury awards, speech honoraria, school tuition, bridal dowries, product prices, monthly payments, discount coupons, convenience factors, betting odds, unit costs, "frequent flyer" tickets, and so on.

Coordinating Production with Consumption

Prices communicate. Sometimes loud and clear. Sometimes quietly and subtly. Price movements, for example, can signal oversupply or undersupply, overdemand or underdemand, and thereby act so as to wipe out shortages, on the one hand, and surpluses, on the other. Prices thereby serve in market societies to coordinate production with consumption, with the consumer in the driver's seat (with "consumer sovereignty," to use the phrase coined by W. H. Hutt).

So prices serve as human incentives—the seller fascinated by high prices, the buyer by low prices—to create wealth and serve others, to forge capital and boost productivity, to stimulate entrepreneurship and steer the production of goods and services toward society's most urgent needs, as reflected in an ever-shifting network of prices, all with implied profit opportunities, both for the producer and the consumer—the seller and the buyer.

Too, in this pricing process of supply and demand—which can be seen, if imperfectly, in the financial pages—society *simultaneously* achieves three key market phenomena: price determination, production direction, and income distribution. The interventionist or socialist tends to think of these three as separate actions and hence each capable of "helpful" government manipulation. Not so. But let Mises speak from *Human Action:*

> The pricing process is a social process. It is consummated by an interaction of all members of the society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. Competing in cooperation and cooperating in competition all people are instrumental in bringing about the result, viz., the price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual. These three events are not three different matters. They are only different aspects of one indivisible phenomenon which our analytical scrutiny separates into three parts. (3rd edition, p. 338)

Mises was of course a champion of free markets, of seeing how government intervention into peaceful private activity tends to make things worse rather than better. And daily are the *Journal* and the financial press generally supplied with stories and editorials on the boomerang effects of rent controls, farm subsidies, import tariffs, minimum wages, welfare payments, and other forms of price control—democratic government's favorite intervention. In the words of Mises: "A government can no more determine prices than a goose can lay hen's eggs." (*Human Action,* 3rd edition, p. 397)

Prices. Catallactics. Human incentives. Human action. This is what the financial press stresses, especially in its second language. This language of prices is universal. It talks. It shouts. It moves people. On all continents. It also sells *The Wall Street Journal.* □

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LIBERTY

Prices and People

The free price mechanism, by preventing waste and by giving swift directions to capitalists, which must be obeyed on pain of bankruptcy, has made the multiple economy the most efficient system for supplying the wants of the people that the world has ever known.

—GEORGE WINDER

The Senseless Slander of Services

by Russell Shannon

People who urge an expanded role for government in our economy certainly deserve an award for persistence! When one of their arguments collapses, they relentlessly erect another.

Over the past few years, for example, there has been much ado about our emerging "rust belt." Often due to the pressures of foreign competition, many manufacturing facilities have closed. Widespread calls have rung out for government intervention in the form of "industrial policies" and trade barriers against imported goods.

By and large, however, we seem to have suffered only a temporary setback. As measured by the Federal Reserve Board's index of industrial production, manufacturing output is now well above the peak achieved in 1979 just prior to the recession of the early 1980s. Of particular importance is the fact that, over the past two years, the falling exchange value of the U.S. dollar has spurred our export industries.

However, alarmists still complain that employment in manufacturing remains well below the 21 million workers who had jobs in that sector in 1979. But they ignore the fact that the unemployment rate for the economy as a whole is falling, and the overall employment rate has reached unprecedented levels. Apparently, these displaced workers are finding jobs, many of them in the service industries. We thus are continuing a trend which originally shifted workers from farms to factories: output in both agriculture and manufacturing continues to rise while employment falls, due to impressive gains in productivity.

Yet critics of laissez faire still are not content. Now they scoff that soon we may all be flipping hamburgers or pumping gas. But the service sector does not deserve such derision. It encompasses far more than fast-food restaurants and service stations. After all, this category includes medical personnel, teachers, journalists, lawyers, and entertainers, among many others. And not only are many of these service jobs crucial to our welfare and culture; they also quite likely provide far more satisfaction and fulfillment than one can find in the drudgery of hanging left front doors on an endless assembly line of automobiles, or in filling empty boxes with shoes.

Even the derision often directed at jobs in fast-food businesses is misguided. Writing in the August 31, 1987, issue of *Fortune* magazine, Jeffrey Campbell, an executive vice president at Pillsbury, pointed out that such jobs can be "a very large port of entry for disadvantaged young people into the mainstream of the American economy." And he can back up his statement with facts: "A lot of our managers started in hourly paid jobs. Two regional vice presidents in our Burger King division rose from jobs behind the broiler without college degrees."

What's more, William Johnston of the Hudson Institute has discovered, as a result of a careful statistical analysis, that the shift to services can be a boon to economic stability. Because "employment and production in service industries are more stable than in the goods economy," he writes in the December 10, 1987, *Wall Street Journal,* we are less likely to suffer the pains of economic recession. People may be able to postpone buying a new car or refrigerator if times get bad, but they are not so apt to cut back on services. Thus, they are more likely to maintain demand and, as a result, employment.

There has been great interest of late about *perestroika* (restructuring) in the Soviet Union. Quite obviously, our economy is experiencing its own restructuring. Would it not be ironic—even tragic—if, at the same time, the government of the Soviet Union restructures its economy by attempting to *reduce* centralized control, we foolishly were to go in the *opposite* direction? □

Professor Shannon teaches in the Economics Department, Clemson University.

The Sound of the Machine

by Mike W. Perry

Everything they saw that day, from the vast fields of ripening grain to the numerous children, spoke of fertility. Nothing, it seemed, could change the vitality of these people. As Martin and Karl drove from village to village their faces grew increasingly grave.

In the evening the men returned. Martin told of all the children he had seen and warned that, "someday they may give us a lot of trouble" because they were "brought up in a much more rugged way than our people." Alarm spread through the group until the group's leader began to speak.

Obviously peeved, he pointed out that someone had suggested that abortion and contraceptives should be illegal here. He continued, "If any such idiot tried to put into practice such an order . . . he would personally shoot him up. In view of the large families of the native population, it could only suit us if girls and women there had as many abortions as possible. Active trade in contraceptives ought to actually be encouraged."[1]

The date was July 22, 1942. The place was the "Werewolf" headquarters in the Soviet Ukraine. The group's leader and abortion advocate was Adolf Hitler. The two men were Martin Bormann, his Secretary, and Karl Brandt, his personal physician.

Mike Perry is a free-lance writer living in Seattle, Washington, as well as a professional technical writer. This article was developed from research done during graduate study in biomedical history at the University of Washington's School of Medicine.

Operation Blue, the 1942 German offensive in the East, had been under way for almost a month and already its success was assumed. At Hitler's headquarters thoughts turned to what should be done with the occupied territories. Some wanted a lenient policy to gain Ukrainian support in the war against the Soviet Union. Others wanted to eliminate the Slavic population to make room for Germans.[2]

As Bormann hoped, that evening Hitler chose the second policy and the next day he told Bormann to issue population control measures for the occupied territories. Bormann developed an eight-paragraph secret order which included the following: "When girls and women in the Occupied Territories of the East have abortions, we can only be in favor of it; in any case German jurists should not oppose it. The Führer believes that we should authorize the development of a thriving trade in contraceptives. We are not interested in seeing the non-German population multiply."[3]

This was not the first such policy. On November 25, 1939, shortly after the Nazi occupation of Poland, the Commission for Strengthening of Germandom issued a circular containing the following:

> All measures which have the tendency to limit the births are to be tolerated or to be supported. Abortion in the remaining area [of Poland] must be declared free from punishment. The means for abortion and contraceptive means may be offered publicly without any police restrictions. Homosexuality is always to be declared legal. The in-

stitutions and persons involved professionally in abortion practices are not to be interfered with by police.[4]

This policy was confirmed on May 27, 1941, at a Ministry of the Interior conference in Berlin. There a group of experts recommended population control measures for Poland that included authorization of abortion whenever the mother requested it.[5] On October 19, 1941, a decree applied the measures to the Polish population. Hitler's July 23, 1942, decree extended it to other parts of Eastern Europe.

German experts also worked out practical ways to control population. On April 27, 1942, in Berlin, Professor Wetzel issued a memorandum suggesting ways to deceive people. It included the following:

> Every propaganda means, especially the press, radio, and movies, as well as pamphlets, booklets, and lectures, must be used to instill in the Russian population the idea that it is harmful to have several children. We must emphasize the expenses that children cause, the good things that people could have had with the money spent on them. We could also hint at the dangerous effect of child-bearing on a woman's health.
>
> Paralleling such propaganda, a large-scale campaign would be launched in favor of contraceptive devices. A contraceptive industry must be established. Neither the circulation and the sale of contraceptives nor abortions must be prosecuted.
>
> It will even be necessary to open special institutions for abortion, and to train midwives and nurses for this purpose. The population will practice abortion all the more willingly if these institutions are competently operated. The doctors must be able to help without there being any question of this being a breach of their professional ethics. Voluntary sterilization must also be recommended by propaganda.[6]

The planning for this goes back still further. In the summer of 1932, almost a year before the Nazi Party took power in Germany, a conference took place at the party headquarters in Munich. It discussed Eastern Europe and assumed Germany would someday conquer the region.

Adolf Hitler with a member of the Hitler Youth in the 1930s.

Agricultural experts pointed out that controlling Eastern Europe would make Germany self-sufficient in food but warned that the region's "tremendous biological fertility" must be offset with a well-planned depopulation policy. Speaking to the assembled experts Hitler warned, "what we have discussed here must remain confidential."

Not all Nazi insiders remained silent though. Hermann Rauschning, a prominent Nazi in the early thirties, defected in the mid-thirties and tried to warn of Hitler's plans. In *The Voice of Destruction* he described a 1934 conversation with Hitler about the Slavs.

> "We are obliged to depopulate," he went on emphatically, ". . . . We shall have to develop a technique of depopulation. . . . And by remove I don't necessarily mean destroy; I shall simply take systematic measures to dam their great natural fertility. . . .
>
> "The French complained after the war that there were twenty million Germans too many. We accept the criticism. We favor the planned control of population movements.

But our friends will have to excuse us if we subtract the twenty millions elsewhere."[7]

Within Germany itself, Hitler also advocated government-supported birth control to weed out those deemed "unfit." In his 1924 *Mein Kampf,* Hitler wrote that one of the seven major responsibilities for government was "to maintain the practice of modern birth control. No diseased or weak person should be allowed to have children."[8]

Once in power, Hitler wasted no time in legalizing eugenic sterilization and abortion. Gitta Sereny describes what happened this way: "The 1933 law for compulsory sterilization of those suffering from hereditary disease was followed two years later, on October 8, 1935, by the *Erbgesundheitsgesetz*—the law to 'safeguard the hereditary health of the German people.' This expanded the original law by legalizing abortion in cases of pregnancy where either of the partners suffered from hereditary disease."[9]

Within Germany, however, these "negative eugenic" policies were paralleled by positive programs to encourage births among the fit. Laws were passed limiting access to birth control and prohibiting abortion. Government programs encouraged large families.

These positive programs, along with the need to keep secret why Germany was so willing to help Slavs limit their births, created a confusion about Nazi policy that led to Hitler's remark about "shooting up" anyone who tried to ban abortions in the Ukraine.

For instance, in the spring of 1942, SS Reichsführer Himmler had to get the chief of German police in Poland, SS-General Krueger, to intervene so the courts would no longer punish Poles for having abortions. Similar court behavior in Byelorussia led SS-General Berger to remark that some German administrators, "have no idea what the German Eastern policy really means."[10]

From beginning to end, Nazi policies expressed not only their peculiar views of race but a consistency demanded by the logic of socialism itself. Hitler explained it to Rauschning this way:

At its most revolutionary, Nazi policy aimed to socialize people, not property. Hitler once commented, "Our socialism is much deeper than Marxism. . . . It does not change the external order of things, but it orders solely the relationship of man to the state. . . . What do we care about income? Why should we need to socialize the banks and factories? We are socializing the people."[11]

Society as a Machine

Socialists see human society as a machine, not a living organism. At first, their machine may engulf only the larger elements of the society, the "banks and factories." But with time it takes over more and more until the people themselves are swallowed up. Human reproduction, like factory production, must come under state control. As Hitler noted, Nazism merely skipped the preliminary stages for the critical one.

In spite of worldwide condemnation of Nazi atrocities, some people in the United States found their population control policies attractive. Given its socialist underpinnings, it isn't surprising that the ideas would especially appeal to those ideologically closest to socialism, New Deal liberals.

President Franklin Roosevelt, for instance, found Hitler's ideas on birth control amusing. In *Allies of a Kind* the British historian Christopher Thorne describes what happened this way:

> Subjects to do with breeding and race seem, indeed, to have held a certain fascination for the President. . . . Thus, for example, Roosevelt felt it in order to talk, jokingly, of dealing with Puerto Rico's excessive birth rate by employing, in his own words, "the methods which Hitler used effectively." He said to Charles Taussig and William Hassett, as the former recorded it, "that is all very simple and painless—you have people pass through a narrow passage and then there is a brrrrr of an electrical apparatus. They stay there for twenty seconds and from then on they are sterile."[12]

Fortunately, FDR's information was inaccurate. The Nazis had hoped to sterilize people while they filled out forms at a counter, not while passing through a narrow passage. But they found that the dose required to sterilize also left obvious burns, making it impossible to keep the sterilization secret.

Nazi attempts secretly to sterilize large populations indicate how population controllers often begin with measures that allow "freedom of choice." But if their goals aren't met, they won't hesitate to use as much coercion as necessary. FDR's comments show that coercive birth control can be attractive even to those who, in general, believe in democracy. The crucial factor is an ideological commitment to a controlled, planned society.

In the United States, the idea that the state should control human reproduction was first promoted by the birth control groups of the 1920s and '30s. Like Nazism, these groups broke society into two major groups, the "fit" (generally equated with the affluent) and the "unfit" (the poor). The only real difference lay in emphasis. Nazis wanted to raise the birth rate of the fit and lower that of the unfit. The birth control groups wanted only to "stop the multiplication of the unfit."[13]

Birth controllers also hoped to "socialize people" to the machine. For instance, in 1935 a sociologist named James Bossard wrote in *The Birth Control Review:*

> The demand for unskilled labor has been declining . . . but it is in this group . . . that the reproductive rates are highest. . . . As the demand for unskilled, low intelligence labor decreases, corresponding readjustments must be made in the supply of this type of labor, if we are to avoid the crystallization of a large element in the population who are destined to become permanent public charges. This points again directly to birth control on a scale which we have not yet fully visioned.[14]

In March 1939 Margaret Sanger, founder of the American Birth Control League, wrote a letter describing what her group was doing. She tells what Bossard's "not yet fully visioned" plans mean—massive government involvement in birth control through the social welfare and public health system:

> . . . statisticians and population experts as well as members of the medical profession had courage to attack the basic problem at the roots: That is not asking or suggesting a cradle competition between the intelligent and the ignorant, but a drastic curtailment of the birth rate at the source of the unfit, the diseased and the incompetent. . . . The birth control clinics all over the country are doing their utmost to reach the lower strata of our population, but as we must depend upon people coming to the Clinics, we must realize that there are hundreds of thousands of women who never leave their own vicinity . . . but the way to approach these people is through the social workers, visiting nurses and midwives.[15]

During the war, public outrage at Nazi ideology forced American birth control groups to stop talking about the "unfit." By 1942 the various birth control groups had merged to form the Planned Parenthood Federation of America. The new name, however, didn't mean that these groups had abandoned their plans. Linda Gordon explains it this way:

> "Planned parenthood" seemed a more positive concept than "birth control" especially to those who were general advocates of the importance of planning. Presumably "birth control" left matters such as population size and quality to the anarchism of individual, arbitrary decision. The propaganda of the birth-control organizations from the late 1930s through the late 1940s increasingly emphasized the importance of over-all social planning. A Birth Control Federation of America poster read: "MODERN LIFE IS BASED ON CONTROL AND SCIENCE. We control the speed of our automobile. We control machines. We endeavor to control disease and death. Let us control the size of our family to insure health and happiness."[16]

As the poster notes, these people believed that family size, like highway speed limits, should be a matter of law and public policy. "Planned parenthood" is thus similar to the planned economies of socialist countries and "family planning" to urban planning.

The poster's reference to "modern life" as being based on "science" refers to the other aspect of the family planning groups, their use of pseudo-science (especially statistics) to promote their programs.

During the twenties and thirties, eugenic fears were common among the educated classes of the industrialized nations. Modern medicine, it was believed, enabled the unfit to live and reproduce in large numbers. Birth control groups used these fears to get support for their clinics. Birth control would provide "quality control" for the human factory.

After Nazism discredited these eugenic arguments the same people (now with "family planning agencies") dropped their language about unfit genes and began talking about a poor environment. By the sixties they had adopted another machine analogy, production control, to justify themselves. As birth control curtailed the birth rate of the unfit, so family planning would advert a "population explosion."

Like the earlier arguments, the warning about a population explosion, while totally wrong, had the appearance of truth. The children of the postwar baby boom were creating social unrest on the campuses and in inner cities. It really did look like we were having too many children.

In reality, with the arrival of the birth control pill in 1960, the nation's birth rate nosedived. By the late sixties when rhetoric about a "population bomb" hit its peak, it was obvious that the nation was actually in the midst of a birth dearth. In 1972 the nation's birth rate dropped below the replacement level and a decade and a half later it shows no sign of rising.

The fears of a population explosion in this country were unfounded but they made an excellent argument to get Federal funding for family planning programs and to legalize abortion. These programs helped target one of the main groups in the country with above-average birth rates, the poor underclass. (The other is conservative religious groups.)

Because Catholic immigrants were an early target of birth controllers, Catholic leaders understood this better than anyone else. In August 1965 William Ball, General Counsel of the Pennsylvania Catholic Conference, testified to a Senate subcommittee considering government funding for family planning services and warned that: "We have a particular concern over this because we believe that if the power and prestige of government is placed behind programs aimed at providing birth control services to the poor, coercion necessarily results and violations of human privacy become inevitable."[17]

William Ball's warnings have proved correct. In a news article in the June 6, 1969, issue of *Medical World News,* Dr. Alan Guttmacher, president of Planned Parenthood-World Population, used the same word, coercion, to describe what he felt would be necessary if voluntary means failed. He noted that: "Each country will have to decide its own form of coercion, and determine when and how it should be employed. At present, the means available are compulsory sterilization and compulsory abortion. Perhaps some day a way of enforcing compulsory birth control will be feasible."[18]

One of the countries where Dr. Guttmacher felt coercion would be needed was mainland China. In the past decade Planned Parenthood has been helping the Chinese government set up a population control program. A 1985 article in the *Washington Post* described the result:

> . . . China, to be sure, is curbing its population growth, but its success is rooted in widespread coercion, wanton abortion and intrusion by the state into the most intimate of human affairs.
>
> "The size of the family is too important to be left to the personal decision of a couple," Minister of Family Planning Qian Xinzhong explained before resigning last year.
>
> "Births are a matter of state planning, just like other economic and social activities, because they are a matter of strategic concern," he said. "A couple cannot have a baby just because it wants to."[19]

In 1979 China's Vice Premier Chen Muhua explained the relationship between his country's socialism and coercive population control this way: "Socialism should make it possible to regulate the reproduction of human beings so that population growth keeps in step with the growth of material production."[20]

Such open socialism has never been popular in the United States and our laws make it almost impossible to use the degree of coercion used by mainline China. However, as William Ball warned, this doesn't mean that government and family planning agencies can't use other means to coerce women into abortion.

For instance, a recent issue of the *Journal of the American Medical Association* featured an exchange of letters about whether Center for Disease Control guidelines should recommend abortion when the mother was carrying the AIDS virus. Louise Tyrer of Planned Parenthood, among others, wanted the pro-abortion guidelines. Others objected for the following reason:

> Some of their objections were based on the fact that since not all children born of AIDS-infected women are afflicted with AIDS, some women might wish to carry pregnancy to term and should not be pressured toward another course of action by the federal government. Vigorous objection was made because of the belief, based on past practice, that minority women in public clinic settings would be coerced into having abortions using these guidelines as the basis.[21]

There is a warning here. In comparison to the limited resources of any individual, the power of the government (and quasi-government agencies) is immense. When that individual is young, poor, minority, and female that power is multiplied many times. As the Center for Disease Control consultants noted, abortion for these women is often coerced, not chosen.

It matters little that these coercive planners believe they can create a perfect world. As Charles Frankel, Old Dominion professor of philosophy and public affairs at Columbia University, wrote in *Commentary:*

> The partisans of large-scale eugenic planning, the Nazis aside, have usually been people of notable humanitarian sentiments. They seem not to hear themselves. It is that other music that they hear, the music that says that there shall be nothing random in the world, nothing independent, nothing moved by its own vitality, not out of keeping with some Idea; even our children must be not our progeny but our creations.[22]

Their music is the music of a machine; a machine made from the bodies of each of us. □

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A Strange Indifference

by Andrew E. Barniskis

An unusual thing happened to me one night several months ago. I had worked late in my home office, and my wife had fallen asleep with the bedroom television on. As I prepared for bed, a late-night talk-show was being broadcast.

The talk-show guest was a well-known consumer advocate, who was crowing about his success at having a certain controversial but otherwise harmless product outlawed in many cities and tightly regulated in a few states. I watched for a few minutes with no particular interest, and then it struck me how strange that was—that I had no particular interest.

My "arguments with the television" are somewhat of a family joke. Indeed, it had been unusual for me to get through a newscast without becoming livid over the course of local and national events. Yet there I was, listening to a recital of how one more freedom of choice was being eliminated, and I really didn't care. That startled me.

It wasn't fatigue. I'm a night person, and usually have to force myself to bed. It wasn't preoccupation. I had completed the task I had been working on, and felt satisfied with my accomplishment. Perhaps, I thought, I had been emotionally drained by recent months, and the increasing attacks on our liberties.

I had been angered at having to obtain a Social Security number for my ten-year-old son. I was depressed by calls for tighter regulation of financial markets. I was frightened by the efforts to increase my already oppressive tax load, and calls for the creation of vast new bureaucracies. And, nearly every day, I was shocked by the indifference of my neighbors to the tightening controls on their lives. As I turned off the TV it seemed the topic being discussed was trivial compared to some things—yet I couldn't stop wondering at my own apathy.

As I lay in the dark, an odd, out-of-place memory came to mind. I recalled the two years I had lived in Europe. It occurred to me that I could remember almost nothing of the events that had gone on around me at the time. The reason for this was fairly obvious. While I had been *in* Europe, I had not been *of* Europe. To me, "the world" had been America, several thousand miles away. I had felt as removed from the culture around me as I would have been were I observing a tribe of aborigines. European affairs had aroused not the slightest emotion in me.

My mind went off on other strange tangents. I thought of my grandfather, who had come to America at the turn of the century, leaving a comparatively prosperous life in Europe to live in a strange land where he couldn't speak the language, and had to work as a common laborer. Despite stories of oppression by the czar's armies, it was never clear to me why he had thrown up his hands and given up on his native country, when thousands of others, including his own brother, chose to remain.

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When and why had the idea to leave first played across his mind, and what was he feeling when the idea became a decision?

My thoughts turned to John Steinbeck's novel, *The Grapes of Wrath*, about the desperate flight of the Okies from the dust bowl of the Midwest to seek work in California. Several times in the book Steinbeck wrote that, when the migrant men got mad, their women felt relieved, because they knew that men who still could get mad, and shout, and curse had not reached a breaking point.

I wondered—was my current, momentary apathy a passing mood, or was it a symptom that, in my heart, I was giving up on America? Did I now feel as alienated from my neighbors as I once had from the Germans who had bustled about me on the streets of Frankfurt? I had daydreamed about expanding my business to some emerging country, but had passed the idea off as merely a mid-life adventure fantasy—was I actually repeating a thought process that had brought my grandfather to abandon his roots, ninety years before?

As I drifted off to sleep, I reflected that men will get mad, and shout, and curse—even at television sets—when they see hope being stolen from them. It's when they think that all hope for the future is gone that they fall silent, and no one can be sure what they'll do then. □

IDEAS ON LIBERTY

Rights for Robots

Millions of our people now look to the government much in the same fashion that their fathers of Victorian times looked to God. Political authority has taken the place of heavenly guidance.

Herbert Spencer in that wonderful prophecy, *The Man Versus the State,* explained in detail what would happen. He foretold with exactitude the present rush of the weaklings for jobs as planners and permitters, telling other people what *not* to do.

You will have noticed that while we are all under the thumb of authority, authority becomes composed of those who, lacking the courage to stand on their own feet and accept their share of personal responsibility, seek the safety of official positions where they escape the consequences of error and failure. Active, energetic, and progressive persons, instead of leading the rest, are allowed to move only by the grace and favor of that section of the population which from its very nature lacks all the qualities needed to produce the desired results. Authority is the power to say *no,* which requires little or no ability.

On a broad view, the all-important issue in the world today is *individualism* versus *collectivism.*

The Individualist thinks of millions of single human souls, each with a spark of divine genius, and visualizes that genius applied to the solution of his own problems. His conception is infinitely higher than that of the politician or planner who at best regards these millions as material for social or political experiment or, at worst, cannon fodder.

—SIR ERNEST BENN

Mandated Benefits: The Firm as Social Agent of the State

by Richard B. McKenzie

There is a growing movement in Congress to force businesses into providing a wide range of employee benefits. These benefits include mandated health insurance for employees and dependents, life insurance, parental leave, day care, a higher minimum wage, employee consultation rights on pension investments, severance pay, retraining, and pre-notification of plant closings. The key word here is "mandated"—all these benefits would be required by law.

The current interest in mandated benefits appears to stem from three main sources. The first is statistical. Numerous studies have uncovered gross inefficiencies in government delivery systems, compared with the private sector. Surveys also have shown that many American workers receive substantial employment benefits, while other workers receive few such benefits. Similarly, a string of reports has indicated that many employees are not provided with "adequate" notice of the closing of their plants.

Proponents seem to think that if these benefits are not voluntarily provided by employers, then they should be mandated by government. They also seem to think that mandated benefits will improve the welfare of workers.

The second reason for the movement toward mandated benefits stems from massive Federal deficits, which are limiting Congress' ability to authorize new social programs. Imposing the costs on business, therefore, is an attractive alternative. There is political resistance to raising taxes or even spending more Federal money, but apparently disguising the costs of various social programs by passing them through as higher prices for goods and services is considered to be more politically palatable.

Somewhat ironically, the third source of interest in mandated benefits is a strange twist to the case for privatization: if it is a good idea to privatize some governmental operations to make them more efficient, then making the firm the delivery agent for social services should improve the efficiency and quality of social programs.

Advocates of these programs also argue in terms of social costs. Plant closings, for instance, create problems for local communities. By making firms social agents of the state, firm managers will have to consider these outside costs.

Mandated worker benefits are not new. Mandated money benefits, commonly called the minimum wage, appeared in the 1930s. What we now are seeing is an extension of the rationale behind minimum wages to a wide variety of employment benefits.

What supporters of mandated benefits fail to see is that workers are paid not simply in terms of so much money per hour, but in terms of "payment bundles" that include money wages as well as nonmonetary benefits such as health

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and life insurance, vacation time, rest periods, subsidized lunches, child care, severance pay, and working conditions. Workers strive to maximize their payment bundles—as they themselves evaluate them—and not just their monetary incomes.

At any given level of worker productivity, payment bundles cannot exceed an amount which, over time, will cause the firm to break even—otherwise the firm will close. Thus, new legislation requiring employers to include specific wage or fringe benefits in their payment bundles effectively requires employers to withdraw other benefits that are not required, or to make their employees work harder to offset the greater costs of the mandated benefits.

Mandated benefits can cause the value of the payment bundles as judged by employees (not by Congress) to fall. Workers, after all, can negotiate the inclusion of fringe benefits in their payment bundles, in return for forgoing higher wages or other benefits. When such trades are not made in worker contracts, it must be presumed that a sizable percentage of the covered workers prefer not to make such trades.

Assessing the Loss to Workers

The loss to workers because of mandated benefits also can be assessed from the impact of these benefits on employment opportunities. Obviously, those workers who remain unemployed because of the added employment costs of mandated benefits are worse off because of the government action.

Not so obviously, even the workers who retain their jobs can be worse off—to the extent that the value of their payment bundles decreases. The value of their payment bundles can be expected to fall primarily because the reduced demand for workers—due to mandated benefits—means that their bargaining positions will be impaired. The number of jobs can be expected to fall because the increase in the costs of hiring labor will tend to be reflected in higher prices and lower sales. As a consequence, fewer workers will be needed. Another point should be mentioned: the costs of mandated benefits will not be incurred when foreign workers or labor-saving equipment are used.

Consider, as a special case, plant-closing restrictions. The restrictions are a fringe benefit that carries costs in terms of reduced managerial flexibility, diminished access to investment capital (which will shy away from affected firms), and the potential loss of business once a closing has been announced. Such restrictions, as with all other mandated benefits, add to the costs of doing business in the affected region, and therefore discourage firms from opening plants. The closing restrictions may save some jobs for a time, but they also tend to reduce business investment and decrease the number of new jobs. Plant-closing restrictions can encourage firms to open their plants in foreign countries and to substitute, where feasible, machines for workers.

Of course, many firms do give notice of pending plant closings, offer severance pay, and consult with their workers concerning alternatives to closings. However, production circumstances differ and workers vary in terms of their preferred payment bundles. Many of the firms that have given a substantial notice did so because of a negotiated agreement under which workers gave up something in the form of wages or other benefits in order to receive the notice. The fact that many firms did not give notice—and did not violate a contract in the process—indicates that many workers felt, at the time of the contract, that the notice was not worth the attendant sacrifice.

Mandated benefits are especially troublesome when, in practice, they don't apply equally to all workers. Such laws make employment of the covered workers relatively more expensive, compared with other workers and compared with the costs of machinery. Parental-leave laws will tend to raise the costs of hiring workers in their child-bearing years, especially women workers. Catastrophic-health-insurance requirements will tend to raise the costs of hiring older workers. Laws that require firms to continue the medical coverage of their workers when they are laid off or terminated will tend to raise the costs of hiring workers in unstable or high-risk jobs.

In addition, mandated benefits don't apply equally to all firms. Those firms that have fringe benefits which exceed the mandated benefits will not be directly affected by the mandates. However, they can be indirectly affected—to their benefit. In the case of minimum wages, firms facing competition from low-wage firms often have a private stake in minimum wages because such legislation snuffs out existing and potential competition. Similarly, firms facing competition from "low fringe-benefit" firms have a private interest in mandated benefits, since such benefits harm their competitors.

Practically everyone engaged in the debate over mandated benefits would prefer that all workers have higher wages and more benefits. This is especially true when we address the problems of low-income Americans. However, the main problem of low-income workers is a lack of job skills, which leaves them little choice but to accept low wages and low benefits. Mandated benefits will do nothing to solve the problems of these workers. Indeed, by wiping out employment opportunities, mandated benefits are counterproductive, especially for the most disadvantaged in labor markets. Mandated benefits will not supplant the welfare state; mandated benefits, instead, will hasten the growth of an even larger welfare state—to take care of those banished from constructive employment. □

Bumper-Sticker Economics

by Cecil E. Bohanon and T. Norman Van Cott

Economics is alive but not well on America's highways. Americans are continually instructed in the nuances of economics via a plethora of bumper stickers of questionable content. Some mobile placards thinly veil people's attempts to increase their incomes by duping others. The United Auto Workers' ludicrous claim that buying a foreign car dooms ten assembly-line workers to a lifetime of unemployment is such a sticker. Other drivers carry the torch for causes ranging all the way from the National Rifle Association's "God, guts, and guns" theory of American economic development to left-liberal pleas to produce food "for people, not for profit."

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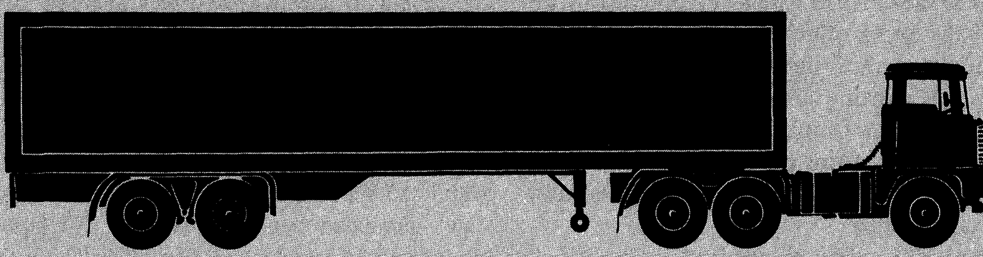
In this wasteland of economic illiteracy, we have found one sticker that offers more than mere comic relief. America's truck owners, no doubt tired of hearing that their trucks mangle the roads, have retaliated with stickers stating, "This Truck Pays Umpteen Thousand Dollars in Annual Road-Use Taxes." Contrary to others, there is a seed of economic truth in this sticker. The message describes the user-cost mechanism in U.S. highway finance, however imperfect the mechanism may be.

At the same time, this back-of-the-truck tax return illustrates a widespread myth about



Who Really Pays Road-Use Taxes?

taxes—a myth that is responsible in part for the sorry condition of public discussion of tax policy. Let us sketch this myth, using as a backdrop the American truckers' attempt at economic education.

The Myth

The myth is that inanimate objects—like trucks—pay taxes. The truth, of course, is that inanimate objects never pay taxes, only *people* pay taxes. We enjoy pointing out to our students that when we pay our car license fees at the motor vehicles office, we never wait in line behind trucks. We wait behind *people* who own trucks. People pay every tax—be it a truck tax, land tax, corporate profit tax, wealth tax, or any other business tax.

One might think that we are belaboring the obvious, if not being simplistic, to point out that only people pay taxes. Note, however, that politicians across the political spectrum continually draw a distinction between taxes levied "on the people" and taxes levied "on business." The distinction is utterly fallacious. The people who own businesses are legally responsible to pay business taxes.

Nevertheless, politicians of all stripes find it appealing to perpetuate the "people vs. business" tax illusion. By convincing the electorate that people escape "business taxes," it is easier to increase these taxes. Politicians, thereby armed with additional tax revenue, can sell classic "free lunches"—new government programs that no one seems to pay for.

A variant of this myth is that the legal responsibility for paying taxes is the same as the economic responsibility. Tax laws specify who is *legally* responsible for remitting tax revenues to the government. However, just because truck owners are legally responsible for paying road-use taxes does not mean they are the ones who actually pay them.

Road-use taxes increase costs for trucking companies, and these costs tend to translate into higher freight rates. This means that consumers of trucking services "share" in the burden of the tax. Likewise, to the extent road-use taxes negatively impact on the size of the trucking industry, truck drivers and truck manufacturers "participate" in the tax through lower earnings. The precise apportionment of the tax depends on what economists call the supply-demand conditions of the industry, but what is obvious is that actual tax burdens can be very different from legal tax burdens.

Conclusion

Truck owners can help demythologize taxation while still venting their anger. May we suggest a sticker along the following lines: "Look Straight into Your Rear-View Mirror, Buddy, and You'll See Who's Really Paying Some of the Umpteen Thousand Dollars This Truck Owner Pays in Road-Use Taxes." □

The Political Economy of Protectionism

by Thomas J. DiLorenzo

Disagreements among economists are legendary, but they are largely of one mind on the issue of free trade. Evidence of this is a recent survey of the current and past presidents of the American Economic Association—the voice of mainstream economics. The survey found these prominent economists all strongly in favor of free trade, and concluded that "an economist who argues for restricting trade is almost as common today as a physician who favors leeching patients."[1]

Mainstream economic thinking on free trade knows no ideological boundaries. Conservative economists Milton and Rose Friedman, for example, write that "ever since Adam Smith there has been virtual unanimity among economists . . . that international free trade is in the best interest of the trading countries and the world."[2] Liberal economist Paul Samuelson concurs: "Free trade promotes a mutually profitable regional division of labor, greatly enhances the potential real national product of all nations, and makes possible higher standards of living all over the globe."[3]

The case for free trade is not based on any stylized economic theories of "perfect competition," "general equilibrium," or "partial equilibrium." After all, Adam Smith is history's most forceful and articulate defender of free trade, and he never heard of any of those theories. Rather, the case for free trade is based on the virtues of voluntary exchange, the division of labor, and individual freedom.

As long as trade is voluntary, both trading partners unequivocally benefit; otherwise they wouldn't trade. The purchase of a shirt, for instance, demonstrates that the purchaser values the shirt more than the money spent on it. The seller, on the other hand, values the money more than the shirt. Thus, both are better off because of the sale. Moreover, it doesn't matter whether the shirt salesman is from the United States or Hong Kong (or anywhere else). Voluntary exchange is always mutually beneficial.

Free trade expands consumer choice and gives businesses incentives to improve product quality and to cut costs. By increasing the supply of goods, international competition helps hold down prices and restrains internal monopolies. The "Big Three" auto makers, for instance, may *wish* to monopolize the automobile market, but they are unable to because of foreign competition. About 75 per cent of all domestic manufacturing industries now face some international competition, which helps keep their competitive feet to the fire. Thus, the case for free trade is the case for competition, higher quality goods, economic growth, and lower prices. By contrast, the case for protectionism is the case for monopoly, lower quality goods, economic stagnation, and higher prices.

The costs of protectionism to consumers are

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enormous. According to very conservative estimates, protectionism costs American consumers over $60 billion per year—more than $1,000 annually for a family of four.[4] Thanks to protectionism, for example, it costs about $2,500 more to buy a Japanese-made car than it otherwise would.

Free trade increases the wealth (and employment opportunities) of all nations by allowing them to capitalize on their comparative advantages in production. For example, the U.S. has a comparative advantage in the production of food because of its vast, fertile land and superior agricultural technology and labor. Saudi Arabia, on the other hand, does not have land that is well suited to agriculture. Although Saudi Arabia conceivably could undertake massive irrigation to become self-sufficient in food production, it is more economical for the Saudis to sell what they *do* have a comparative advantage in—oil—and then purchase much of their food from the U.S. and elsewhere. Similarly, the U.S. could become self-sufficient in petroleum by squeezing more oil out of shale rock and tar sands. But that would be much more costly than if the U.S. continued to purchase some of its oil from Saudi Arabia and elsewhere. Trade between the U.S. and Saudi Arabia, or any other two countries, improves the standard of living in each.

Ethical Aspects of Free Trade

Protectionism is not only economically inefficient, it is also inherently unjust. It is the equivalent of a regressive tax, placing the heaviest burden on those who can least afford it. For example, because of import restraints in the footwear industry, shoes are more expensive. This imposes a proportionately larger burden on the family that has an income of only $15,000 per year than on the family that has an income of, say, $75,000 per year. Moreover, the beneficiaries of protectionism are often more affluent than those who bear the costs. Wages in the heavily protected auto industry are about 80 per cent higher than the average wage in U.S. manufacturing. The Chairman of the Chrysler Corporation was paid $28 million in 1987, thanks partly to protectionism. And, perversely, by driving up the price of automobiles, protectionism has benefited the owners, managers, and workers of the *Japanese* automobile industry at the expense of American consumers. Protectionism, in other words, is welfare for the well-to-do.

Protectionism also conflicts with the humanitarian goals of foreign development aid. The U.S. government spends billions of dollars annually in foreign aid to developing countries. Many of these programs are themselves counterproductive because they simply subsidize governmental bureaucracies in the recipient countries. But what good does it do to try to assist these countries if we block them from the biggest market in the world for their goods? Protectionism stifles economic growth in the developing countries, leaving them even more dependent upon U.S. government handouts.

Why Protectionism?

Despite the powerful case for free trade, both the United States and the rest of the world are highly protectionist, and always have been. This is because free trade benefits the general public, whereas protectionism benefits a relatively small group of special interests. The general public is neither well organized nor well informed politically, but the special interests are. This political imbalance was recognized by Adam Smith over 200 years ago when he wrote in *The Wealth of Nations* that

> To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. . . . The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest

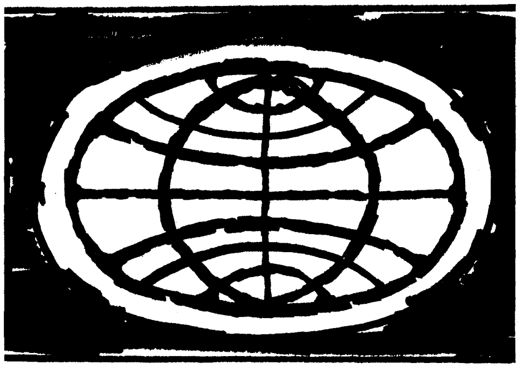
> public services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.[5]

The political pressures to grant monopolistic privileges are so strong that even political figures who spend their careers speaking in favor of free trade quickly cave in to protectionist pressures once in office. U.S. Treasury Secretary James Baker recently boasted, for example, that "President Reagan has granted more import relief to U.S. industry than any of his predecessors in more than half a century."[6] Unfortunately, the Democratic party is not very different. "There is no strong supporter of a free and open trading system," complained Hobart Rowan of the *Washington Post,* "among the seven declared Democratic [Presidential] candidates."[7]

Voters might be expected to oppose policies that stifle economic growth and redistribute income from poor to rich. But public opposition to protectionism is not very strong, explains economist Mancur Olson, because "the typical citizen is usually 'rationally ignorant' about public affairs."[8] That is, the typical citizen spends most of his or her time worrying about personal matters and not economic policy. To add to the confusion, much of the information that citizens do receive about public policy is self-serving and biased information disseminated by special-interest lobbyists. As economist Gordon Tullock has written:

> Special interest groups normally have an interest in diminishing the information of the average voter. If they can sell him some false tale which supports their particular effort to rob the treasury, it pays. They have resources and normally make efforts to produce this kind of misinformation. But that would not work if the voter had a strong motive to learn the truth.[9]

For decades monopolists and potential monopolists have crafted hundreds of myths about free trade and protectionism. The following are just a few examples of misinformation about protectionism.



Protectionist Myths

Myth #1: *Imports (and trade deficits) are bad; exports (and trade surpluses) are good.*

The international trade deficit has been of concern to Congress in recent years, and has been a primary "justification" for protection. But the notion that importing more than we export is necessarily bad ignores some elementary economic principles. First, imports are our *gain* from trade. The more material goods—the more trade—the better. Remember, *all* trade is mutually beneficial.

How trade-deficit statistics can give misleading impressions of economic health is illustrated by the analogy between domestic and international trade. Most citizens probably run a trade deficit with their grocers. But who would argue that a balance of trade between consumers and grocers is necessarily desirable? A government-mandated trade balance—whether for domestic or international trade—would make both trading partners worse off. Furthermore, the notion that, say, Taiwan, with a population of 20 million, should buy as many goods from the U.S. as 230 million American consumers purchase from Taiwan is absurd. The balance of trade argument is just another weak excuse for monopolistic trade restrictions.

Myth #2: *Being a "debtor nation" is economically harmful.*

Being a debtor nation means that foreigners invest more in the U.S. than U.S. citizens invest abroad. Debtor nation status is not necessarily a cause for alarm, however, since foreign investment in the U.S. can be beneficial. For example, there are many obvious benefits from

Tennessee's new Nissan plant and the 50 other Japanese companies located in that state. These new companies provide jobs, make American industry more competitive, and stimulate economic growth. The U.S. has been a debtor nation throughout most of its history, including the period from 1787 to 1920, when the nation experienced the most rapid economic growth in world history up to that time.

Alarm over becoming a debtor nation is illogical and contradictory. On the one hand, protectionists complain that too much money is leaving the country (we're importing more than we're exporting). Then, when the same money returns to the U.S. in the form of foreign investment, they complain that too much money is coming *into* the country. The protectionists cannot have it both ways. They are grasping at straws to justify monopolistic privileges.

Myth #3: *Imports are destroying American jobs.*

Like all long-lasting myths, this one has a grain of truth. If more American consumers buy Japanese rather than American-made cars, it may threaten some American jobs. Efforts should be (and are) made to ease the transition of those who become temporarily unemployed, but protectionism would only cause even more unemployment.

Free trade *creates* jobs by reducing prices, leaving more money in the pockets of consumers. Increased consumer spending in turn will stimulate production *and employment* throughout the economy. By contrast, higher prices in a protected industry will cause consumers to cut back on their purchases, which will result in *less* employment in that industry.

Also, the dollars that Americans pay for foreign-made goods eventually are respent in the U.S., which creates even more jobs. Foreigners have no use for dollars per se. They must either spend them in the U.S. or sell them to someone who will.

Protectionism may *temporarily* "save" jobs in one industry, but it usually destroys even more jobs elsewhere. For example, because of protectionism in the steel industry, American automakers are estimated to pay as much as $500 more per car for steel than Japanese automakers. Higher prices for American-made cars will cost domestic automakers business and cause them to lay off workers. Thus, protectionism in the steel industry creates unemployment in steel-using industries.

It is particularly telling that in recent years, as the trade deficit has grown, so has employment in the U.S. economy. More than 13 million new jobs were created between 1982 and 1988 as the unemployment rate dropped from nearly 11 per cent to less than 6 per cent of the labor force. In contrast, we had a trade *surplus* throughout the 1970s when unemployment rose steadily.

Myth #4: *Because of international competition, the U.S. manufacturing sector is declining.*

Protectionists have claimed that the U.S. economy is "deindustrializing" because of the alleged failure of American manufacturers to compete on international markets. But the deindustrialization theory is a hoax. Manufacturing output as a percentage of GNP is about 24 per cent today, compared to 25 per cent in 1950.[10] Moreover, manufacturing output *and employment* are at their highest levels ever. The *composition* of employment and output has changed, as it always does in a dynamic, growing economy. Economic growth always creates many dislocations. Overall, however, the U.S. manufacturing sector is not "deindustrializing."

Myth #5: *Because of international competition, many newly-created jobs are low-paying, "dead-end" jobs.*

A Congressman recently claimed that "50 per cent of the 13 million new jobs [created between 1982 and 1987] are dead-end—paying $7,400 a year or less. We're trading good manufacturing jobs for low-pay service jobs."[11] The Congressman asserted that international trade is "impoverishing America," and has introduced protectionist legislation to thwart this perceived trend.

The U.S. Department of Labor recently examined these claims in great detail and found the reality to be much different from the Congressman's rhetoric. Of the 13 million new jobs created between 1982 and 1987, 59 per cent were in the *highest-wage* category as classified by the Labor Department. Only 7 per cent of the new jobs were minimum-wage jobs paying $7,400 per year or less.[12]

Myth #6: *Cheap foreign labor is an unfair advantage.*

It is often said that if, say, textile workers in Singapore are paid only $1 per hour, American industry cannot possibly compete, given that American textile workers are paid more than $10 per hour. Protection is supposedly needed if the domestic textile industry is to survive.

This argument may appear compelling at first, but it ignores several important facts. First, if the productivity of American workers is ten times as high as in Singapore (because of superior capital, technology, and training), then higher American wages are not a disadvantage.

Second, the idea that low wages "explain" international trade patterns is illogical. If it were true, the U.S. would export almost nothing, since U.S. wages are higher than almost everywhere else in the world across the board. What determines a nation's comparative advantage in international trade is the *total* amount of resources it must use to produce a given product, not just the labor. Many low-wage countries import U.S. goods because we have a comparative advantage in producing those goods despite our higher wages. Moreover, low-wage countries *must* eventually import goods from the U.S. because there is nothing else they can do with the dollars they receive from their American sales.

Finally, it isn't clear why it is "unfair" for American consumers to enjoy lower-priced and/or higher-quality goods produced overseas by low-wage (or other) countries.

Myth #7: *Protection is necessary to counteract "dumping."*

So-called dumping occurs when foreign manufacturers sell products in the U.S. that supposedly are priced below the price at which they are sold in the home market. There are numerous laws that prohibit dumping on the grounds that it is unfair competition.

But there are also sound economic reasons for such business practices. Temporarily charging prices that are below cost is a common *competitive* business practice. For example, newly-established pizza parlors typically offer "two for the price of one" specials as an inducement to consumers to try out their product. The losses incurred during the sales are considered an investment that will yield future sales by generating a clientele. Lower prices always benefit consumers, but we seldom charge the local pizza parlor with "dumping." Perhaps this is because consumers can plainly see the benefits of such competition.

In November 1987, the U.S. Commerce Department ruled that "Japanese companies violated international trade laws by failing to increase their prices to match the sharp rise in the value of the yen."[13] With the rise in the value of the yen, Japanese goods sold in the U.S. became relatively more expensive. The Japanese producers responded by cutting their costs, prices, and profit margins to remain competitive, to the great satisfaction of American consumers. According to the Commerce Department, Japanese export prices declined by 23 per cent between 1985 and 1987. Unfortunately, the protectionist Reagan administration is opposed to such price cutting.

Dumping is often said to occur because foreign governments subsidize some of their manufacturers, which allows the companies to underprice American firms. These policies may be misguided, but there is no reason why American consumers should be punished for the short-sighted policies of foreign governments. Such subsidies constitute a "gift" from foreign taxpayers to American consumers and may be thought of as foreign aid in reverse. Moreover, the extent to which this subsidization takes place has been greatly exaggerated. In Japan, for instance, the amount of assistance given to Japanese manufacturers by the Japan Development Bank has amounted to less than one per cent of gross domestic investment, and most of that has gone into the agricultural sector.

Dumping is also objected to on the grounds that it is a means of monopolizing American industries by driving out the competition with low prices. There have been no documented examples of such monopolization, however, and for good reason. Any manufacturer who charged monopolistic prices would face fierce international (and domestic) competition that would quickly dissipate any monopoly power. Businesses that charge their international competitors with dumping are simply unwilling to charge prices that are as low as their rivals'.

Myth #8: *Temporary protection is needed to "buy time" and adjust to the competition.*

Temporary trade relief is like being a little bit pregnant. The textile industry, for example, was given "temporary" trade relief 25 years ago and is still being "relieved." This rationale admits that protectionism is a bad idea, which is why it is labeled as only temporary. However, it is bound to make things worse for the industry, not better.

By reducing competitive pressures, protectionism tends to stifle innovation. Businesses are less prone to invest in engineering and technology when profits can be earned just as easily by lobbying for protection.

There is much evidence, moreover, that "temporary" protection does not revitalize industries, and probably is even counterproductive. The federal government's Congressional Budget Office studied protectionism in the textile, steel, footwear, and automobile industries, and concluded that "in none of the cases studied did protection . . . revitalize the affected industry. . . . Protection has not substantially improved the ability of domestic firms to compete with foreign producers."[14] The study showed that investment often *declines* during periods of protection, which causes the protected industries to fall even farther behind the competition. Such evidence explains why a closely related protectionist argument—the military might argument—is also fiction. Specifically, if an industry is important to national defense, it supposedly should be protected from international competition. But since protection saps incentives for innovation, resulting in lower-quality and higher-priced goods, it will *weaken* the national defense by weakening industries that the military relies upon.

Myth #9: *We should restore a "level playing field" by erecting trade barriers against countries that have trade barriers against us.*

This is a "cutting off our nose to spite our face" strategy. If foreign governments are foolish enough to harm their own citizens by erecting trade barriers, it is unfortunate for those citizens. But there are no sound reasons why American consumers should be penalized for the ill-conceived trade policies of foreign governments.

Furthermore, trade retaliation would be hypocritical, since American trade restrictions on foreign imports are often much greater than foreign restrictions on American imports. The American auto parts supply industry, for example, is currently lobbying for protection on the grounds of "unfair competition" from Japanese auto parts suppliers. The hypocrisy of this claim stems from the fact that there are no Japanese government-imposed barriers to importing American auto parts into Japan, but Japanese parts producers must pay American tariffs when exporting to the U.S.

Trade retaliation can be a very dangerous political game. The Smoot-Hawley tariff of 1930 spawned an international trade war that helped precipitate the Great Depression. Dozens of countries responded to the Smoot-Hawley tariff by erecting trade barriers for American-made goods. Consequently, the value of imports in the 75 most active trading countries fell from over $3 billion in 1929 to about $1 billion by 1932, driving the world economy into a depression.[15]

Trade retaliation is inherently counterproductive. By reducing the flow of dollars from the U.S., foreigners will have fewer dollars to spend in the U.S., which eventually will harm American export industries. American exports generally fall once imports are reduced. Consequently, employment in export-related industries, which account for as much as one-fifth of all employment in the U.S., will fall.[16]

Myth #10: *Protectionism benefits union members.*

This is probably true in the short run, but certainly not in the long run. Because of protectionism in such industries as steel, automobiles, textiles, and footwear, unions once prospered by imposing featherbedding rules and by bargaining for supra-competitive wages. As long as international competition was not very effective, raising wages while reducing productivity was feasible. However, international competition eventually seeped in, as it inevitably does, and American industries found themselves at a severe competitive disadvantage. They lost market share, laid off thousands of workers, and union membership declined dramatically. Thus, protectionism may have helped unions in the short run, but is a main cause of their current malaise. It is no coincidence that some of America's most lethargic unionized industries—steel, automobiles, footwear, rubber, textiles—are also among the most heavily protected.

Conclusions

In sum, a dynamic economy is essential for economic growth and job creation, and protectionism only hinders the necessary adaptations to economic change. As Nobel Laureate Friedrich Hayek has written, the benefits of competition and economic growth

> are the results of such changes, and will be maintained only if the changes are allowed to continue. But every change of this kind will hurt some organized interests; and the preservation of the market order will therefore depend on those interests not being able to prevent what they dislike. . . . this general interest will be satisfied only if the principle is recognized that each has to submit to changes when circumstances nobody can control determine that he is the one who is placed under such a necessity.[17]

Protectionism may provide some short-term benefits to a small number of special interests, but at much greater costs to the rest of society. Restraints on international trade are inefficient, inequitable, and counterproductive, and should not be imposed. □

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IDEAS ON LIBERTY

Barriers to Trade

Any barrier placed in the way of foreign trade reduces living standards because it reduces the advantages that can be gained from the greater international division of labor, whereby goods are produced by those best able to produce them at the least expense to mankind. Any rise in domestic prices as a result of government intervention also leads to a decrease in foreign trade and the advantages to be gained therefrom. . . . The only true solution to our problems is a world of peaceful free trade with political privileges for none. Every step in that direction is an improvement. Every new intervention makes matters worse.

—PERCY L. GREAVES, JR.

The Burden of Bureaucracy

by M. E. Bradford

If anything endures in our political life it is the bureaucracy. Administrations come and go, but the bureaucracy is forever—or so it seems; and it not only endures, it grows and grows in the direction of a total politicization of every aspect of our existence. If we would have once again a free society, it will require of us a heroic effort, not just in electing a President and Congress with whom we can expect to agree but also in waging war "in the trenches of day-to-day definition of public and private policy, separating legitimate and appropriate government action from the usurpations and abuses which must be eliminated," as George Roche has argued.

The first stage in escaping from the toils of bureaucracy is to learn once and for all that the cost of state action in relieving the announced unhappiness of any component part of society may be, if not authorized by the Constitution as it stood before 1860, a further step toward subservience and degradation for all—including members of the aggrieved group in whose name the action is performed. For the only government that can answer to every claim of injured merit put forward by a component of the population it regulates and thus defines is a government with an absolute authority over every person under its sway. Said another way, the only government that can secure to us all of the "rights" (read "privileges") we might hope to enjoy is a government which can just as easily leave us with no freedom of any kind. Either way bureaucracy will be involved. For the end result of every new addition to the machinery of the state, each of its new bureaus and investigative or regulatory agencies, whatever the ostensible reason for their creation, is to increase statist regimentation and diminish individual initiative: no more and no less.

Bureaucracy is essentially military in its character, needing an "army" to carry out its collective will. It is the routine (as opposed to the exceptional) power of the state in its coercive mode. It is wholly political in its nature and thus exists primarily to augment the scope of government. And it never surrenders any ground it has gained, never gives up voluntarily any function once assigned to it.

In our time we have learned that it is impossible to exaggerate the tenacity of bureaucracy, once established and in place. Seven years of the Reagan Administration—a regime called into office *because* it promised an end to repressive regulation—provide additional evidence of the persistence of an established bureaucracy. Even with massive support at the polls and a national consensus that we are over-

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governed, the first officially conservative, anti-bureaucratic government in fifty years is unable to counter the cause-and-purpose-oriented rhetoric used to defend the edifice it promised to reduce. We have not yet generated the strength of will to be done with the parasite—a curious development in a country born out of a determination to be free from the official benevolence of a remote, arbitrary, unresponsive, and often hostile authority.

George Roche, writing in the tradition of Ludwig von Mises' *Bureaucracy,* produces a potent little study called *America by the Throat* (Devin-Adair, 1983). He tells us that bureaucracy costs our citizens (apart from military spending) about $3,000 apiece each year. Furthermore, he expects worse, and propounds a first and second law of bureaucracy. The first is: "the supply of human misery will rise to meet demand." The principle involved has to do with felt need and signifies that the impulse to "correct" society in some particular is antecedent to the problem on which bureaucracy focuses in the end. The second law is equally simple: "the size of bureaucracy increases in direct proportion to the additional misery it creates." In other words, bureaucracy grows by feeding on its own failure to be instrumental in any practical sense.

It is a warning to the bureaucrats and their legislating friends that not everyone has been lulled asleep by the idea that, after 1980 and 1984, the day of regimentation is over. Wishing will not make it so. For freedom is always both difficult and expensive. Submission seems more convenient, at least until we know it by experience and are frightened into such resistance as should have been our practice from the beginning. □

Hong Kong Reflections

by Michael Walker

The citizens of Hong Kong have expressed a great deal of concern about what will happen once the tiny British colony falls under the control of the People's Republic of China in 1997. As I discovered during a recent visit to Hong Kong, the fear is not that the Chinese have malicious intentions, but that they will not know how to manage Hong Kong's affairs so as to avoid interfering with its highly successful economy.

For one thing, despite recent moves toward openness and more freedom in China, deeply conservative forces within the bureaucratic structure are impeding the process. While undoubtedly some of the impediments have been put up by bureaucrats who do not wish to relinquish their power, many of the problems are caused by the fact that Chinese bureaucrats simply do not know how to encourage and assist the economic process—how to practice laissez faire. They do not yet know how to be creatively inactive.

The consequence is that on the Chinese side of the border the average income is $250 per year whereas on the Hong Kong side it is $8,000. It is not surprising that the residents of Hong Kong look upon the prospect of more "help" from China with some dismay. But they are even more concerned about their civil freedoms.

Hong Kong has enjoyed a large measure of freedom of the press, freedom to own or lease property, freedom of travel and communication, and so on, despite its lack of political freedom. Its government is appointed by the British, and there are no real elections, although there is now a council with representatives from sectional and professional groups.

The impending replacement of the British as the dominant outside force already has begun to

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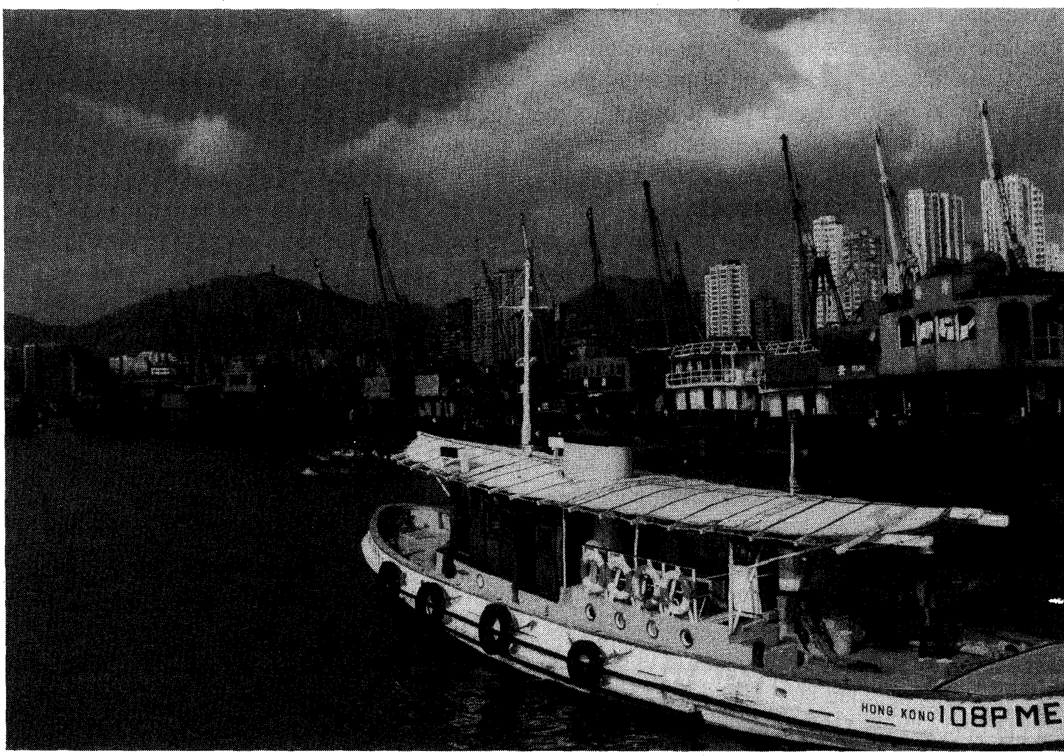

BETTINA BIEN GREAVES

Hong Kong Harbor.

have its effects. Hong Kong is beginning to transform itself into a colony of China and is shedding British colonial attitudes. This is evident in the travel patterns of business people, scholars, and officials who instead of going to London increasingly are Beijing bound. It is also evident in the increasing guardedness of those who make public statements and who have a public profile in institutions that will remain when the British Governor leaves.

With few exceptions, people who speak out try to avoid irritating Chinese officials. Accordingly, while there is no censorship, there is increasing conformity to the Chinese line. It is easy to understand why this is so. The citizens of Hong Kong will not be able to vote with their feet if they do not wish to remain when British colonial status ends in 1997. Most do not have citizenship in other countries nor can they expect easily to obtain it.

While Chinese officials have assured the people of Hong Kong that the existing laws, regulations, and freedoms will be retained under the new regime, one does not have to dig far into the existing structure to find some very disconcerting things. For example, there are laws which provide for censorship of the press in the event of a serious threat to the colony. In the hands of the existing administration, monitored at a distance by the British Parliament, this has meant no censorship in practice. Under the administration of a Chinese bureaucracy which has known only censorship, quite another situation is probable. The same is true of other seemingly innocent laws and regulations which in different application could produce a radically altered political and economic climate.

There is hope, however, in that there is a great thirst in China for knowledge about how free enterprise economies operate. One of the most hopeful signs in this regard is the recent birth in Hong Kong of a new institute called The Hong Kong Centre for Economic Research. One of the functions of this new group will be to translate into Chinese and make available to Chinese policy makers and intellectuals books and studies that will show them how a free economy works and what the appropriate role of government is in a free society. In the end, of course, it is ideas that will determine the fate of Hong Kong and China. □

Government Regulation of Business: The Moral Arguments

by Tibor R. Machan

Throughout the world, governments engage in social and economic regulation of their citizens' lives. Economic regulation, in particular, has come into focus during the past decade, mainly because such regulation has been associated with falling productivity rates in many industrialized countries. But social regulation by government also is being discussed when drug abuse legislation, censorship of pornography, and similar matters are considered.

Most types of government regulation involve the setting up and enforcement of standards for conducting legitimate activities. My concern here is with government regulation of business or economic affairs by municipal, county, state, and Federal politicians and bureaucrats.

During the past few years, the case for such regulation has been spelled out in fairly clear and general terms. I wish to examine the arguments which are based on moral considerations, since it is such arguments that matter in the defense of the authority of the state to treat its citizens in various ways.

Government regulation differs from government management. Management involves the administration of the properties and realms which the government owns. For example, the national parks and forests are managed by government, not regulated. So is the interstate highway system. In contrast, toy manufacturing, which is an activity of private business, is regulated by government, as are the manufacture and sale of many foods and drugs, the production of cars, and the practice of law, medicine, and other occupations.

There are some gray areas, to be sure. The government regulates broadcasting, but it also manages the airwaves. The electromagnetic spectrum was nationalized in 1927, and the federal government has been leasing out the frequencies which private broadcasters use. So there is a combination of management and regulation which is carried out by the Federal Communications Commission.

In addition, there is government prohibition, mainly in the criminal law, in which some actions are regarded as intrinsically evil, such as murder, theft, embezzlement, and fraud. These activities are forbidden, not regulated, while toy production or mining is regulated, but not forbidden. The writing of novels, news reports, and scientific articles, in turn, is left fairly free of government interference.

But here, too, there are some gray areas, such as the prohibition on the sale of certain drugs over the counter. Nevertheless, for all practical purposes, the three categories are clearly distinguishable—regulation, management, and prohibition.

I will first present the main arguments in

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support of government regulation of business. Then I will consider some responses. (One could ask whether government should manage forests, beaches, parks, or the airwaves, as well as whether there should be any prohibition of any human activity at all, as anarchists might ask, but our concern here is with regulation.)

Creature of the State: This argument for government regulation of business, made prominent by Ralph Nader and others, holds that because corporations are chartered by states, corporate commerce should be regulated. In this view, the state charter actually "creates" the corporation, and government should regulate the behavior of its "dependent," the corporation.

Market Failure: The second moral argument for government regulation of business recognizes that a free market usually enables people to do the best that can be done. On the one hand, free markets encourage maximum efficiency. On the other hand, free markets foster responsible conduct, and encourage the production of goods and services which are of value to members of the community.

But advocates of the "market failure" approach contend that there are some serious exceptions. They assert, following John Stuart Mill, that the free market often fails to achieve maximum efficiency—that it sometimes wastes resources. They often cite the example of utility services. If there were free competition among utilities, "market failure" advocates hold, there would be much duplication—different companies putting up telephone and electric poles, waterlines, etc., side by side, which would be a waste. So it is argued that it is important for government to restrict competition and thus correct market failures.

The second type of market failure, identified by John Kenneth Galbraith in *The Affluent Society*, is that markets misjudge what is important. To wit, markets often don't respond to real needs—for medical care, libraries, safety measures at work, health provisions, fairness in employment and commerce, and so on. Therefore, governments should remedy market failures with regulatory measures. Such measures include zoning ordinances, architectural standards, safety standards, health codes, minimum wage laws, and the whole array of regulations which have as their expressed aim the improvement of society.

Rights Protection: Another "justification" for government regulation of business is the belief that government is established to protect our rights, and that there are many rights which go unprotected in a free market. How do we know there are such rights? Different sources for these rights have been provided in the philosophical community.

Some, for example Alan Gewirth of the University of Chicago, rely on a Kantian deduction of both freedom and welfare rights from the very nature of human action. Some make use of intuitive moral knowledge—e.g., John Rawls of Harvard University and Henry Shue of the University of Maryland. Others, such as Steven Kelman of Harvard University, use a theory of benevolent paternalism. Some thinkers, such as A. I. Melden of the University of California at Irvine, even make use of a revised Lockean approach.

The substantive position of all these philosophers is that employees, for example, are due —as a matter of right—safety protection, social security, health protection, fair wages, and so on. Consumers, no less, should be warned of potential health problems inherent in the goods and services they purchase. In short, these thinkers contend, it is the right of all those who deal on the market to receive such treatment. It should not be left merely to personal caution, consumer watchdog agencies, or the goodwill of traders. Government, having been established to protect our rights, should protect these rights in particular. Thus, it is held, government regulatory activities are the proper means by which this role of government should be carried out.

Judicial Inefficiency: The last argument for regulation that we will consider rests on a belief in the considerable power of the free market to remedy mistakes in most circumstances. But advocates of regulation point to one area where this power seems to be ineffective—pollution. Kenneth J. Arrow of Stanford University has most recently spoken about the need for regulation to overcome judicial inefficiency. His case goes roughly as follows:

Usually one who dumps wastes on the territory or person of another can be sued and fined. Alternately, the permission of the potential victim of such dumping can be obtained, payment for the harm can be made, and so on. But in a wide variety of cases, this is not a simple matter or even possible. Pouring soot into the atmosphere, chemical wastes into lakes, and so forth, may cause harm to victims who cannot be identified. Nor would just a little emission usually cause anyone harm, so it is a matter of the scope and extent of the emission—there is a threshold beyond which emission becomes pollution.

Now since emission into the public realm can involve judicial inefficiency (culprit and victim cannot be brought into contact), when the activity which can lead to public pollution is deemed to be sufficiently important, regulation is said to be appropriate. This general idea derives from the moral viewpoint that some things important to the public at large must be done even if individuals or minorities get hurt. So long as general supervision of such harms is available—so long as cost-benefit analyses guide government regulation—then public pollution is morally permissible.

All these arguments can be elaborated upon, but let us proceed to outline the responses to them that favor deregulation.

In response to the creature of the state case, it is argued, perhaps most notably by Robert Hessen of the Hoover Institution (*In Defense of the Corporation*, Hoover Institution Press, 1979), that corporations did not have to be created by governments and, furthermore, they were so created only because the governments in power at the time were mercantilist states. In the kind of community that sees the individual as a sovereign being, corporate commerce can and does arise through individual initiative. Such commerce is merely an extension of the idea of freedom of association, in this case for purposes of making people economically prosperous.

If the creature of the state argument is a matter of historical accident, the moral case for corporate regulation based on the corporation's dependent status disappears. Corporations are chartered by governments, but that is merely a recording system, not signifying creation. Their legal advantage of limited liability also could be made a contractual provision which those trading with corporations could accept or reject.

As to the market failure of inefficiency, there is the question of whether establishing monopolies, say, in public utilities, really secures efficiency in the long run and at what expense. For example, a strike is more crippling in the case of a public utility than in the case of a firm which doesn't enjoy a legal monopoly. To prevent inefficiency, strikes also must be prohibited. But that, in turn, infringes on the freedom of workers to withhold their services. So the market failure is "remedied" at the expense of a serious loss of freedom. It would be morally better to accept the inefficiencies, given that in any political system it is unreasonable to expect perfect efficiency.

A similar problem arises in the case of "market failure" to produce important, but commercially unfeasible goods and services. Government remedies embody their own share of hazards. Political failures are even more insidious than market failures, as has been amply demonstrated by James Buchanan and his colleagues at the Center for the Study of Public Choice, George Mason University. Bad laws are widespread, and it is difficult to remedy undesirable consequences. Bureaucracies, once established, are virtually impossible to undo. Regulators cannot be sued, so their errors are not open to legal remedy. The market failure case for government regulation, then, seems to fall short of what a defense of this government power requires.

In response to the argument that government regulation of business defends individual rights, we can reply that the doctrine of human rights invoked by defenders of government regulation is very bloated. I myself have argued, e.g., in my "Wronging Rights," *Policy Review* (Summer 1981), and "Should Business be Regulated?" in Tom Regan's *Just Business* (Temple University Press and Random House, 1983), that many values are mistakenly regarded by their adherents as something they have a right to. Protecting these "rights" violates actual individual rights.

Consider the "rights" to a fair wage or health care. For these to be rights, other people would have to be legally compelled to supply the fair wage or health care. But suppose that consumers would rather pay less for some item than is enough to pay workers a "fair" wage. If the fair wage were something workers were due by right, then consumers could be forced to pay it. Thus, consumers become captives of those claiming spurious rights, and not parties to free trade, as is required by a genuine theory of human rights.

Essentially, then, the rebuttal to the moral argument for government regulation based on human rights considerations holds that the doctrine of rights invoked to defend government regulation is fallacious. A sound doctrine would prohibit such regulation.

The rebuttal to the judicial inefficiency argument is, essentially, that whenever polluters cannot be sued by their victims or cannot pay for injuring others, pollution must be prohibited. In short, a policy of quarantine, not of government regulation, is the proper response to public pollution. As I have argued in "Pollution and Political Theory" (Tom Regan, *Earthbound,* Temple University Press and Random House, 1984), the courts, and not the legislators or regulators, must remedy the rights violations that pollution involves.

Obviously, this rebuttal sounds drastic. Adopting it would mean cutting back production in various industries, including transportation, at least until non-polluting ways can be found and paid for willingly. Yet, even though such production practices might be of value to millions of consumers, if innocent people are victimized in the process, it can be argued that these practices should be stopped.

A similar situation involves slavery or apartheid. Many Southerners benefited, at least at times, from this public policy, and many South Africans seem to benefit from apartheid. Nevertheless, from a moral point of view, these benefits are not decisive. The emphysema patient who chooses to do without many of the world's technological wonders shouldn't have to suffer the burdens which come from producing these wonders. Not, at least, unless it has been shown that these burdens justly fall on him.

Of course, the problem of pollution is complicated. For example, one car in the Los Angeles basin does not produce enough exhaust fumes to harm anyone because the fumes are diluted in the atmosphere. Likewise, one small factory with a tall stack might harm no one, thanks to dilution of its output. The same goes for liquid pollutants into a lake, river, or ocean.

Arguably, however, none of this changes the principle of the matter. Once a certain level of emission has been reached, any increase amounts to pollution. And permitting such pollution is tantamount to accepting as morally and legally proper the "right" of some people to cause injury to others who have not given their consent and who cannot even be compensated. A just legal system would prepare itself to deal with these complexities, as it does in other spheres where crime is a real possibility. The failure to do so is the root cause of our present pollution difficulties.

These, then, are the principal arguments for and against government regulation of business. What they show is that government regulation is not a legitimate part of a just legal system. Government regulation involves coercion over some people for reasons that do not justify such coercion. Of course, the practice also is highly inefficient. But is it all that surprising that something which lacks moral support also would turn out to be unworkable? □

The Rise (and Fall?) of the Video Store

by William B. Irvine

The popularity of the video cassette recorder (VCR) has given rise to a new economic phenomenon: the video store. Video stores are simply private libraries that lend video-taped movies rather than books. They are funded and operated not by government, but by corporations and individuals who hope to make a profit.

Across the country, video stores have proliferated at an astonishing rate. A decade ago, there were no video stores in America; today there are perhaps 40,000. In 1986, the nation spent $3.4 billion renting video-taped movies. It is estimated that this year Americans will spend more on video rentals than at movie box offices.

Despite such bright beginnings, the video store industry is in jeopardy. It is facing increasing competition from public libraries that are beginning to lend movies as well as books. If this trend continues, the video store industry will be devastated.

America's video store industry is slowly but surely being socialized, as the public sector takes over a service that is provided more than adequately by the private sector. If government tried to take over any other $3 billion industry, we would expect the move to be greeted by howls of protest. These howls haven't been heard in the case of the video store socialization, however, because the process has been nearly invisible: instead of coming in one fell swoop as the result of direct action taken by the federal government, the takeover is coming one municipality at a time.

How badly might video stores be hurt by public libraries' move into video loans? Consider the case of the Reverend Abiel Abbot, a key figure in the growth of the public book-lending library in America.

The Reverend Abbot was a firm believer in making books available to the masses. In 1833, he was instrumental in convincing the citizens of Peterborough, New Hampshire, to use state-provided money to start America's first "true" public library, the Peterborough Town Library. At the same time, he was engaged in the formation of a privately funded "social library," the Peterborough Library Company. In *Foundations of the Public Library,* Jesse H. Shera finishes the Reverend Abbot's story this way:

> Obviously, [Abbot] did not see the new public library as a competitor of the social library, but such competition began almost

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immediately. As early as 1834 dues in the social library began to lapse, and in 1853 the minutes of that institution record: "Since the establishment of the Town Library [the free public library], very few books have been taken from the Peterborough Library [Abbot's private library]."

It was not long thereafter that the private library closed its doors.

The lesson to be learned from this episode is that people will not rent something they can borrow "for free." This is a lesson, I think, that today's video store owners will do well to remember.

A case can be made that the growth of the public library in America slowed the growth of an otherwise thriving network of private libraries. Similarly, the growing willingness of public libraries to lend movies will likely stunt the growth of the video store industry. Indeed, I would not be surprised if in a decade video stores were as rare as private book-lending libraries are today.

Who Should Meet Consumers' Demand?

Should public libraries stock video-taped movies? Or should private video stores be allowed to continue to satisfy the public's desire for them?

There is widespread support for public libraries' ventures into video lending. These supporters believe that the interests of a community will be better served if people can borrow movies from public libraries rather than rent them from video stores. Two reasons are given to support this belief.

First, many will argue that public libraries will improve the availability of "good" movies. These people point out that video stores tend to stock "slasher" and pornographic movies, while public libraries would stock "film classics."

I am as depressed as anyone about the current selection of movies available at most video stores. Nevertheless, I think this is a temporary phenomenon. The owner of a new video store is likely to stock the films most likely to turn a quick profit—primarily "popular" movies. Once his store is on more sure financial footing, he is more likely to experiment with his selection of films.

It is wrong to assume that those who run video stores are opposed to "good" movies. They are not. And even if they were, they would not be likely to allow that opposition to stand in the way of profit. If a video store owner can make a profit by carrying a film classic, he will carry it.

It is similarly wrong to assume that public libraries will be more likely to carry "highbrow" movies than are video stores. My local public library, which is excellent as public libraries go, does a far better job of catering to popular tastes than of catering to highbrow tastes. If, for example, I want to read a novel by Louis L'Amour, I will find 28 (at last count) to choose from; if I want to read the novels of Turgenev, Balzac, or Zola, I am out of luck. Similarly, the Marx Brothers are far better represented in videos than is Karl Marx.

And there is another side to this availability argument. Private video stores respond to the public's demand for convenient locations and hours far more successfully than do public libraries. How "available" is a video-taped movie in a public library if you must drive to a neighboring suburb during weekday office hours to borrow it?

A second argument made by supporters of video lending by public libraries concerns cost. Many will argue that it is cheaper to borrow a movie from the library than to rent one from a video store, and for this reason alone public libraries should get into the video business.

This argument is based on the false belief that movies can be borrowed "for free" from public libraries. There is, as economists like to remind us, no such thing as a free lunch; the patron of a public library, whether he realizes it or not, is paying for the privilege of borrowing books and movies. He is, most likely, paying in the form of local taxes.

It is far from clear that public libraries would provide movies to the public at a lower cost than video stores would. I need not indulge in statistics to suggest that, as a rule, private enterprise provides goods and services far more cost effectively than does the government—and I doubt that public libraries, if they entered

PAT WATSON

Norman Miller (r.) serves a customer in his video store in Indianapolis.

the video business, would be an exception to this rule.

Even if public libraries could lend movies more cost effectively than do private video stores, public funding raises a serious question of fairness. Taxation would force everyone to fund a public video library, regardless of whether he uses it. Why should someone who doesn't even own a VCR be forced to subsidize his neighbor's movie viewing habits? If we rely on private video stores to satisfy the demand for video-taped movies, only those who watch the movies must pay for their entertainment—and this only seems fair.

Both reasons advanced to support video lending by public libraries are based on false assumptions. In addition, it is important to note that as the movie-lending business is socialized, private video stores will go out of business; when these stores go under, they will take their employees with them.

I believe the message is clear. Private video stores are likely to provide a better choice of movies to the public than would public libraries; private video stores can provide these movies more cost effectively and distribute costs more fairly; and allowing public libraries to lend videos would put a number of people out of work. Public libraries should stay out of the video business. □

Paradoxical Taxi Fares

by Joseph S. Fulda

Often, I commute to work on Long Island in the wee hours of the morning via so-called gypsy cabs—the unlicensed taxis which abound in my section of upper Manhattan. A flat rate (usually $20.00 plus tolls) is agreed upon at the start of the trip and paid at its close. Most of the time, the story ends there.

Sometimes, however, when we pass the airport on the way, an argument ensues. The driver points out that the fare to the airport is more ($30.00 minimum), yet the cost of that trip measured in time and mileage is less. So, he concludes, he has been had, despite his agreement to the terms and a clear, initial bid on my part stating the time involved (45 minutes) and the destination (Hempstead in Nassau County).

Is he right or wrong? And why? The prime principle of economics is that prices are determined by supply and demand, not costs. Some products may cost a quarter and sell for a half-dollar, while others go for a dollar yet cost only a dime to make. The second producer is neither a profiteer nor an exploiter, and the first producer is neither a benefactor nor a patron. Both producers merely respond to market signals based on supply and demand.

To return to the taxi fare, the market price for a commute to the heart of Nassau County is indeed less than the market price for the shorter, faster trip—in the same direction—to the airport. That this is so is evidenced by the very facts of the case: I can always obtain a taxi at the lower rate for the longer, slower trip.

Why this is so is a bit more subtle. A taxi is the only sensible means of travel to the airport, especially during the wee hours of the morning. Commuting, on the other hand, can easily be accomplished by rail—much slower, yet much cheaper—or by car pools with other early birds. Moreover, people are willing to pay more for an occasional trip, when loaded down with baggage, than when they must make the trip several times a week. Furthermore, the number of gypsies emptily speeding about during these hours is very high. Many drivers consider themselves lucky to get *any* substantial fare at that hour; a few have even suggested a regular contract!

Put in economic terms, the demand for cabs at the time I commute is very low, especially for commuter trips. The choice facing a would-be supplier is often not an airport trip or a commuter's trip, but a commuter's trip or no trip at all (or perhaps a few local trips). Later in the day, during rush hour, when the demand for taxis is far greater, the gap between airport fare and a commuter's fare narrows, for the demand for taxis is far closer to the supply of taxis available for hire.

The law of supply and demand can sometimes appear to have paradoxical results, but if one truly understands the principle and also knows the market situation involved, the paradoxes disappear. □

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CAPITALISM FOR KIDS

by Karl Hess

Enterprise Publishing, 725 Market Street, Wilmington, DE 19801
1987 • 247 pages • $14.95 cloth, $9.95 paperback

Reviewed by Carl Helstrom

Karl Hess has written a book for children and for those who care about children. He deals with the philosophical and practical problems of society and presents capitalism—the free market, private property system—as the best solution. As he sums up in a section for parents toward the end of the book, "The proposition of this book has been, simply, to put in terms that young people can appreciate, the meaning of capitalism and the free market, to encourage them not only to understand it but to become a part of it, to share its ethics of individual responsibility, and its rewards—and to do it while they are very young."

Hess places strong emphases on ethics and entrepreneurship. The capitalistic system is best, he says, because it encourages people to be open to new ideas, to be ready to change, and to be able to make choices which, from an economic perspective, are beneficial for all. In such a society each person is responsible for his or her actions and is encouraged to practice honesty, integrity, and fairness—aware that such actions foster practical and material success. Hess encourages youngsters to start their own businesses, to plan well, to develop a strong work ethic, and to be ready to answer for mistakes and liabilities.

This book fills a real void in the literature of freedom. I wish it had been around when I was a kid. □

THE NEW CHINA: COMPARATIVE ECONOMIC DEVELOPMENT IN MAINLAND CHINA, TAIWAN, AND HONG KONG

by Alvin Rabushka

Pacific Research Institute for Public Policy, 177 Post Street, San Francisco, CA 94108 • 1987 • 254 pages • $32.50 cloth, $12.95 paper

Reviewed by Tommy W. Rogers

Why have Taiwan and Hong Kong experienced greater economic progress than mainland China? And why has the economic vitality of mainland China increased since 1978? While the thriftiness, diligence, and other virtues of the Chinese people have resulted in their flourishing almost everywhere they have settled, the Chinese culture thesis cannot account for sharply higher growth rates in Taiwan and Hong Kong than in mainland China during the past three decades, nor account for the fact that per capita income in Hong Kong in 1985 was thirty times that of mainland China. In fact, mainland China enjoys a greater abundance of natural resources than either Taiwan or Hong Kong, which suggests that other factors, such as political stability, economic institutions, secure property rights, the rule of law, and individual incentives play important roles.

The author concludes that the postwar development experiences of mainland China, Taiwan, and Hong Kong demonstrate that economic institutions matter more than cultural traits and natural resources in fostering economic growth and raising living standards. The Chinese, like other peoples, respond to incentives. These incentives are determined by political and economic institutions, which supply the rules and mechanisms for enforcement. The key rules include the definition and enforcement of property rights, which encourage improved productivity and the expectation that individuals will reap the rewards of their own work or investments. The Chinese have flourished where the economic environment has been free and competitive, with property rights secured under the rule of law. □

RIGHT MINDS: A SOURCEBOOK OF AMERICAN CONSERVATIVE THOUGHT
by Gregory Wolfe
Regnery Books, 1130 17th Street N.W., Washington, DC 20036
1987 • 245 pages • $16.95 hardback

Reviewed by William H. Peterson

"There is nothing either good or bad, but thinking makes it so," said Shakespeare. But what thinking? And *whose* thinking? Ideas, Richard Weaver reminded us, have consequences. Right thinkers on thinking should be welcome, then, and Gregory Wolfe portrays them well.

To Wolfe, editor of *The Intercollegiate Review* and an English professor at Christendom College, right thinkers are conservative, free-market, limited-government types. Their answers on such matters as family, media, crime, welfare, education, race, philosophy, sexuality, communism, economics, foreign policy, and so on are based on traditional time-tested values and are referenced here, an incisive guide to the width and depth of the intellectual framework undergirding today's conservative movement.

The Wolfe sourcebook is America-oriented even if some of its thinkers are European in origin—Erik von Kuehnelt-Leddihn and Ludwig von Mises, to name two examples.

The book has three parts—an annotated bibliography of conservative writings from John Adams to Walter Williams, brief biographies of American conservative minds including Norman Podhoretz and Leonard Read, and current sources of American conservative thought including the Liberty Fund and the Hoover Institution on War, Revolution and Peace. The inclusions—and there are hundreds—make sense.

Inevitably, I suppose, Mr.Wolfe can be charged with some errors of omission if not commission in a work of this sort. But given his limitations of space, he, too, had to *choose,* i.e., to reject. In the foreword to this reference work, William F. Buckley Jr. reminds us how Samuel Johnson coped with the demand for an explanation of why he omitted some word or other from his *Dictionary:* "Ignorance, Madam, pure ignorance."

Even so, this compilation of right thinkers and thinking should prove to be a valuable roadmap to conservative intellectualism. ☐