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PERSPECTIVE

The Socialist Elite

A number of years ago, when I was president of the Bozeman Symphony Society, a local citizen, who was a musician and music teacher in the local school system, came to interview me at my office, apparently believing that I was a person of some influence in the community. He wanted my help in obtaining a government grant to construct a performing arts center in Bozeman with a seating capacity of two to three thousand people. We already had a 400-seat auditorium in the Music Department of Montana State University, and our symphony concerts rarely attracted more than 600 people, as is still the case, and they were given in a local movie theater. This gentleman insisted that we needed a large center, so that we could stage operas, popular plays, and other extravaganzas which would be sure to attract many more people.

I asked him if he thought he had the right to extract, by force, tax money from other people in order to build a pet project, which would benefit a few music and theater lovers in the area. He replied, "How else can it be done?" I said that he should seek enough donations from interested citizens to finance such a project, just as had been done with our football field at Montana State University, paid for entirely by donations. "Oh," he said, "There just aren't enough music lovers around to pay for such a project, not nearly so many as there are sports lovers." I replied that if there were not enough music lovers to pay for a performing arts center, then the community certainly didn't deserve one, especially one paid for by the government through taxes. The gentleman left my office in a very disgruntled mood. I never saw him again.

This little story embodies what worries and frightens me the most about socialism. The dedicated socialist honestly believes that he and others of his persuasion are the elite who are intellectually superior to all the rest of us and who can spend our money more wisely than we can. Not only that, but they have been successful for many years in persuading a majority of the electorate that they are right. Most people just don't realize that socialism is the same old tyranny mankind has experienced for thousands of years, with a few modern trappings to lure the unwary.

—ALAN IDDLES, M.D.
Bozeman, Montana

Pure Socialism

Pure socialism, as detailed by Marx, entails separate answers to the questions of production and consumption. The link between production and consumption in bourgeois society, namely that successful production gives one the means for successful consumption, is to be abolished under the pure socialist regime. Instead of trading one's productive output for one's consumption, production is forced and consumption is free. No trade is necessary, for production is guaranteed by the coercive powers of the state (and later is voluntarily performed by selfless men in a utopia) and consumption becomes a basic human right.

Of course, pure socialism is so far from consonance with human nature that it has never been tried. There never has been a regime that has totally abolished exchange and money, as prescribed by Marx. Free consumption simply creates shortages of scarce goods; forced production creates resentment, but not goods and services of quality. The variants of socialism that do exist—while impure—partake of the ideas of forced production and free consumption, which is why they invariably fail. Today, socialist regimes everywhere are coming to realize this, and they are injecting incentives—links between successful production and successful consumption—into their otherwise rigid economies. This is a move in the right direction.

—JOSEPH S. FULDA

Black and White

During a discussion session at a recent FEE seminar, a participant remarked: "You see things only in black and white and the world sometimes operates in shades of gray. For example, it was with a government grant that I was able to earn the doctorate which ultimately benefited my family, my students, and me. So, there are instances where the transfer society can be justified."

My response: "Right and wrong can be viewed only in terms of black and white; there are never any grays. If you had held a gun to my head in order to coerce me into paying for your education, you surely would have recognized the immoral nature of your conduct. If you had combined with others to accomplish the same end, you still could not have legitimated your act. Your use of the political process to achieve your purpose did not convert your wrongful act into a rightful one. You simply used a more effective means to plunder what belonged to me. But whether stealing is committed individually, collectively, or through the political process, and despite any resulting benefits, it remains morally repugnant.

"Your doctorate may be considered valuable by your family, your students, and you. But had my money not been taken from me, I could have used it to earn my doctorate. Alternatively, I could have donated it to a worthy cause which might have used it to discover a cure for cancer. Some would argue that these results would have been more beneficial than your degree. Actually, it is impossible to measure the true cost of providing your education because no one will ever know what would have come into existence had I, and millions of other victims, been left free to dispose of our money in the manner that we, rather than you and the politicians, chose fit."

Moral principles can never be compromised; they can only be abandoned.

—JACOB G. HORNBERGER

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The Tucker Car: Did the Big Guys Do It In?

by Melvin D. Barger

At first, I thought it was astonishing that Preston Tucker and his fabled car from the 1940s should suddenly reclaim the public's attention, as a result of the new movie by Francis Ford Coppola.[1]

Thinking it over, I decided that the Tucker car's second coming—if only on the screen—isn't so astonishing after all. Ever since Tucker's short-lived carmaking venture collapsed in late 1948, myths about him have circulated in the country. The myths have become part of a legend that strikes close to the opinions held by a lot of people. These myths are worth reviewing because they also touch economic fallacies which are part of the general folklore.

It should be said at the outset that the Tucker car was a poorly conceived venture that was doomed to fail from the start. Though Preston Tucker was a charming, persuasive person with novel ideas, he lacked many of the qualities which were needed for a successful entrepreneurial venture. Even had he possessed these qualities, however, he was entering a business which had become fiercely competitive and cost-efficient at every level. The U.S. automotive industry was already dominated by the Big Three in the late 1940s and would soon shake out established companies like Studebaker, Packard, and Hudson.

There was some concern about this situation by people who argued that it takes many producers to bring real competition. The truth, however, is that the Big Three reached their positions because they performed most efficiently among the carmakers who still survived as the industry grew and matured. The Big-Three efficiency was not only in designing and engineering cars, but also in mass-producing, marketing, and servicing them. Any would-be contender in this tough market would have had to offer not only a great car at a competitive price, but also superb manufacturing and a sound dealer network with servicing arrangements. The outlook for success was so forbidding that no really new car company had grown up since Walter Chrysler revamped the Maxwell concern in the 1920s and then went on to acquire the formidable Dodge interests. The one newcomer who did achieve some success in the postwar car building industry was Henry J. Kaiser, who produced about 750,000 cars in his nine-year attempt to crack the market. Amazingly, however, it's Tucker and his 51 cars that have stayed in the public memory. Kaiser, an astute businessman with many successes to his credit, is largely forgotten.

Preston Tucker burst upon the scene in 1946 with astonishing announcements which promised a revolutionary new car. First called the Tucker Torpedo, it purportedly had been under testing and development fifteen years and sported amazing safety and performance features. It's hard to believe the response to this incredible announcement. As a pair of magazine writers recalled in 1982, thousands considered Tucker a genius, "an automotive David who would slay the monopolistic Goliaths of Detroit."[2]

For two years, Tucker's "Tin Goose," as it

Mr. Barger was a business writer associated with Libbey-Owens-Ford Company and one of its subsidiary firms for nearly 33 years.

COURTESY HENRY FORD MUSEUM, GREENFIELD VILLAGE

The Tucker Torpedo, complete with Cyclops center headlight and pop-out windshield. Only 51 Tucker cars were actually produced.

became known, seemed to fly fairly high. For his company headquarters, Tucker managed to obtain from the War Assets Administration a huge Chicago plant which Dodge had operated during World War II. Early success in selling stock and dealerships eventually brought in about $26 million. Though the responsive public became restive over Tucker's failure to produce a car, he finally displayed one in a highly dramatized showing on July 19, 1947. Now called the Tucker "48," the display model captivated crowds with its aerodynamic design, rear-mounted engine, and such supposedly advanced safety features as a Cyclops center headlight which turned with the wheels and a windshield to pop out in an accident.

Though the display model also drew record crowds when Tucker took it on tour, it turned out that the vehicle had been hastily put together and actually had no reverse gear at the original showing. The suspension system had failed and had been frantically rebuilt just before the show. Some of the body had been fabricated around a 1942 Oldsmobile body. The more serious problem was that Tucker apparently had no sound plan or even blueprints for getting the car into real production. The 51 Tucker cars actually produced were hand-built models fabricated at enormous cost. One example of Tucker's profligate ways was revealed in his procurement of transmissions. Tucker obtained salvaged transmissions from the defunct Cord automobile, and then paid a shop owned by his family $223,105 to rework 25 of them.[3] With such weird practices, it's not surprising that by late 1948 the firm was all but bankrupt. By early 1949 it was all over, with less than $70,000 remaining of the nearly $26 million raised by Tucker from trusting shareholders and would-be dealers.

A number of publications, particularly *Collier's* magazine, reported on the failure, leaving little doubt that the Tucker venture had been a business seduction of massive proportions. Tucker himself was exonerated of fraud charges, and it's possible that he had, indeed, fully intended to build and market his dream car. He was reportedly still determined to launch another automaking venture when he died of cancer in 1956 at age 53.

Long before Tucker's death, the myths were already circulating in Detroit. I'm sure I heard them from fellow workers when I worked on assembly in a Detroit engine plant in 1951 and 1952. We heard that Tucker had had such a phenomenal car that the Big Three automakers moved to block it. One of their alleged tactics was to bully their own suppliers into refusing to sell parts to Tucker. They also enlisted the government's help; and the Securities and Exchange Commission helped speed the Tucker car's demise by leaking information about the company. Another "villain"—as the new movie makes clear—was Homer Ferguson, a U.S. Senator from Michigan who had strong personal ties to the Big Three establishment.

As a student of free-market economics, I'm quick to concede that a government-backed business conspiracy can work to stifle a new venture. The involvement of Senator Ferguson and the SEC does muddy the waters in reviewing the Tucker collapse. In fact, however, Tucker needed no help in destroying his company. The government, if anything, bent the rules in Tucker's favor when it awarded him the plant in Chicago on very generous terms. As for Senator Ferguson, his more probable concern was not that Tucker would succeed, but that he was headed for a massive failure which would wipe out shareholders' investments. The SEC did not doom Tucker, nor did it really carry out its role of protecting investors.

Did the Big Three Shut Out Tucker?

What about the role of the Big Three automakers? Their supposed opposition to Tucker is inferred as a result of a common fallacy about big business concerns. There is a widely held belief that any large business or several "oligopolists" can easily shut out an upstart competitor, either with predatory pricing or some other tactic. The way this story goes, the dominant business simply applies such pressures when a new company appears, and then goes back to its usual exploitative practices after the would-be contender expires. This is a fallacious argument that is often used to explain failure. It can be easily disproved by tracking the number of times newcomers have dislodged established firms. It still survives, however, and it contributed to the Tucker myth.

I find it hard to believe that any top manager of a Big Three company actually gave more than a few minutes' thought to the Tucker venture, let alone conspired to destroy him. While Detroit's auto executives would have been curious about any new car, they would have been quick to see that the Tucker program was likely to unravel by itself. They were also in the midst of an extraordinary sellers' market in the late 1940s and had little apprehension that a new competitor might sweep the industry. Nor was there need to fear that failure to bring out a glitzy new body design would cause loss of market share. Though some of them may have admired Tucker's body design, all of them had new aerodynamic models in progress and planned for early introduction. Studebaker and Hudson, in fact, did beat the Big Three to the market with aerodynamic designs, and yet this did not help them survive in the long run.

Even if Tucker had offered a truly revolutionary car, it's doubtful that Detroit's managers would have panicked about possible "losses of billions" in the future, as the Coppola movie suggests. The Big Three automakers already knew how to design "dream" cars, as both GM and Chrysler did just before World War II.[4] Their concern was not the design of such cars, but the cost constraints of getting them into production. Again, there is far more required for automotive success than just having a great car. Any top executive of GM or Ford, in looking over the Tucker car, would have immediately questioned whether it could be put into production to support the low sales price Tucker had promised. There would have been questions about its likelihood of giving trouble-free performance and whether the car really delivered the excellent gas mileage promised. And it would have raised some eyebrows if it had been known that Tucker had sneaked reworked Cord transmissions into the car rather than designing his own.

There is also scant reason to believe, as some do, that the Detroit automakers bullied their suppliers into refusing to sell parts to Tucker. I had personal knowledge of this as a result of being associated with Libbey-Owens-Ford for 14 years. I learned that Libbey-Owens-Ford had fabricated Tucker's pop-out windshield at a time when LOF supplied 100 percent of General Motors' automotive glass. Had Tucker gone into production, LOF would have continued as his supplier, just as it also supplied glass to other auto and truck manufacturers. (Ford Motor Company had its own glass plants.) Moreover, sales managers are adamant in denying that any carmaker would prevent a supplier from selling to other companies. Rather than making suppliers totally dependent on them, carmakers are more interested in having vendors who are soundly financed and are likely to have a number of customers in order to survive the times when auto production is cut back.

It is possible, of course, that in 1948 some suppliers would have been more attentive to Big Three customers than to Tucker. The persistent fear at supplier firms is that a customer may not be able to pay the bills. In view of disturbing rumors that were already circulating about Tucker Corporation in early 1948, any prospective suppliers would have been skittish about selling to the company except on a c.o.d. basis. Tucker, however, never reached the point of ordering production parts in volume. He was never strongly in the market for the parts that supposedly had been denied to him.

The most likely Big Three response to Tucker is that the top auto managers noted his company and quickly dismissed it as a speculative venture that would not survive. The duty of following Tucker and reporting on his progress would have been assigned to the market-research person who tracked competitors' activities. Far from conspiring to destroy Tucker, the Big Three executives were more concerned about competing with each other for the long run.

Another reason given for the Tucker failure is that the SEC leaked damaging information which had the effect of stifling sales of Tucker stock and dealerships. As a result, Tucker fell far short of raising the total amount that would have been needed to get into production. While nobody knows an exact figure for this, $100 million is probably a fair estimate. This was four times the amount Tucker actually raised.

The Market Responds

Whatever the effect SEC leaks might have had on Tucker's venture, his failure to raise more capital can be easily explained by the ordinary behavior of the investment market. The surprising thing is not that Tucker failed to finance his venture. What's really surprising is that he found investors and dealers who were gullible enough to risk $26 million with him. With or without the SEC, the stock market has an intelligence of its own and puts values on shares after they have been sold. Though Tucker was able to milk thousands of small, trusting investors, he was not likely to tap into shrewder ones who realized how speculative his entire venture had become. Price is the stock market's way of expressing opinion about company values, and in Tucker's case the share prices plummeted as facts began to surface, virtually foreclosing any hope of raising funds with new equity offerings.

Another myth is that Tucker did have a revolutionary car which foretold Detroit's future. Newspaper articles recently extolled some of the unusual features of the Tucker car: a pop-out windshield, a rear engine, a Cyclops light in the center which turned with the front wheels, a padded dash, and an aerodynamic body style. But were these really the way Detroit went in the future? No carmaker adopted the pop-out windshield, for example, and the Libbey-Owens-Ford engineers who supplied it to Tucker thought it was a bad idea. Few carmakers have adopted a rear engine; and the front-wheel drive has helped eliminate the long drive train. The Cyclops light is a gimmicky idea that intrigues onlookers, but apparently hasn't been considered an automotive selling point. Credit Tucker with the padded dash and the leap into aerodynamic design, but neither was beyond Detroit's capabilities.

A final feature of the Tucker myth was the

David vs. Goliath aspect, always a subject for popular appeal. At the end of the Coppola movie, for example, Tucker is deploring the fact that there's no place for the little guy in the automotive business. This is in line with the frequently expressed idea that nobody can get rich anymore. We heard that in 1948, just as we occasionally hear it 40 years later. Anybody can disprove it, however, by getting the latest copy of the *Forbes 400* wealthiest people and noting how many current multimillionaires were penniless or had not even been born back in 1948. There have been numerous opportunities which were spotted by people like Ross Perot, Sam Walton, or Steven Jobs.

Tucker's point was that the little guy could no longer enter the carmaking business. My point is the same, with the added proviso that carmaking is so competitive and risky, and the capital requirements are so high, that it also excludes "big guys." If there are to be new entrepreneurial ventures in carmaking, they will logically be carried out by well-financed companies who already have expertise in heavy manufacturing. You might think, for example, that a firm like Deere & Company would use its experience as a tractor builder to move into passenger cars. Such companies avoid car manufacturing as they would the plague, knowing that it would mean almost certain losses.

The automotive manufacturing business does, however, offer countless opportunities for people in related lines. If car building itself is a "big guy" business, the industry continues to provide excellent opportunities for hundreds of supplier firms. There have also been entrepreneurial firms who came up with new automotive tools and ideas. Add to that the companies which specialize in modifying and rebuilding stock cars for select markets.

Tucker himself, if he had possessed more self-understanding and business savvy, might have prospered as a custom car remodeler. He did have a love of cars and he had experience in the automotive field. In a way, the Tucker car itself was a customized remodeling of existing car concepts. Tucker's use of the Cord transmission, for example, showed that he understood nifty innovations which somehow hadn't succeeded in the market. But one of Tucker's problems was in being carried away by a "dream" while ignoring the practical work needed to apply it for useful purposes. Mere possession of a dream does not excuse a person from exercising prudence in business relationships.

Though Tucker himself escaped conviction on fraud charges, it is fraudulent at this late date to blame his failures on the Big Three automakers. There are lots of sins we can lay at the door of GM, Ford, and Chrysler managements. They have sometimes been arrogant and complacent; they have occasionally misjudged their markets; they have been sluggish in coping with the new worldwide competition. Their faults are typical of big companies: poor communications, slow response to change, and even bad habits growing out of too much success. Most of the time, however, market realities tend to correct such problems. And in criticizing the Big Three, we should never forget that they are the companies that were most influential in putting the nation and even the world on wheels.

Let us also be careful not to add Tucker's failure to any catalog of Big Three wrongs. There's simply no evidence that any Big Three company was more than an innocent bystander while the Tucker venture was running its erratic course. Tucker did himself in and lost money for lots of trusting shareholders and prospective dealers at the same time. And Tucker was never a victim of anybody or anything other than his own ineptitude. The Tucker Torpedo was a dud from the start, and Tucker was the triggerman with faulty aim. □

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1. *Tucker—The Man and His Dream,* which opened in many American theaters in early August 1988.
2. Perry R. Duis and Glen E. Holt, "The Tale of the Tin Goose," *Chicago,* October 1982.
3. Lester Velie, "The Fantastic Story of the Tucker Car," *Collier's,* June 25, 1949.
4. See Alfred Sloan, *My Years With General Motors* (New York: Doubleday and Co., 1963). It carries a photo of the "dream car" designed by GM Styling and introduced in 1938 to test consumer reaction to advanced ideas.

Foreign Capital: Friend or Foe?

by William H. Peterson

Morning. You get ready for another workday. You hear the news on your Sony TV as you wash up with a bar of Dove soap. You put on your Brooks Brothers suit or an outfit from Bloomingdale's. Soon you drive to work in your Honda equipped with Bridgestone tires.

At work you call up a customer on a Northern Telecom phone system after consulting a spreadsheet on your Sharp terminal. For a mid-morning snack you nibble on some Keebler cookies, paying for it with cash from the First American Bank. On your lunch hour you buy a sweater at a Benetton store.

Sometimes these brand names have a nice American ring to them—Keebler, Bloomingdale's, Dove, for example. Other times the brands are recognized as distinctly foreign—say, Sony, Honda, Benetton.

But in every instance all these brands are not only foreign-owned, they all have substantial American operations. They reflect foreign capital invested here. Is that bad? Some people think so, and they mean to do something about it. That something is called protectionism.

Look at First American Bankshares, for example. It is a $10 billion bank holding company with 5,700 employees in 280 branches in New York, Virginia, Maryland, Georgia, Florida, Tennessee, and the District of Columbia. Some critics note that, despite its name, First American's owners are not Americans but Arabs. The company was purchased in 1982 with "petrodollars" by private investors in Kuwait, Abu Dhabi, and the United Arab Emirates.

Too, while all of the above brands are marketed extensively in America, critics say darkly, marketing control resides overseas. For instance, Benetton stores are Italian-owned and feature knitwear made in Italy.

To be sure, some of those brands are manufactured in America—i.e., they wear the label, "Made in the U.S.A." But manufacturing control lies elsewhere, say the critics. In their eyes the label is almost as deceiving as the pre-World War II label sported by some Japanese imports. Then "MADE IN USA" referred to a Japanese industrial city, Usa, whose letters neatly corresponded with the acronym for the United States of America.

Northern Telecom, to illustrate further, is a $5 billion company with 15 manufacturing plants and five research facilities in the U.S., but its headquarters are in Canada. Dove soap is manufactured in a Baltimore factory owned by Unilever, a giant British-Dutch consumer-good conglomerate with such other brands as Pepsodent, Lifebuoy, and All. Your Sony TV was assembled in southern California, your Sharp terminal in Tennessee, your Honda in Ohio.

Americans, be wary of this development, of this internationalization of capital, caution the critics.

Of recent foreign ownership, too: Campeau, a Canadian retailer, just purchased Bloomingdale's; and not long ago Marks & Spencer, a British merchandiser, bought Brooks Brothers. Bridgestone of Japan took over Firestone Tire

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and Rubber for a stunning $2.8 billion in 1987. So the critics vex Congress with the questions: "*Where* is the control? *Who* is in control?"

In addition, with the fall of the American dollar, Japanese and other investors have stepped up the purchase of many resort and other properties in Hawaii as well as office buildings and other real estate in large American cities such as Seattle, San Francisco, Los Angeles, Denver, Houston, Chicago, Atlanta, New York, Boston, and Washington, D.C.

What is more, by 1990, seven Japanese auto companies will have established American "transplants" to assemble cars in California, Illinois, Ohio, Michigan, Kentucky, and Tennessee, with a horde of Japanese auto parts and equipment producers following in their wake with American manufacturing facilities. By 1992, Detroit estimates that 1.5 million vehicles will be rolling off the assembly lines of these "transplants" each year.

"Invading America"

So, Americans, proclaim critics, hold out, stand fast against this "invasion" of America by foreign capital—by, what they really mean, the foreign owners of that capital. They look to Congress to pass laws impeding these "outsiders," who, as the critics see it, slowly but surely are taking over the American economy.

Typical of these critics are Martin and Susan Tolchin, authors of *Buying into America: How Foreign Money Is Changing the Face of Our Nation* (Times Books, 400 pp., $19.95). Martin Tolchin is a correspondent with *The New York Times*; Susan Tolchin is a professor of public administration at George Washington University. Their persuasion is further revealed in the title of their previous book, *Dismantling America: The Rush to Deregulate*.

In their latest book, they tell us that, sure, foreign "takeovers" may be completely legal, but they are being accomplished "with the stealth and anonymity of illegal aliens." Accordingly the Tolchins ask the American people to stop, look, and listen.

Well, all right, listen to their arguments. Among these are:

Tolchin Argument No. 1: They complain, among other things, that U.S. laws discriminate against American companies in favor of foreign investors. They cite the case of Citicorp's being shut out from buying a California bank, only to see it sold to a Tokyo bank.

Tolchin Argument No. 2: The authors wonder about the wisdom of states competing for foreign capital, putting up millions of dollars in tax abatements and other incentives. They ask: Don't those incentives amount to U.S. taxpayers' subsidizing foreign investments and acquisitions?

Tolchin Argument No. 3: The Tolchins also question whether some industries are so vital to our national security or industrial strength that the U.S. must maintain a controlling interest in them. They cite such fields as banking, transportation, communications, semiconductors, machine tools, and biotechnology.

Tolchin Argument No. 4: Again, with the Japanese, Canadians, British, Arabs, and other foreigners increasingly becoming holders of prime commercial and residential real estate, the Tolchins ask: Are we becoming a nation of tenants?

And Tolchin Argument No. 5: They also ask if it is really protectionist to demand a *quid pro quo* for foreign access to our markets by having our foreign trading partners end their restrictive practices on American trade and investments abroad. Reciprocity, they claim, is the name of the game: Foreigners, you open your markets, and we'll open ours.

Foreigners. Aliens. Outsiders. People of other lands, other cultures, other races, subject to other governments, increasingly taking charge of *our* economic affairs.

What we witness, I think, is xenophobia: that unreasoning fear of something or someone foreign—here in its latest form: capital xenophobia, the fear that many critics attach to foreign capital invested in America.

The xenophobes may concede—but not always—the urgency of capital as an indispensable tool in modern-day production, as a catalyst in creating jobs and industrial progress; but when that capital originates in other countries, as noted above, ugh! Disadvantages outweigh advantages.

But do they?

Let me try to answer those five Tolchin arguments one by one.

As to the first Tolchin argument on U.S. laws discriminating against interstate banking mergers and acquisitions in favor of foreign investors—yes, the Sherman Antitrust Act of 1890 and the Glass-Steagall Banking Reform Act of 1933 do inhibit bank expansion across state lines. The inhibition may be breaking down today, but it is still relatively easier for a foreign bank to buy an American bank than for an American bank to buy a bank in another state.

So what? This argument has nothing to do with foreign capital; it has to do with our competition-inhibiting antitrust and other laws. True enough, Citicorp was accordingly precluded from bidding for the California bank. So much the worse for competition—a perennial antitrust confusion, I submit, over size and numbers in relation to competition.

To illustrate: Britain has, essentially, but five commercial banks; the U.S. has some 13,500. But does this contrast mean banking is really any less competitive in Britain? Hardly, with the crucial factor of freedom of entry ever determining the vigor of competition. In any event, the blame for foreign bank investment favoritism here lies in Washington and not Tokyo or Zurich.

This line of rebuttal applies to the second Tolchin argument on state laws favoring foreign investors via tax abatements and other incentives. For again, the problem lies not with foreign capital, but with those states courting and subsidizing overseas investors at the expense of firms and all other taxpayers domiciled within.

Still, without defending them, I can see how they rationalize, how they subsidize new capital knowingly, how they perceive a trade-off. What they lose, these states reason, they more than gain through the acquisition of more jobs, greater development, higher realty values and other tax bases—so that, if they are right, ultimate tax revenues greater than immediate tax losses accrue.

The third Tolchin argument raises the flag of national security and industrial strength, citing certain industries and seeking American control. But the authors seem to get mixed up over control, location, and consumer sovereignty. Any entrepreneur, foreign or domestic, setting up business in the U.S. has to meet all local, state, and Federal laws, licenses, and other regulations, including local, state, and Federal taxes, with any tax forgiveness expiring in a matter of years. In brief, legal control, insofar as a foreign affiliate here is concerned, is entirely American.

Meeting Consumer Demand

Moreover, there is in a sense a larger control confronting the foreign entrepreneur and investor. He must still, *inescapably*, satisfy the consumer, must still meet competition from all comers, with the consumer having the final say, with the ultimate control coming through King and Queen Customer's life-and-death power to confer profits or impose losses.

Thus, for example, Japanese managerial mystique may be vaunted but not invincible. As pointed out by *The Wall Street Journal* of June 23, 1988, for example, one decade after its celebrated takeover of an American firm, Sanyo Electric has seen its payroll in its Forrest City, Arkansas, plant slump from 2,000 to 350, its three dozen or so Japanese executives becoming but ten, its nine TV assembly lines slimming down to two, as it shifts production to Mexican plants. Productivity and quality have simply not been forthcoming. Sanyo has apparently run into serious union and other communications problems.

All of which has been swiftly telegraphed to Sanyo by the American consumer, the final controller.

Even so, the transcendency of consumer control over so-called foreign control should not blind us to the fact that overseas investments here can have benefits beyond that of additional capital. Take, for instance, New United Motor Manufacturing Inc., NUMMI, the successful six-year-old joint venture of General Motors and Toyota, in Fremont, California. Toyota sought low-cost entry into the U.S. auto market; GM sought new technological and managerial skills. The marriage worked, and the sovereign consumer is the beneficiary.

What of the fourth argument of the Tolchins as seen in their plaintive if not disingenuous query: Are we becoming a nation of tenants? The query seems odd in light of the fact that most Americans—practically two out of every three—own their homes. Yet practically every firm in the *Fortune* 1,000 is a commercial tenant in one degree or another.

"When goods—and capital—can't cross frontiers, armies will."

So I ask: Landlord or tenant, to own or to rent, what's the better option? It all depends, let me respond, on the firm or the individual—his age, income, credit rating, etc.—and on the general situation, including location availability, the height of mortgage interest rates, and so on.

In any event, landlords, foreign or domestic, are hardly privileged. They must compete. They can face onerous property taxes, bewildering zoning restrictions, confiscatory laws. Some landlords, for example, face local rent control laws stretching from New York City to Los Angeles, although I concede the foreign realty investor usually, and most understandably, avoids rent-controlled properties.

And from the viewpoint of the American tenant, commercial or residential, does it follow that his foreign landlord is any less competitive or any less concerned for tenant welfare than his domestic counterpart? The Tolchin query, in short, does not appear germane. Again, it reflects xenophobia.

The fifth Tolchin argument on reciprocity also does not seem overly germane. For all too often such reciprocity becomes a cloak for continuing a policy of protectionism. To reiterate: Says Congress, bolstered by a host of protection-minded industries, unions, and other lobbyists, to foreign investors, "If you don't open your market for our wares and investments, we'll not open ours."

But who's hurting whom? On whose side is Congress? What of those Americans who wish to sell—and of their constitutional right to sell—their property, shares, firm, patent, invention, and so forth to foreign investors? What of American consumers who benefit, inexorably, from such general optimization of capital investment?

I contend that protectionism betrays more than xenophobia, that, whatever its form—tariffs, quotas, licenses, embargoes, exchange controls—it reflects a hidden agenda of:

- constricting consumer choice,
- infringing on constitutional rights of life, liberty, and property,
- jacking up domestic prices,
- suppressing competition,
- rejecting foreign technology,
- excluding foreign management skills,
- setting back job creation,
- restraining economic growth,
- impeding peaceful international cooperation, and
- rebuffing constructive people-to-people division of labor.

All of which would otherwise flow from freedom of trade and investment.

True, ideally, free trade and investment ought to be worldwide. But we don't live in an ideal world. We, critics included, should face up to the fact that imports finance exports, that protectionism breeds protectionism, that economic retaliation can even breed military reaction.

In this light, the massive Smoot-Hawley Tariff of 1930 went beyond, quite conceivably, triggering and exacerbating the Great Depression; it contributed to the frictions ultimately helping to ignite World War II.

To paraphrase nineteenth-century French economist Frederic Bastiat: When goods—and capital—can't cross frontiers, armies will. Unilateral free trade and investment are still better than no free trade and investment.

Besides, the Tolchins and other critics of foreign investment in America are late in the game. For, not so long ago Americans were being warned that our uncaring multinational companies were heartlessly shifting, production and jobs to foreign low-wage lands.

Indeed, in 1964 French journalist Jean-Jacques Servan-Schreiber made an international splash with his own xenophobic book, *The American Challenge,* describing in dire terms how IBM, General Motors, Ford, Exxon, General Electric, Dow, DuPont, Kodak, Coca Cola, and others were taking over the world economy. Now the shoe of challenge, it seems, is on the other foot—ours.

But instead of deploring foreign capital and threatening to shunt it aside, we should welcome it with open arms. The accompanying table shows wholesome trends: Three million Americans—that number up by almost half since just 1980—are working for better than 10,000 foreign affiliates on our shores, with the number of such affiliates also growing by almost half in the same period.

FOREIGN INVESTMENT IN U.S.

	1980	1987 (Est.)	% Change 1980–87
Number of foreign company affiliates	6,822	10,143	48.7
Gross value of plant and equipment (billions, current dollars)	$127.8	$349.2	173.2
Employees (millions)	2.034	3.017	48.3

Source: U.S. Commerce Dept., *Washington Post*

So to the critics of foreign capital, I say that capital whatever its source, is our friend, not our foe. By boosting productivity, capital greatly helps meet human needs. It represents, in the broadest sense, savings turned into vital tools.

These tools of production are inevitably risky, ever subject to the vagaries of technology, politics, demographics, popular taste, caprices of history, acts of nature such as earthquakes, and so on. And, like everybody else, we Americans need all the tools, all the capital, we can get.

That capital is not free. It is not permanent. It flows out as well as in. It must be nurtured. It is inherently sensitive, timid, ever tentative, ever ambivalent in that it is at once risk-tolerant and risk-averse. It can be sullied and bullied, yes, but not for long. It will flee to safer climes, as witness capital flight for decades from much of Latin America, from much of Africa, Asia, and the rest of the world.

That flight accounts, in part, for the greatness, the integrity of tiny Switzerland, home of secret bank accounts, haven for politically hounded "hot money," guardian of, for example, Jewish capital spirited out of Hitler's Germany.

Virtue has its rewards: The high-saving, capital-rich, free-enterprise, historically neutral Swiss, in terms of per capita income, are the richest people in the world. (The Swiss, incidentally, celebrate their 700th anniversary as a democratic republic in 1991.) Capital and an amazing culture have bestowed peace and prosperity on the Swiss for centuries.

Too, capital is in a sense nationless, nervous, suspicious, mobile—ever ready, if need be, to move. It stays as long as it is treated with reasonable security and respect, as long as it earns a competitive yield. Indeed, yield, productivity, gain, is its *raison d'être*—gain for both the investor and the consumer. The rule is . . .

Capital ever seeks the greatest yield consistent with the least risk.

What of Our Future?

Lucky for generations of Americans, the United States has long been a magnet for foreign capital, as it has been for immigrants from all over the world. We are a country of immigrant people and immigrant capital. The question is: Will we continue to be? (The new immigration law should give us pause.) Or, will critics continue to harp on capital's ethnic or overseas origins and eventually kill this golden goose?

Consider. From colonial times to the present hour, investors in other lands—in Canada, Latin America, Britain, France, Germany, Italy, the Netherlands, Belgium, Spain, Switzerland, Scandinavia, Eastern Europe, and, more recently, Japan, other Pacific Basin countries, and here and there in the rest of the world—have bet on America, have risked their savings here, have spurred job creation here, have helped America grow and Americans prosper. As a 1930s pop song put it: "Who could ask for anything more?" □

Letter to the Commission

by Robert Hellam

Editors' Note: *The following letter was sent to the Chairman of the Economic Development Commission of Seaside, California. The Commission was formed as an advisory body, composed of unpaid volunteer citizens appointed by the City Council, to represent the views of the public and the Council to the Economic Development Department of the City of Seaside.*

June 20, 1988

Dear Tom:

This is not a letter of resignation. There is no need for me to resign: my term on the Commission expires June 30, and, although I am pleased that you have asked me to stay on, I have chosen not to seek reappointment. I suppose you could call this a letter of expiration, then; but I prefer to say a letter of explanation, and I hope you will share this with the other commissioners and staff.

I welcome what I see as a more active (I do not say "pro-active") Commission, ready to assert its rightful role, but I believe I have served long enough. I have been on the Commission for two and a half years, and have expressed my views as forcefully as I could whenever the moment was right and I could get a word in. (The minutes often have not reflected my comments, for reasons we have discussed.) Sometimes my words have met with a hostile reaction, sometimes with mild impatience, sometimes with amused tolerance. Often, they have been dismissed as "mere" philosophy.

Mr. Hellam is a long-time resident of Seaside, California, and a free-lance writer.

There is no such thing as "mere" philosophy, in my opinion. The axioms that we carry with us to any enterprise will color everything that we do. Just as a married couple who do not view divorce as one of their options is more likely to stay together, so a city government that does not see confiscation of private property as a proper activity is less likely to violate the rights of its citizens.

Rights are possessed by the people, and only by the people as individual flesh-and-blood human beings. Collective rights are a myth. Rights inhere in the people from birth, granted by God, not by government. Government has no rights at all, only specific, limited, enumerated powers granted to it by the people. Our ancestors thought that these were self-evident truths.

Since the only proper role of government is to protect the sovereign people's rights to life, liberty, and property, it follows that any government that takes away those rights without due process of law is destructive of the very ends it was established to achieve. The phrase "due process of law" has become twisted in many cases into an excuse to justify whatever a governmental body wants to do, and today "due process" is often regarded as meaning no more than providing advance notice of whatever adverse action the legally constituted authorities want to take. This makes the phrase meaningless, and makes the Constitution a dead letter. What was once self-evident is now hardly evident at all.

The supremacy of the people must be respected, not only in words but in actions. The

City Council, composed of the people's elected representatives, is subject to the people. Boards and commissions, appointed by the people's representatives, are subject to the Council. City staff is supposed to be on the bottom of the power structure; unfortunately, in real life things seem to be turned around. Actions that affect the lives and livelihood of people are taken lightly, almost on whim. We must take government seriously, remembering that every government action is an act of force, funded by confiscated money and backed up by the threat of deprivation of life, liberty, or property.

City employees are people like the rest of us, with the same mixture of good and bad; however, anyone in a position of power must be watched carefully. We should not take it for granted that a city employee has the interests of the people at heart. Especially, an employee who does not even live in the city is likely to regard it only as the source of a paycheck, and moreover is not subject to the consequences of his own official acts. A high-ranking city official is probably more loyal to his career than to the particular city for which he is working at the moment. If you are an ambitious city planner, hoping to make a name for yourself and move on up to Fresno or San Jose or Stockton, your focus may well be on what makes you look good in the short term, not what is good for the city in the long term.

Conservatives and liberals alike often preach piously about the virtues of local government and local control, waxing poetic about how local governments are closest to the people and most responsive to those whom they were created to serve. However, that very closeness can be a danger. Government at best is a dangerous tool. At worst, you might see your home or business destroyed or taken away by the very government that was designed to protect it. Even in this day and age, the level of government most likely to do that is based not in Washington but in City Hall. As a Christian and a libertarian, I am concerned that real people, real live men and women, girls and boys, not be sacrificed on the altar of "The People" as a disembodied ideal.

"Economic development" is merely the latest alias of the old "Progress," which had acquired a bad name and a suspicious odor. In a free society, property is owned individually, and each property owner has the right to decide what is the proper use for his land, limited only by concern for the similar rights of his near neighbors. When government, meant to be the people's servant, seeks to be their master, we begin to hear phrases like "economic blight," "underutilization," and "highest and best use of the land." Obviously, these all involve subjective judgments; and to say that someone at City Hall has better judgment than thousands of property owners is to set a dangerous precedent. If you concede that government has authority to take property from any single person to benefit another person or business, or simply to fulfill some almighty plan, then you have given away your own rights.

We need to be a little less vulnerable to the appeal of catch-phrases, not only those listed above, but others as well. "Increasing the tax base" is often repeated as a sort of mantra, but when we listen critically, we ask questions: will "increasing the tax base" lower the tax burden on the people, or will it really facilitate higher spending, higher salaries, and more power for the city establishment? Some say that this area has a shortage of housing; but when we say that we do not want to be "just a bedroom community," do we mean that we want to start eliminating bedrooms in favor of board rooms? The people who sleep in those bedrooms are the city.

The city is not City Hall, not buildings and streets and lines on a map, but people. A city is not like a machine, but like an organism. It will grow, if left alone; it may grow better, with proper care. Radical interventions will probably be counterproductive. I grew up here. I loved Seaside as it was, and I love Seaside as it is. We must be sure that we are serving the real people of the real Seaside, not the ideal population of some professional planner's dream city. Otherwise, we may finish by destroying Seaside in our attempts to help it.

With my best wishes,
Robert Hellam

Against the Creation of Wealth: The Threatening Tide

by Arthur Shenfield

In American memory President Coolidge is, to put it mildly, hardly an object of pride or admiration, still less of veneration. He is often derided for having supposedly declared, "The business of America is business." Though they have not descended to the use of the term, some of his detractors have implied that in him the unfortunate American people had a Yahoo in the White House. In fact what he said was the following:

> After all, the chief business of the American people is business. They are profoundly concerned with producing, buying, selling, investing and prospering in the world. I am strongly of the opinion that the great majority of people will always find these are moving impulses of our life. . . . Wealth is the product of industry, ambition, character and untiring effort. In all experience, the accumulation of wealth means the multiplication of schools, the increase of knowledge, the dissemination of intelligence, the encouragement of science, the broadening of outlook, the expansion of liberties, the widening of culture. Of course, the accumulation of wealth cannot be justified as the chief end of existence. But we are compelled to recognize it as a means to well-nigh every desirable achievement. So long as wealth is made the means and not the end, we need not greatly fear it. (Calvin Coolidge, *Foundations of the Republic,* 1926)

A more unexceptionable statement would be difficult to conceive. It merits perhaps only one improvement or extension. That the accumulation of wealth, within the American framework of liberty under law, produces the expansion of liberties, is true and important. But even more important is the fact that both the creation and the accumulation of wealth are, in their optimum forms, rooted in the liberty in which Americans claim that their nation was conceived. If Coolidge was any kind of Yahoo, then so too must John Wesley have been when he said to his followers, "Gain all you can. Save all you can. Give all you can." And as Irving Kristol has happily said, his half of the Judaeo-Christian tradition has never held it to be sinful to be rich. Nor, on its best construction and contrary to not a few counterindications, has the Christian half.

Perhaps the causal link between liberty and the creation of wealth was rarely fully understood by more than a minority of Americans. Nevertheless, from before the birth of the American Republic to Coolidge's time, the great majority did apprehend its existence and character in broad terms; and a well-instructed

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Calvin Coolidge
(1872-1933)

minority understood it fully and accurately. Now, by contrast, of all the siren voices which assail the American ear, perhaps the most insistent are those which urge the erection of impediments to certain liberties, new and distinct from former familiar impediments, such as import duties and the paraphernalia of regulatory commissions. By immediate effect these new impediments to liberty thwart the creation of wealth, just at a time when a sizeable and growing number of Americans, though as yet far from a majority, have perceived the evils of protective tariffs and industrial regulation.

The sound of some of these siren voices is rising to a crescendo, and their persuasiveness among the general public grows apace. Consider the animus which has thus been developed against the corporate takeover bidder. In public discussion it has become almost routine to picture him as a modern economic ogre. "Corporate raider," "business predator," and other even less complimentary appellations set the tone of debate. Hence legislators in 29 states have been moved to pass measures to block his path. Even so intelligent an observer as Irving Kristol, whom I have quoted with approbation above, has succumbed sufficiently to this agitation as to propose to limit company voting rights to shareholders who have held their shares for at least a year. The implication is that the "predator's" wiles succeed mainly by the enticement of shareholders who are interested in quick in-and-out gains, not in the long-term progress of their companies.

Nowadays with the spectacle before our eyes of the manifest failures of other economic systems (including various forms of mixed economy, as well as those of central planning), it has become less and less plausible to impugn the superiority of the free enterprise system as a creator of wealth, though of course many continue to turn their faces against it on other grounds.

Free Markets

The free enterprise system is a system of free markets. Of all its markets, that which more than any other bears upon its efficiency as a wealth creator is the market in corporate control. Long ago, blinkered observers of the corporate scene noted that the owners (i.e., the shareholders) of the modern, large (or even not so large) corporation could have little or no direct control over the directors or managers, and so concluded that corporate democracy had to be a fiction. Hence, they thought, modern boards of directors had largely become self-perpetuating oligarchies. Their interest, not those of the shareholders, it seemed, determined the governance of the companies.

These observers failed to note that the market in corporate control enabled the baton to be passed to the shareholders. Even if they perceived this, they failed to see that it was not the actual event which was decisive, but the standing threat or possibility of it. It is this market which principally sees to it that managements must beware of elevating their own interests above those of their legal masters, or of falling into ways, of whatever kind, which produce less wealth than the assets under their control might produce.

But why should shareholders' interests accord with optimum production of wealth? Are not shareholders often fickle, or conversely, gripped by mindless inertia, in their attachment to their companies? Do they not generally know little or care little about the business of their companies? Doubtless they have, as owners, the right to sit in judgment over the directors of their companies, but is it not ludicrous to envisage them as intelligent or informed judges of the directors' performance? All this may be true (though it must be subject to at least partial qualification in the case of pension fund, mutual fund, and other institutional shareholders). However, true or false, it has little bearing on the matter before us.

Performance vs. Expectations

What counts is the difference between the performance of the existing management and the expectations of the "predator." Hence, *prima facie,* if the "predator" is able to offer the shareholders a buy-out price above the current stock market price of their holdings, and to expect a profit for himself, it must follow that at least he, putting his money where his mouth is, and therefore acting with at least some circumspection, has confidence that the management's performance can be bettered. However, this may be too simple a view, and so we must examine the contentions of those who criticize takeover activity.

First, it is loudly asserted that the typical "predator" has a short-term perspective; that he is primarily interested in a fast getaway with short-term gains, often by dismemberment of his "victim" companies and a sell-off of their parts. But why is a short-term perspective necessarily bad and a long-term perspective necessarily good? If a company is irrevocably heading for bankruptcy, a very short-term perspective may be right. On the other hand, if a company's perspective is such that a particular investment in research and development is unlikely to recover its costs in less than a century, then the long-term view is almost certainly wrong. The correct view will be somewhere in a range of perspectives. It will be determined by the expected pay-off of an investment, discounted by the rate of interest over the period of expectation, long or short. In principle a relatively long-term perspective has no special sanctity over a short-term perspective.

But is it not true that the typical "predator" often dismembers companies, selling off parts of them soon after his takeovers? Does it not therefore seem to be true that his perspective tends to be undesirably short-term? For may it not be true that the value of a company may be greater than the sum of the market values of its parts?

In the first place, it is not true that dismemberment is an automatic or prevailing practice of the "predatory" process. Certainly it often happens, but that is because companies which are the object of "predatory" attention are often less successful than they might be precisely because they have parts which they would do well to get rid of. Indeed efficient managers often divest their companies of parts of their assets even though there is no threat or likelihood of a takeover bid. Thus in such cases divestiture, with or without the promptings of a "predator," is a necessary step toward optimum wealth production.

Furthermore, the purchasers of dismembered parts must believe that their productive potential exceeds in value the prices to be paid for them. Thus on both sides the process of dismemberment can reasonably be expected to raise, not depress, the wealth-creating capacity of the economy. If, however, it is true that the value of a particular company is greater than the sum of the market values of its parts, only an inexpert "predator" would proceed with dismemberment, and inexpert "predators" are not long survivors. For in such a case the predator would find that the market value of the retained core of the company would fall. Then the result of dismemberment would be a net loss, not a quick gain.

But in any case is it true that the typical "predator" is predisposed to seek quick, short-term gains, whether by dismemberment or otherwise? This is one of those myths which easily gain popular credence, especially where the impugned characters are held up to public obloquy by those considered to be more respectable than they. In this type of case the respectable characters are supposed to be the businessmen in established charge of substantial companies, who are affronted by the pretensions of the "predators." Often they are regarded as the pillars of the business community, while the "predators" are new men, to whom the epithet "smart" is applied in a pejorative sense.

In fact, studies of takeover cases have shown that takeover bidders are as much committed to rationally long-term purposes as other businessmen. They would be fools if they were not. For fast getaways with short-term gains would not be the end of the bidding game. The gains would have to be invested somewhere, which would inevitably bring longer-term considerations into play. If the companies taken over were, or could be made into, good ones, why should the gains be invested elsewhere? Why not in the companies themselves? Thus if nurturing and developing the companies were likely to be profitable, the "predators" would be likely to perceive this as readily as the ousted managers themselves.

Secondly, it is often maintained that the "predator's" buy-out price, which exceeds the current stock market price, deceives the shareholders into acceptance, because they do not realize that the stock market price temporarily underestimates the true value of their property. It does so, it is supposed, because stock market investors are likely to have shorter time perspectives than competent managers of sound companies may have. Thus competent managers may be ousted by the wiles of the "predators" against the true interests of the shareholders. Therefore, it is asserted, the shareholders should not fall headlong into the arms of the "predators." They should wait. Then they would often find that the stock market price would rise above the "predator's" apparently attractive offer, once stock market investors came to perceive the benefits of the managers' longer-term plans.

It must be said that this is a travesty of the stock market's performance. We need not go so far as the "efficient market" theorists, who hold that the market always takes account of all knowable factors bearing on prices, to recognize that awareness of future possibilities indeed plays a role in the market's prices. That is partly why some stocks sell at ten times earnings, others at fifteen times, and yet others at twenty times. The "predator's" perception of these factors is more optimistic than the current perception of other market operators, but his feel for these things is likely to be well-honed by practice and experience. If it is not, he will not for long be a "predator."

Thirdly, the "predator's" plans may be repellent to many good citizens because, with his innovations and possible dismemberments, he may upset the attachment to local interests which existing managements may have developed and fostered. The ABC company may have become the long-established pride of Pleasantville, and the financier of many good works for its citizens. What the "predator" may do imports at least a risk that this will change for the worse. The company's attachment to "social responsibility" may even be confidentially pinpointed by the "predator" as one of the causes of its sub-optimal economic performance.

Closing and Moving Plants and Factories

This problem is particularly evident in the widespread animus which has developed in recent years against the liberty of businessmen to close plants and factories, or to move them from established locations to others within the U.S. or abroad.

As far as closing, as distinct from moving, plants is concerned, public discussion so far centers only on the question of mandatory notice periods to workers. In some cases, extended notice may do little harm to business, and so is often given voluntarily. In many more it would do harm by adversely affecting the behavior of workers, suppliers, and creditors. Hence mandatory notice periods would be a typical example of the diseconomies produced by ham-fisted governmental action.

Now suppose that a company decides to move a plant from the Snow Belt (or the Rust Belt part of it) to the Sun Belt. We may assume that it is expected to be more productive in its new location than in the old (perhaps because of lower wages, but perhaps for other reasons). It is obviously good for the Sun Belt. It is also good for the United States, for any move from a less productive to a more productive location must raise the average national productivity. The notion that it may be bad if its purpose is to pay lower wages than the Snow Belt rates is groundless. Not only will the move have an elevating effect on Sun Belt wages, but quite apart from the Sun Belt's equitable right to such industry as it can obtain, no valid national purpose can be served by using high-paid labor for work which can be done by less well-paid labor.

But what about about the effect of the move on the Snow Belt? Surprisingly, except in the short run, the Snow Belt also gains from the move. By the side of the now famous principle "There ain't no such thing as a free lunch," we should erect the principle "If you want more jobs and better jobs, you must destroy jobs." All economic history shows that the loss of jobs is a pre-condition for the elevation and increase of employment. For example, if New England had not long ago lost most of its textile jobs to the South, it would now be poorer, not richer, than it is. Indeed we can see this effect already in the Snow Belt (if not yet everywhere in the Rust Belt) which now has more and better jobs than it had before the southward move of jobs in recent years.

Suppose, however, that industry moves not from North to South, but from the U.S. to foreign countries, perhaps to gain the advantage of lower wage rates. The results are still on balance likely to be good for the U.S. and for the losing areas, North or South. There are four reasons:

1. Profits come home from the foreign location to the United States. Even if they are first reinvested abroad, they will still ultimately come home.

2. By moving abroad, American capital is able to produce cheaper goods for the American consumer, who thus has a surplus income to buy other home-produced goods or services and thereby to foster new American jobs.

3. Opportunities open abroad for well-paid managerial and supervisory jobs for Americans in the migrated plants.

4. The dollars paid for these cheaper American-produced imports ultimately come home to buy other American goods or services. As export industries cannot be protected against foreign competition, it follows that their jobs have a sounder economic foundation than that of protected industries.

Thus, on balance, the movement of industry abroad, when based on a realistic assessment of relative costs, benefits the United States. As for the losing areas, the net effect is likely, except in the short run, to be beneficial for the same reasons as it is for the Snow Belt in the case of movement to the Sun Belt.

The Concept of "Social Responsibility"

What about the effect on "social responsibility" to which I referred above? This is sometimes the most powerful motivator of public opinion against both the "predator" and the plant mover. We need not here analyze the concept of "social responsibility" at length. We need only state what full analysis establishes, that it is fundamentally misconceived. Businesses have no right, still less a duty, to espouse "social responsibility" except where, as may well happen, it coincides with and promotes the purposes of lawful and successful business itself. The business of business is business, just as the business of a surgeon is surgery, not other problems of his patients. Business has no expertise in the solution of social problems, except where, as stated above, it coincides with genuine business purposes. Worse still, having no expertise in the matter, it is unlikely to be skilled or successful in its pursuit. Only citizens, acting individually or in relevant groups, have a right or duty to be concerned with social problems; and this includes businessmen, but acting as citizens, not as businessmen.

The ideas and influences which seek to inhibit the takeover process and the freedom of businessmen to move their firms where they will, are sure to undermine the production of wealth and its impact on the admirable purposes outlined in the Coolidge speech with which this article opened. How deplorable it is that just when the American people are in some measure beginning to learn to grapple with older interests and influences inimical to wealth production, they are in growing numbers pursuing the will-o-the-wisps to which these new debilitating influences beckon them! □

The Dark Side of Modern Voluntarism

by Andrew E. Barniskis

Voluntary civic and charitable effort is an American tradition, and most of us have witnessed it at its best at some time in our lives. A young family's home will be damaged by fire, and within minutes people who have never met them come forth with donations of food, clothing, and furniture. A neighborhood will donate a weekend of voluntary labor to clean up and refurbish a local park or playground. We take such actions almost for granted.

But in recent years voluntarism has developed a dark side, which has also come to be taken for granted. Too often, volunteer effort is used by well-meaning people to demonstrate a false feasibility for their favorite charitable or civic undertaking, for the purpose of inducing government to take over the project. The economics demonstrated using privately donated funds and volunteer labor are then replaced by the economics of coercive taxation, and sometimes even conscripted citizen labor.

A municipality near where I live provides a useful example, if only because it's an example being repeated in hundreds of places across the country. Several years ago, a highly motivated young woman and a committee of her environmentally aware friends convinced their township officials to set up a voluntary recycling center on township property.

The township received the proceeds from sale of the recyclable materials, and benefited somewhat from the reduction of landfill space used. Meanwhile, the committee built a constituency of other voluntary recyclers, who would meet on Saturday mornings when residents dropped off their cans, bottles, and newspapers.

In two years, the township took in about $3,000 and saved perhaps a dozen truckloads' worth of landfill space. But this was accomplished thanks to countless hours of volunteer labor by workers at the recycling center, and by residents who took the time to sort, wash, and bundle their recyclable trash and transport it to the center on Saturday mornings at their own expense.

Eventually, one member of the volunteer recycling committee parlayed his new visibility in the community into election as a township supervisor. Soon, the energetic founder of the voluntary program was appointed by the township to the newly created position of Recycling Coordinator.

As a result of the "success" of the voluntary recycling program, it soon came about that one neighborhood in the township was chosen for a voluntary pilot program for curbside pickup of recyclables, and a year later—perhaps inevitably—the township supervisors, at the urging of the now quasi-official volunteer recycling committee, voted in an ordinance making curbside recycling mandatory for every resident in the township.

How different the new mandatory program is from the cheerful Saturday morning volunteer efforts! Anyone placing recyclable materials in their ordinary trash is now subject to a $300 fine. "Scavengers," who used to drive around the streets in the early morning hours, using their own time and effort to gather recyclables from trash, are subject to a fine of $300 for every property they visit. Recyclables now belong to the township, by law.

A frightening change of spirit surrounds the

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new program. Thus far, it appears the township will collect far less for recyclables than it is paying a contractor for the service of picking them up, and the volume collected has been a negligible fraction of the amount of landfill space still being used. Nevertheless, the township is proclaiming the program a "success," while at the same time searching for scapegoats to blame for why it's not more successful. Residents are asked to turn in the license numbers of suspicious vehicles that might be "scavenging," and, in another perversion of voluntarism, there is talk of establishing "block captains" and using Neighborhood Watch groups to enforce the recycling law. People criticizing the program at public meetings have been subjected to vicious verbal abuse, including suggestions that they leave the country if they don't want to be part of a "civilized society."

The above is only one example of how voluntarism ceased being good when perverted by a collectivist mentality. There are others. In another city, a group of volunteers found a way to build shelters for homeless people at a cost of $40 each. Buoyed by their success, they approached the city with a plan to build more substantial shelters—but now at a cost of $10,000 each, to be paid for by a public grant. It is unexplained why they expect their concept of public housing to be more successful than the scores of failures of public housing in the past—or why a target cost of $40 per unit seemed appropriate while using their own funds, but grew to $10,000 when other people's funds became available.

It has become a cliché for volunteer workers to decry the "Me Generation," but they fail to see that what they offer is something far worse. In the past, when asked who would undertake a volunteer effort, volunteers answered, "Me!" Today, their answer is, "You!"

Somehow, the so-called "Me Generation" seems less self-centered and arrogant—and certainly far less threatening to our freedom. □

Camping: Society in Miniature

by Eugene L. Gotz

My wife and I are inveterate campers. We enjoy the pleasures of traveling, outdoor living, and seeing the country at a relatively low cost.

Campgrounds fall into two major categories—those operated by the state or federal government and those privately owned. Essentially, they offer the same basic services—camping sites, toilet facilities, and water. In addition, some campgrounds offer such services as electricity, laundries, stores, entertainment, and recreational facilities. Each campground, either state or private, offers a unique mix of facilities.

A campground, in a sense, is a miniature society. Campers generally are strangers, have a wide range of ages, and come from different backgrounds. They live within sight and sound of each other. They share basic necessities such as toilets, water, and other camp facilities. Perhaps even more so than in normal living, a fun-

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damental consideration of one's fellowmen is essential if the campground is to function in a satisfactory manner.

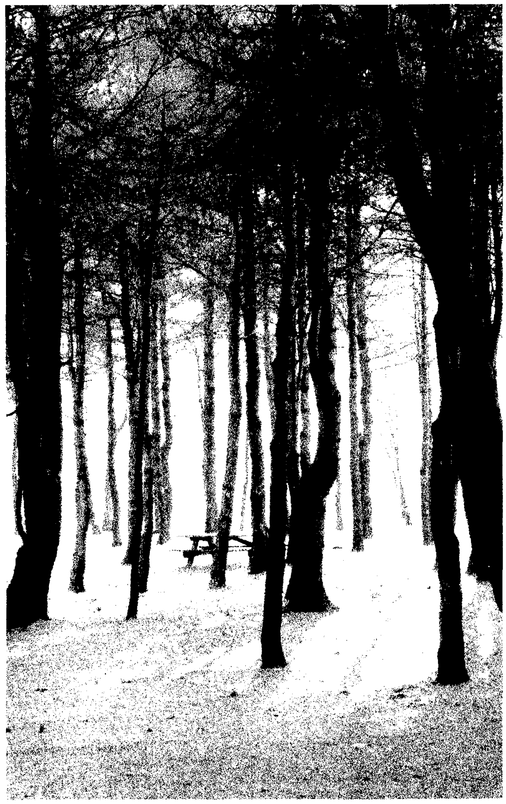
It is in this area that there is a primary difference between state and private campgrounds. In a private campground, reasonable behavior is generally observed. People know that if they present serious behavior problems to their neighbors and to the campground operator, the police will be called. And it is precisely this feature that attracts many people to a private campground—the prospect of enjoying camping without rowdiness, petty theft, and excessive drinking in the area. The private campground operator realizes that to make a profit he must run a tight ship. As in any business, he must satisfy the customer.

State campgrounds, on the other hand, can and often do have local scenes of behavior abhorrent to most people. Some campers, albeit a very few, regard it as their right to behave in any manner they choose. And if you unfortunately are their neighbor, why that's your problem. The staff of most state campgrounds generally make little effort to enforce any type of campground discipline. Complaints usually go unresolved and remain unanswered. The driving force to satisfy customers—the profit motive—is missing.

The maintenance of the physical plant of campgrounds is another area of vast differences. In private campgrounds toilets flush, hot water faucets produce hot water, and showers work. The facilities are reasonably clean and neat. The stores have adequate supplies. Unfortunately, in state campgrounds the same statements cannot be made across the board. Depending on the local area and the staff, the condition of the facilities ranges from excellent to awful.

There is a vast difference in grounds maintenance. Private campgrounds operators properly maintain the grounds and the landscape. Their campers respect the environs and generally refrain from littering and destroying the shrubbery. And, here again, in the state campgrounds the opposite is too often true, reflecting the general lack of camp discipline.

The daily fee for the state campgrounds ranges from $6-$10, for the private campgrounds from $10-$14. The private operator has



all the normal business expenses such as taxes, depreciation, wages, advertising, and so on. And he still must make a profit. The state campgrounds don't have to make a profit and have few of the normal business expenses. If the value received from the private campgrounds is measured against that from state campgrounds, it is surprising the state's fee is so high.

In the interests of fairness and even-handed reporting, I must point out all state campgrounds are not bad, nor are all private campgrounds good. Each campground must be evaluated in its own right. But, over the long haul and years of camping, my wife and I have found that private campgrounds offer by far the more pleasant experience.

The reasons for this are very basic. When an enterprise is not driven by the need to be profitable, it tends to become inefficient and unproductive. If management does not feel the need to compete, few attempts will be made to satisfy consumers. Clearly, the public would gain if the state and federal governments were to turn campground management over to private enterprise. □

Sailing the Competitive Seas

by William B. Conerly

I picked up my beer at the yacht club's bar, then went out on the deck to watch the last few boats come in. It had been a good day's sailing for us: we finished the race in the middle of the fleet, but we had a couple of new stories to tell. When John grabbed the chair next to me, I was all set to talk about the wind shift that had helped us at the end. John, though, had other interests.

"Tell me, Doctor, what are we going to do about these Japanese imports?" John asked.

I sail on the weekends; Monday through Friday I'm an economist for a local company. Even though I love economics, I didn't want to spend the whole cocktail hour talking about it.

"Did you do the race to Drake's Bay three years ago?" I asked. Without waiting for his answer I began my story.

"After we rounded the point and turned north, a light fog set in. It wasn't thick enough to be dangerous, but we couldn't see the other boats."

"I remember that one," John said. "I never did figure out where the wind was that day, but everyone else seemed to find it. I think I was third from last."

I continued: "After about two hours we happend to sail close enough to another boat to see her. It was Fred's boat, which is pretty competitive with ours. We sailed side by side, about a hundred yards apart, and she was pulling away from us."

"You should have been able to keep up with her," John said. "You've beaten her plenty of times."

Dr. Conerly is an economist in Portland, Oregon, where he races his sailboat, Leading Indicator.

"That's what we thought. So we started looking around and decided to ease the Cunningham a bit."

Racing a sailboat isn't as simple as letting the wind catch the sails and push it along. The sails are airfoils, like airplane wings, but with an added complication: being made of fabric, the curvature of the sails isn't fixed in place. We have thirteen separate controls that will change the sail's shape in one way or another. The Cunningham is one of those thirteen.

"It was hard to tell at first, but it seemed we were no longer losing to her. Al was on the helm, and he's always pretty good at steering in puffy conditions. He got on our case about not working the sheets in time with his course changes. We put two good fellows on the sheets—and we started to gain ground. We even got a little ahead of her."

John asked if we had kept our lead. We hadn't. After we got moving a bit faster, the other boat picked up speed. It took them twenty minutes to find the trick, and I don't know what they did; but just as we were feeling confident, they got their boat moving definitely faster than ours.

"Rob started to look up at the mainsail—you know how he's so quiet—and softly said, 'Maybe there's too much mast bend. Can we let off on the backstay a tad bit?' The mast looked fine to me, but on the rare occasions when Rob talks, we all listen. We eased the backstay a little, and then watched the speedometer. We picked up a tenth of a knot in no time, and started to gain on them."

"Sounds like a game of leapfrog," John remarked.

LEADING INDICATOR/WILLIAM CONERLY

"It was. Pretty soon we couldn't find any more gains out of sail trim. But watching Fred's boat helped us spot a tired helmsman right away. I had been steering for 45 minutes when they pulled out on us. I felt fine, or thought I did, but when Murphy took the wheel he brought our speed right back up."

"How did you finish the race?"

"First and second. Turns out we were the only two boats to have been in sight of anyone else for most of the race. We got the second, which is too bad, but that was one of our best finishes the whole summer."

"It sounds to me like you have that other boat to thank for your good finish, even if they did beat you."

"Exactly. The speedometer tells you how fast you are going, but it doesn't tell you how fast you *could* be going, given the wind and waves. You need a competitor to tell you if you have greater potential. It's easy to think that you're doing your best, but usually you aren't.

"Besides," I continued, "we were able to learn a trick from him. When the wind turned light and we were wallowing in the swells, we saw that he had vanged his boom down hard. We weren't used to doing that, but we gave it a try and it helped.

"All the other crews thought they were doing their best, but they couldn't see the other boats because of the fog. I know most of the other crews and they're not lazy. It's just hard to be fast when you're out there by yourself."

John finished his beer and stood up. "Well, Doctor, I've got to run. Thanks for the story. But I really would like to sit down sometime and talk with you about the danger of foreign competition."

"I thought that's what we were talking about," I replied. □

Freedom, Coercion, and Family Size

by David C. Huff

The freedom of a husband and wife to bear as many children as they wish is an implicit aspect of the principles of liberty upon which our nation was founded. America's early citizens and statesmen clearly understood the many social and economic advantages of large families, recognizing in the family structure a rich treasure of ingredients for the sustenance of society which far overshadows any benefits a civil government can provide. As Gary North has observed:

> The family . . . provides a basic division of labor, and this leads to greater productivity. It provides a zone of safety against life's battles with a fallen, recalcitrant environment. . . . It provides men and women with a stake in the future, and in so doing, makes possible habits of thrift that lead to vast capital growth. . . . It provides welfare and education for its members. It reduces the need for a huge state bureaucracy, so it acts as a weapon against the illegitimate expansion of state power.[1]

As might be expected, the concept of the family as the cornerstone of a free society, a principal steward of a society's capital, and a key facet (through steady population increase) of a society's economic vitality has not lacked detractors. Most parents with more than two children would agree that large families are subtly and sometimes noisily discouraged today. The task for advocates of freedom is to inquire beyond the specific bias against large families and discern the root ideology involved. It will prove to be quite familiar.

Mr. Huff, chief financial officer of Fox-Rowden-McBrayer in Atlanta, Georgia, is married and has three children.

Any consideration of the freedoms involved in choosing family size necessarily involves the larger issue of ownership and property rights. Even to question the fact that the ownership and responsibility for children vests exclusively in their parents once would have seemed superfluous. Yet in the current environment of Zero Population Growth, Planned Parenthood, and Global 2000, private ownership of children no longer enjoys unanimous consent: "The 'right' to breed implies ownership of children. This concept is no longer tenable. Society pays an even larger share of the cost of raising and educating children. The idea of ownership is surely affected by the thrust of the saying that 'He who pays the piper calls the tune.' "[2]

Does this tune sound familiar? While one obvious response is the insight that a "society" has no existence or identity apart from the individuals composing it, such a coercive mind-set merely regurgitates a common statist strategy. Any drive for omnipotence by the state or its agents always involves an insatiable appetite to control private property for the "good of society." And understandably so, since the ownership and control of private property is integral to a free society and therefore an inherent enemy of central planning.

Given that the tenets of interventionism idolize the state as a benevolent, all-wise parent to its children, it is not a difficult leap for government to concoct a policy which includes seizure of the "right to breed" and thereby arrogates the ultimate control of family size to the state. Only then can it begin to enact the kind of "necessary" controls (to protect society, of course) envisioned by some: "It can be argued that over-reproduction—that is, the bearing of more than four children—is a worse crime than most and should be outlawed. One thinks of the possibility of raising the minimum age of marriage, of imposing stiff penalties for illegitimate pregnancy, of compulsory sterilization after a fifth birth.''[3]

We see, then, that in order for a bureaucracy to gain its desired position of pseudo-parent and thereby the power to control family size, it must begin by usurping property rights over children.

Malthus and Human Capital

As alluded to earlier, the barbs directed at prolific parents generally are launched from the various elements of the population control movement. Their basic message is that our planet is becoming overpopulated, which in turn will purportedly cause food shortages, destroy the balance of nature, wreck economies, and generally drive civilized society into extinction.

This population control ideology had its origins in the theories of Thomas Malthus, who two centuries ago predicted a population crisis which would shackle the world in the perpetual grip of poverty. The passage of time, however, has not seen the fulfillment of his dismal prophecies—but it has yielded decades of experience which show that healthy population growth is an asset, not a threat:

> The basic axiom of economics—both classical and modern—is that wealth is the product of labor. The mineral resources of the earth are not wealth until human effort has been exerted, either to discover or extract them.
>
> Throughout the ages—until the current era of statistics-worship—population has been regarded as the foremost source of wealth; the prime object of rulers and governments has been to attract and increase the number of their people. Density of population and rising population historically have been the mark of a prosperous, vital civilization.[4]

By their very nature, Malthusian precepts (which have been substantially disproved) are ideologically at war against the principle of human capital expansion through population increase. This seems strange, when the evidence in favor of large families and growth is amply available.

So again, to fully comprehend the real issue, one must uncover the motivation of those who fret over the ''population bomb.'' Is the issue actually *conservation*—of resources, living space, and the balance of nature—or is the issue *control* of the human capital represented?

The Propaganda Explosion

An exhaustive chronicle of the many factors working toward family size limitation by force is beyond the scope of this brief essay. Nevertheless, the fundamental idea which should be retained is the insight that discouragement of large families represents but one narrow symptom of an age-old, chronic illness—interventionism. The dangerous explosion has not been population, but propaganda.

Population control is an uncannily accurate objective for a movement whose prime motivation is, indeed, control. The march of the state toward attainment of the power of life and death over its citizens, if unchecked, will allow no competing sovereignty on the part of individuals or families. Thus, not only the right to bear children, but the very sanctity of human life must be diligently guarded and defended. For as Frederic Wertham notes, ''If someone in authority tells us that we have no right to procreate, it is only one step further for him to tell us we have no right to live.''[5]

History bears telling witness to an observation which captures the essence of the family-limiting philosophy: ''Population control is the last desperate act and ultimate weapon of a Welfare State whose lust for power and instinct for survival knows no political or moral limits.''[6] □

1. Gary North, *Unconditional Surrender: God's Program For Victory*, 2nd Ed. (Tyler, Texas: Geneva Divinity School Press, 1983), pp. 102-3.
2. Garrett Hardin, ''Parenthood: Right or Privilege?'' *Science*, July 31, 1970, p. 427, quoted in James A. Weber, *Grow or Die!* (New Rochelle, New York: Arlington House Publishers, 1977), p. 179.
3. Kingsley Davis, ''Will Family Planning Solve the Population Problem?'' The Victor-Bostrum Fund Report for the International Planned Parenthood Federation, Report No. 10, Fall 1968, p. 116, quoted in Weber, *Grow or Die!* p. 178.
4. Elgin Groseclose, ''Too Many Mouths to Feed?'' *Research Reports*, American Institute for Economic Research, Great Barrington, Mass., December 9, 1968, p. 198; reprinted from *Barron's* November 18, 1968, quoted in Weber, *Grow or Die!* p. 21.
5. Weber, *Grow or Die!* p. 183.
6. *Ibid.*, p. 190.

Racism: Public and Private

by Walter Block

When an individual or a group of persons in the private sector discriminates against a racial or ethnic minority, the results can be debilitating. Psychological harm, feelings of isolation, and a sense of hostility are likely to result.

Fortunately, in the private sector there is a little-recognized phenomenon which helps to protect minorities from great economic harm: the fact that private individuals tend to pay for their discrimination. For example, if a segment of the population is discriminated against in employment, this tends to drive down their wage rates. However, the lower wages they now command act as a magnet, inducing other employers to make them job offers. Employers who discriminate pass up these lower wages. Other things equal, competition will tend to drive the discriminating employers out of business.

This is hardly an ideal situation from the viewpoint of the minority—they would be better off with no discrimination. But at least this aspect of the free market tends to reduce the injury which would otherwise accompany discrimination.

Things are far worse for the minority victimized by government discrimination. For one thing, the incomes of prejudiced bureaucrats and politicians are protected from market forces. Their incomes do not tend to fall, as they do for prejudiced businessmen in the private sector. For another, civil servants do not run the risk of bankruptcy at the hands of non-discriminating competitors—their jobs are guaranteed.

Consider, for example, the "back of the bus" rules which discriminated against blacks in the South. This aspect of Jim Crow was part and parcel of government. The buses were part of the public sector; they were subsidized, and no competition was allowed. As a result, blacks had to suffer discrimination for many years, until the "back of the bus" rules finally were changed through massive demonstrations. Had blacks been told that they could ride only in the back of the bus in a market situation, other bus companies would have been formed, and would have enjoyed an inside track in competing for black customers.

Sometimes discrimination in the public sector is so well camouflaged that few people realize it is taking place. For example, the Hutterites were victimized by discriminatory legislation in the Canadian province of Alberta that did not even mention them by name! These people commonly live in colonies of 100 families or more. But the economics of farming in this part of the prairie are such that each colony needs two or three square-mile sections to support itself. An Alberta law which restricted holdings by size thus made it very difficult for the Hutterites to form colonies.

But well-hidden public discrimination is by no means limited to rural areas. In Vancouver there is a crackdown on illegal suites, and a ban is in the works for second kitchens in areas zoned for single-family occupancy. None of the laws mentions the Sikh community by name; nonetheless, this spate of legislation singles out

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the East Indian community for discriminatory treatment. The reason is not difficult to fathom. Like the Hutterites, Sikhs live in very large groups. According to Gurnam Singh Sanghera of the East Indian Workers Association of Canada, many ethnic communities live with three or four generations under one roof—and with an extended family in each generation of aunts, uncles, cousins, and so on.

Were the private sector discriminating against the Sikhs or Hutterites, these groups could find accommodations, albeit perhaps at slightly higher prices. But when they are victimized in the public sector, their plight is far more serious. They must convince a majority of the electorate—many of whom are hostile to them—of the injustice in discriminatory laws. History tells us this is no easy task.

Given that public-sector discrimination is far more harmful to minorities than private discrimination, those who sympathize with racial and ethnic victims should think twice before entrusting human rights to the state. The market is a far better alternative. □

Affirmative Action: A Counterproductive Policy

by Ernest Pasour

"That teacher was selected for affirmative action reasons." That is how I first heard the term used—implying a lack of ability on the part of a teacher at my high school.

The phrase "affirmative action" was first used in a racial discrimination context in Executive Order No. 10,925 issued by President John F. Kennedy in 1961. This executive order indicated that Federal contractors should take affirmative action to ensure that job applicants and employees are treated "without regard to race, creed, color, or national origin." The civil rights legislation of the 1960s followed in the same vein.

As initially presented, affirmative action referred to various activities to ensure the fairness of hiring and promotion decisions and to spread information about employment opportunities. Emphasis was placed on encouraging previously excluded groups to apply for jobs, admission to colleges, and so on—after which the actual selection was to be made without regard to group membership.

Affirmative action was originally conceived because it was thought that simply stopping discrimination against minorities would not overcome the results of past employment and promotion patterns. Prior to the 1960s, employers frequently hired by word of mouth and, consequently, friends or relatives of current employees were more likely to be hired.

Kennedy's executive order implied equal access and nothing else. The system that has evolved since is a perversion of the original intent of affirmative action.

A shift in emphasis from equality of prospective opportunity toward statistical measures of results was already under way by the time the Civil Rights Act of 1964 was debated in Congress. Quotas and the right of minorities and women to have a "correct" percentage of their population employed have since become rallying cries for civil rights activists. Affirmative

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action as it has been applied is detrimental to the operation of the job market, to white males, and to the groups it is supposed to benefit.

First, affirmative action promotes the hiring of less skilled workers. It sometimes forces employers to choose the best of the minority workers they can find, regardless of whether they have the required job skills. For example, Duke University recently adopted a resolution requiring each department to hire at least one new black for a faculty position by 1993. However, only six blacks received Ph.D.'s in mathematics in 1987 in all of the U.S., casting doubts as to whether it would be possible for each department to find a well-qualified black, much less hire one.

Colleges and universities frequently also have quotas for how many blacks it is necessary to admit to "round out" their freshman classes. An example is the admission practice at Berkeley. Only 40 percent of the entering class in 1988 were selected solely on the basis of academic merit. While whites or Asian-Americans need at least a 3.7 grade point average in high school to be considered for admission, most minority candidates who meet a much lower standard are automatically admitted. Berkeley continues this practice of preferential admissions for minorities even though the graduation rate of minorities is very low. Sixty-six percent of whites or Asian-Americans graduate while only 27 percent of blacks graduate.

An Influence on Curriculum

The practice of affirmative action in employment and admissions policies is now being extended to the selection of writers to be studied at universities. At Stanford, race, gender, and nationality of authors are to be considered in book selection—not merely the quality of their work. Requiring that books be selected on the basis of such criteria is absurd. The selection of books should be based on merit rather than on the race, gender, or national origin of the authors. The effect of affirmative action based on quotas rather than merit is that quality suffers, regardless of whether the issue is employment, college admissions, or book selection.

A closely related point is that affirmative action causes reverse discrimination. Discrimination against white males is just as bad as discrimination against minorities. Some people say that affirmative action is justified as a way of making up for past discrimination. Although discrimination still exists in the U.S., as it does in the rest of the world, most blacks entering the job market today were born after the Civil Rights Act of 1964 and have suffered little or no prejudice in terms of salary.

When this Civil Rights Act was passed, its spirit was not one of reverse discrimination but of getting employers to consider applicants objectively in filling jobs within their companies. Hubert Humphrey, a major sponsor of the Act, swore that he would eat the bill if it were ever used for discrimination of any sort. The past cannot be changed and we should stop compensating people who were never hurt at the expense of people who have done them no harm. The Alan Bakke Supreme Court case held that it is reverse discrimination to accept a minority student at the expense of a white student with better credentials. Unfortunately, this decision has had little influence in subsequent cases of reverse discrimination.

Another problem caused by affirmative action is that it places a stigma on groups which receive preferential treatment, especially on individuals in those groups who earn their positions because of their ability. Consider an employer who hires a member of a minority group for a high position on the basis of merit, not for affirmative action reasons. Other employees, however, are likely to assume that it was an affirmative action hiring, as are many other minority hirings. As a result, such employees can suffer from lack of respect which makes them less useful to the company.

The increase in racial tensions between whites and blacks at U.S. colleges, as described in recent news articles, is also related to preferential admission policies. It is not surprising that racial tensions have grown worse since affirmative action policies were implemented. At colleges in North Carolina, for example, black students recently stated that they were treated like affirmative action cases even if they were not. Professors, seeking to help, asked them if they needed tutoring or other assistance, already assuming that blacks were unqualified.

Affirmative action also appears to have been generally ineffective for blacks in the job market. Economist Thomas Sowell shows that in certain places, including some prominent companies and public utilities, there have been gains. But overall, the economic position of minorities has changed little since "goals and timetables" (quotas) became mandatory in 1971.

As originally conceived, affirmative action may have been a constructive policy, but it has been counterproductive in practice. I hope by the time I am in college that students, teachers, and others will be selected on the basis of ability—not according to quotas based on race or sex. If so, we will have finally achieved true civil rights for everyone.

□

The Quality of People and Products

by Jonathan Athens

Go to any restaurant, hotel, or business place that deals directly with the public, and the person behind the desk in the lobby is usually a clean-cut young man or an attractive, well-dressed woman. This is a common, unwritten practice employed by most businesses as a way of "putting their best" forward. Look at almost any advertisement and you'll find the same kind of people selling anything from toothpaste to cigarettes. It is a means of making a product more attractive to the consumer.

Of course, the consumer has the ultimate choice as to which brand of toothpaste to use or whether to buy cigarettes. When it comes to patronizing a hotel or restaurant the consumer has the same right. However, the right of the business office (or hotel or restaurant) to choose the kind of person they want to promote their product or service is slowly being taken away.

As an advertising consultant for a local newspaper syndicate, I deal with a variety of businesses with the goal of helping them attract customers as well as prospective employees. One day a print shop owner called and asked to place a classified ad for employment. The print shop owner told me he wanted a young lady to work the front desk of his office. She should be adept at dealing with the public and capable of juggling the paperwork that had piled up.

"Can I do that?" he asked, sounding somewhat unsure.

"Certainly," I told him. "It's your business, your money, your advertisement. You can do what you please." The print shop owner called back to place the final copy of the employment ad only to discover that I was wrong. My supervisor explained in detail how and why. It wasn't the newspaper's policy, she said, nor hers. Rather it was the state's policy. To advertise for an attractive young lady or man with a pleasant personality is discrimination on the basis of age, sex, and appearance. Reluctantly, I informed the print shop owner and worked with him to rewrite the ad so that it did not give an indication of anything other than the job title, the pay, the location of the shop, and the hours of business.

The print shop owner began his business years ago without government grants or assistance, and neither did he have contracts with the government. Still, he had to play by the government's rules of hiring and firing. After key-

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ing the advertisement into the computer system, I sat back and thought of how many people were going to apply for the job and how many the owner was going to have to turn down before finding the right applicant. I then thought of the number of people who were going to read the ad not knowing what the employer was specifically looking for, and waste their time and effort along with his money just to be told "no."

The Right to Hire

Two forms of civil rights legislation affect the business owner's right to hire. Equal Opportunity guarantees that a person be considered for a job *without* regard to race, age, or sex. Affirmative Action, on the other hand, commands that a person be hired *with* regard to such criteria.

How contradictory the two anti-discrimination laws are! And the results are pernicious. If someone is hired on any basis other than individual merit, the employer will generally have employees who perform substandard work. Time, money, and energy are spent trying to correct and/or overcome substandard work—time that could be devoted to improving product quality. The bottom line is that a corporation is only as good as its product, and the product is only as good as its makers.

A popular misconception is that a "product" is merely a material item with physical dimensions. But services are products, too. The product a waitress makes is food service. The product a salesman makes is selling. The product a mechanic produces is automotive maintenance. The product a doctor provides is health care. If any of these positions were to be filled strictly by Affirmative Action, what kind of service would the consumer get? The consumer can always go to another restaurant for better food service, another doctor for a second opinion, and another salesman for a different kind of product. But what if the options are limited? What if there are no choices?

The consumer ultimately loses his freedom of choice. It is a freedom no person and no business can afford to be without. □

Achieving Genuine Equality

IDEAS ON LIBERTY

Despite our problems, one of the central facts of American history has been the achievement of a high degree of individual equality for most citizens. Perhaps the nation somehow sensed that human beings achieve their fulfillment in what they become. Certainly we are most fully ourselves as we aspire to further development, and enjoy the freedom to pursue it. It is in connection with our aspiration that we seek equality for each person. Surely race or sex is an inadequate basis for such equality. We do not aspire to be black, white, or yellow, male or female. These categories are facts of existence, but the achievement which we seek in life must lie elsewhere, and it is elsewhere that the definition of true equality must also be located.

What we all want, and what some members of society presently lack, is acceptance as an individual by others. It is that acceptance which constitutes genuine equality. Each of us wants to be a person in his own right. Such acceptance can hardly be produced by governmental compulsion. Compulsion smothers any creative response to a problem.

—George C. Roche III,
The Balancing Act

Two Senses of Human Freedom

by Tibor R. Machan

When we consider whether a capitalist, libertarian society is free, whether it secures human beings their maximum individual freedom or liberty, serious controversies arise. Some agree that, of course, in capitalism, where one's private property rights are respected, we enjoy the greatest freedom. Despite the fact that such a system does not offer the utmost security in life, nor equality of wealth or even of opportunity, many maintain that capitalism certainly does secure for people the maximum freedom.

But there are those, too, who dispute this contention. Not only do they criticize capitalism for failing to ensure for us well-being and equality of opportunity, they also hold that capitalism is, in fact, an enemy of individual freedom. Marx made this point in the 19th century, and in our time many have followed his lead. For example, in his posthumously published work, *Grundrisse,* Marx notes that "This kind of [capitalist] individual liberty is . . . at the same time the most complete suppression of all individual liberty and total subjugation of individuality to social conditions which take the form of material forces—and even of all-powerful objects that are independent of the individuals creating them."[1]

Professor Larry Preston, following in Marx's footsteps, has advanced a similar claim, namely, that "a capitalist market, understood as a system in which production and distribution are based on the pursuit of private interest through the acquisition and transfer of privately owned property, generally denies freedom to most participants."[2] Preston defends this position by first advancing the following characterization of freedom: "Free decisions and actions are identified as those in which an agent's conscious deliberation has played an essential role."[3] He clarifies this by adding that "The prerequisite of deliberate choice can only be determined with reference to specific activities associated with particular roles."[4] Furthermore, "A choice is voluntary (freely made) if the persons who agree to it possess, before they decide, the relevant capacities and conditions for deliberation regarding the proposed transaction."[5]

In contrast, within the Anglo-American political tradition, freedom has been characterized quite differently. According to F. A. Hayek:

> It meant always the possibility of a person's acting according to his own decisions and plans, in contrast to the position of one who was irrevocably subject to the will of another, who by arbitrary decision could coerce him to act or not to act in specific ways. The time-honored phrase by which this freedom has often been described is therefore "independence of the arbitrary will of another." . . . In this sense "freedom" refers solely to a relation of men to other men, and the only infringement on it is coercion by men.[6]

For Marxists the emphasis has always been on possessing the requisite abilities—including resources and information—to act in any way one might wish to act after necessary delibera-

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tion. In Hayek and the classical liberal tradition, however, the emphasis is placed on a choice being that of the agent, that it be "his own" decision. Furthermore, unlike Preston, Hayek does not insist that deliberation has an "essential role" in free choice.

The difference between the two conceptions of freedom seems to be that whereas Preston does not stress personal autonomy and self-determination, Hayek does; and while Hayek seems to accept decisions of any sort (whimsical, intentional, negligent, or deliberate), Preston allows only deliberative or self-consciously calculated decisions to be free choices.

What Is "Real" Freedom?

Preston holds that "real" freedom is not the libertarian, capitalist sort. What his theory, following a very respected tradition, proposes is that one can be really free only if one is on the right path. Consider again Marx on freedom: "[F]reedom . . . can only consist in socialized man, the associated producers, rationally regulating their interchange with Nature, bringing it under their common control, instead of being ruled by it as by the blind forces of Nature; and achieving this with the least expenditure of energy and under conditions most favorable to, and worthy of, their human nature."[7]

Marx was invoking the idea of freedom which ordinary people invoke when they say they wish to be "free" of worry, trouble, hardship, psychological blocks, bad memories, disease, or whatnot. From the time of Plato this sense of "human freedom" has been a powerful contender. It refers to our capability of attaining full human flourishing, unhindered by such obstacles as ignorance, illness, or sin. In our day many think of this sense of freedom when they refer to Marxist-Leninist type liberation. Unlike the more libertarian sense of this term—within the American political tradition—liberation here means guiding one toward emancipation. Compare the liberation of France to the liberation of Poland! And consider the character of Marxist-Leninist liberation movements, which all reject libertarian freedom.

Now Preston's idea of freedom does not state explicitly that his understanding of "free to choose" implies that only those are free to choose who in fact choose properly. But this is the result of his characterization, nevertheless. This is because the "relevant capacities and conditions for deliberations" would in the final analysis include the individual's ability to select wisely from among the alternatives. It would also include the absence of any impediments to such wise decisions, including ignorance and poverty, whether imposed by other persons, or by nature, or by the social system in force. No doubt, if a social system protects property rights, this also means that those who have no wealth or health, or squander them, will face the obstacle of poverty or ill health in their effort at successful living.

That there may not be any system that could "remedy" this situation is, of course, one of the major problems of characterizing freedom along these lines. But by speaking as if such life circumstances were limitations of liberty, Marx (or Preston) suggests that there may be social systems that do not place any restrictions before persons who might at some stage of their lives aspire to success. Marx hints at this when he points to "the absurdity of considering free competition as being the final development of human liberty."[8] Presumably there is a final development.

Another problem with the Marxian idea Preston advances is that a deliberation is a rare process. Most people proceed through their days without deliberation, yet acting *intentionally*—that is, fleetingly thinking of their objectives and almost automatically using the means to attain them, as when they switch on a light as they enter a room. The intentional character of such actions may be gleaned from the fact that if some mishap is associated with them, persons who took the actions are held responsible for what they did. These, then, are treated as perfectly free actions when they are not forced on the doers by others. For Preston, however, they would be unfree actions since they did not involve deliberation—the self-conscious, self-monitored mental process characteristic of intellectual activities (such as theorizing about freedom).

It is also important that in Preston's and Marx's characterization of freedom, there is no consideration of the place of free will. If persons are metaphysically free—possess free will or the power of self-determination—they might not elect to inform themselves about the facts that may make a choice a wise one. They may then be regarded as unfree in the Marxist sense. Nevertheless, in the liberal sense of the term "freedom," they are free, since they might have placed themselves in a position of being better informed—even though they did not do this—which would mean they are essentially free.

Women's Liberation

The different meanings of "human freedom" can be more fully appreciated in connection with the women's liberation movement, in which two meanings of "liberty" are prominent, though not always noted. First, women's liberation sometimes means the *absence of restraints imposed by other people* who would keep women under a yoke or treat them as if they were not of age but in constant need of guidance (from males or the state). Second, women's liberation sometimes means being guided to a higher state of consciousness and human emancipation.

Another way—hinted at before—to distinguish the two ideas of liberty is to recall the contrasting meaning of "liberation" for the Soviet Union and the United States vis-à-vis the countries of Europe they helped liberate in World War II. The Soviet Union "liberated" by helping to defeat the Germans and then fully occupying the eastern European countries, while the United States helped cast off the German forces (e.g., in France) and then left, which freed these countries to develop themselves.

Which sense of the term "freedom" is then primary? On the one hand, if we are focusing on progress toward human flourishing, human freedom may well mean what has been meant in the tradition from Plato, through Rousseau, Hegel, Marx, T. H. Green, and many contemporary intellectuals. These thinkers would all join Marx in the view that the liberal/libertarian conception of human freedom is limited and incomplete. To pretend to be concerned with human freedom when one is really only interested in freedom from the aggressive intrusion of other people—as so well expressed in the Colonial slogan: "Don't tread on me!"—is, according to this line of thinking, to distort an important value in human existence. (Even some neoclassical economists prefer to mean by freedom the maximizing of our options, creating a broad range of possibilities. Our freedom, they say, is enhanced with an increase of our wealth.)[9]

There is something to this, of course. It is arguable that full human freedom—being unimpeded by various obstacles in life in reaching one's proper goal of self-development—should mean what members of this tradition have meant. Yet, on the other hand, the view that human freedom or liberty, in the aforementioned sense, is a *political* concern, lack of which ought to be dealt with through law and politics, is highly disputable. This view simply fails to credit individuals with self-initiated effort. It demeans them, treats them as helpless and always in need of guidance from above. It is paternalistic and ultimately self-defeating if we extend it to everyone, including those who advocate totalitarian measures to liberate us.

The ultimate reason behind this drastic and devastating error is that the conception of freedom embraced by the tradition following Plato, and today mostly promoted by Marxists, presupposes a conception of human nature which is contrary to fact. Marx did not credit human individuals with a basic kind of freedom, namely, freedom of the will or the power of self-determination.

Neither do Preston and other Marxists (e.g., Andrew McLaughlin, Charles Taylor, G. A. Cohen). Preston notes that "Capitalist exchanges have become coercive because participants can recognize an alternative situation which would provide them with substantially greater freedom, a situation that the capitalist market prevents them from having."[10] In other words, people are not acting freely under capitalism because by virtue of the structure of the system—i.e., its framework of private property rights—they are forgoing options that they might enjoy and that it would be beneficial for them to enjoy.

This treats people as helpless, inept creatures, who are unable on their own initiative to come to terms with lacking some of what they might want and benefit from in life. And while such a conclusion is warranted in societies where people face persecution, oppression, and liquidation from the state if they try to remedy their circumstances by individual initiative (including forming economic alliances), for a society in which no such political limits to liberty are sanctioned, the judgment comes to little more than either stressing the exceptions or demeaning human ability.

The "freedom" Preston thinks people might enjoy involves what people could benefit from in their relationship to others, namely, greater access to information, better conditions for deliberation, etc. For example, they might be better educated, they might possess more wealth, etc. This is, of course, not political freedom but a better standard of living. To obscure the difference is dangerous.

Making the Most of Our Lives

When Marxists say that we lack freedom or liberty under capitalism, they don't make clear that what they have in mind is something we probably would lack far more under any other system—the ability and opportunity to make the most of our lives. And that is perhaps because if put this way, it becomes clear that at least under capitalism everyone has his or her political liberty—freedom from other people's forcible intrusion into one's life—and in the main this provides most with a good chance of attaining a high standard of living. While capitalism is not preoccupied with the equal distribution of wealth—or, rather, poverty—it is a system under which those who make a good try have the chance of reaching considerable economic success. (Nor does capitalism assume that everyone would, or even should, want this!)

The Marxist position sees persons as we do trees or flowers that grow not from their own determination but are spurred on by the natural environment. And if there are deficiencies in this environment, there will be impediments standing in the way of growth.

As Preston puts it, "We now realize that the exchanges of capitalism generally do not represent agreements in which both (or all) participants are better off if 'better off' is viewed as gaining access to the resources needed to exercise freedom."[11] Once Preston has defined "free choice" as, in effect, "the best possible choice one could make," it is no wonder that he views capitalist exchanges as not being "free." It may not be immediately obvious that Preston and this entire tradition hold this conception of "freedom," but it becomes so, once it is clear that here the objective is to ensure human perfection, the full emancipation of human beings—not merely their freedom to do what they choose to do, regardless of the outcome. Preston, like others in this tradition, in effect identifies human freedom with human success. Without that identification, human freedom or liberty simply have no value to him.

The liberal tradition, however, sees human freedom (from aggression by others) as valuable in itself, because it is a constituent part of human goodness—without the freedom to choose one's conduct, one is not the agent of whatever good behavior one might engage in. This is not always clearly put in the liberal tradition, but it is there, nevertheless.

In the liberal tradition, government aims at protecting the individual's role as the agent of his own conduct. That is why it stresses individual liberty and rights. Once persons enjoy this protection, they will then do what they choose, well or badly. Society is not perfect, but it is politically best if it secures for everyone a sphere of jurisdiction or personal sovereignty. The rest is in the hands of individuals.

In contrast, for the Preston/Marx position the primary task of good government—of those who understand and have the power to upgrade the species—is to free human beings from impediments to growth. This is clearly not accomplished simply by protecting people against the aggressive intrusion of other human beings. No, they need total "liberation"—the prevention of all intrusions such as poverty, disease, ignorance, illness, and even sin. Thus Preston holds that "Physical force need not always be either morally objectionable or a denial of freedom. Efforts physically to restrain drug addicts from gaining access to drugs may be done for moral reasons and in the interest of freedom—to enhance the addicts' ability to make deliberate choices."[12]

This is a convenient example for Preston, because even in contemporary near-capitalist societies people are not granted the right to consume the drugs they choose. But for Preston, the scope within which lack of free choice is appropriate is far greater. It is only a short distance to the view that forcing people not to advocate anti-revolutionary policies or the wrong religion, or censoring the viewing of trashy movies and the reading of bad literature, is morally justified because it enhances the ability of people to live properly.

Many people who advocate Marxism but find the Soviet Union politically reprehensible insist that the Soviets have distorted Marx and that a proper understanding of Marxism will avoid the kind of policies that have characterized the U.S.S.R. throughout its brief history. Some of those who hold such views are, nevertheless, wholly disenchanted with capitalism, whether its ideal version or the watered-down type evident in some Western societies. Indeed, some of these people hold out hope for societies whose leaders proclaim themselves to be Marxists—e.g., Cuba, Nicaragua—even when these societies are directly allied with the Soviet Union.

The confusion arises from failing to distinguish between what Marx might have liked, and what his views usher in, especially when his vision of the future is not coming about automatically, as a matter of historical necessity. Maybe Marx would have hated Stalin or even Gorbachev, no one knows. But that the policies of these Soviet leaders most closely follow Marx's views, given that those views are basically wrong, cannot reasonably be denied.

Marx may have thought that capitalist societies will turn socialist without much need for violence. But since this hasn't happened, socialists have resorted to coercion to force socialism upon various countries in the name of Marx. And there are plenty of concepts in the Marxist edifice that give philosophical fuel to the idea of forced socialization. One of these is the conception of freedom that Marx and his followers embrace. Their idea of liberty may have some grounding in ordinary language. But in one sense that idea is most destructive toward the freedom of one individual from the intrusions upon his life by another. This is the sense in which it encourages the idea that people must be made to be "free," whether they choose this or not. □

1. Karl Marx, *Grundrisse* (abridged), ed., D. McLellan (New York: Harper Torchbooks, 1971), p. 131.
2. Larry M. Preston, "Freedom, Markets, and Voluntary Exchange," *The American Political Science Review*, Vol. 78 (December 1984), p. 961. A somewhat oblique answer to Preston's analysis may be found in Paul Craig Roberts and Matthew A. Stephenson, *Marx's Theory of Exchange, Alienation and Crisis* (Stanford, Calif.: Hoover Institution Press, 1973). Roberts and Stephenson show that substituting rational planning for the exchange system introduces tyranny. The choice, then, may be between market exchange, which can involve some "exploitation," meaning the opportunity of some to take advantage of the circumstances of others, and totalitarian rule, which guarantees that exploitation will occur, as a permanent and unalterable feature of the system.
3. *Ibid.*
4. *Ibid.*, p. 964.
5. *Ibid.*
6. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 12. An interesting group of discussions on the concept of liberty may be found in John A. Howard, ed., *On Freedom* (Greenwich, Conn.: Devin-Adair, 1984). The most recent "classic" on this topic is I. Berlin, *Two Concepts of Liberty* (London: Oxford University Press, 1958).
7. Karl Marx, *Selected Writings*, D. McLellan, ed. (Oxford: Oxford University Press, 1977), p. 496.
8. Marx, *Grundrisse*, p. 131.
9. See George Stigler, "Wealth and Possibly Liberty," *Journal of Legal Studies*, Vol. 7 (June 1978), pp. 213-17. Cf. E. C. Pasour, Jr., "Liberty, and Possibly Wealth," *Reason Papers*, No. 6 (Spring 1980), pp. 53-62.
10. Preston, p. 965.
11. *Ibid.*
12. *Ibid.*

Freedom as a Moral Principle

IDEAS ON LIBERTY

The most important among the few principles of this kind that we have developed is individual freedom, which it is most appropriate to regard as a moral principle of political action. Like all moral principles, it demands that it be accepted as a value in itself, as a principle that must be respected without our asking whether the consequences in the particular instance will be beneficial. We shall not achieve the results we want if we do not accept it as a creed or presumption so strong that no considerations of expediency can be allowed to limit it.

—F. A. HAYEK

Readers' Forum

To the Editors:

In your September 1988 issue, you carried a piece entitled "What Should We Do About Luck?" Without wishing to plunge into the intricate philosophical issues raised by the question of whether having "character" is a matter of luck, I do wish to make one important observation. If being competent, self-assured, and therefore successful is a matter of luck, this is all the more reason not to penalize success. If we are, basically, subject to determinism, then it is surely essential to structure penalties and rewards in such a way as to manipulate people into having successful, rewarding lives. The more scope there is for character to be self-grounded, the more we might expect people to strive and succeed without tangible rewards, although we might still want to say that character is admirable and should be rewarded. But if character and aptitude are determined mechanically by the outside world, let us by all means create an outside world in which as many people as possible are determined into having character and aptitude. Either way, reward success, not failure.

—John S. P. Robson
Austin, Texas

To the Editors:

As a Jew and a libertarian, I read with interest Milton Friedman's essay, "Capitalism and the Jews" (*The Freeman,* October 1988). Dr. Friedman admitted to having no answer for the question of why intellectuals, and Jews in particular, tend to dislike capitalism. I think I have one.

Judaism stresses education, and college degrees are common among Jews. But before we conclude that Jews' anti-capitalist beliefs were instilled by their professors, we must analyze this argument. It assumes that the professors in question, in their turn, were radicalized by *their* professors, and so on. So where did the original radical professors come from? While there is ample truth in the assertion that professors tend to radicalize students, we must reject it as another chicken-vs.-egg argument.

I find it far more accurate to say that intellectuals tend to feel guilty about not being poor or not feeling as though they belong to the working class, as it were. And if one did feel such guilt, would one support a system that allows citizens to work for their own benefit (capitalism), or would one support a system that demands that citizens do penance by working for the benefit of others (socialism)? Leftist and egalitarian beliefs, not surprisingly, have always figured prominently in the lives of those who have the most guilt to relieve, and this puts intellectuals in the same category with film stars, poets, and writers even though the intellectuals may not be wealthy. One's surname need not be Rockefeller or Fonda to regret not being poor; all one need do is not be poor. Educated people, in many cases, have the same sort of vulnerability, since their education relieves them of the necessity of performing manual labor. Since most Jews fall into this category, they can be expected to favor guilt-relieving (egalitarian) politics to any other kind.

For those who are working to win over bright minds to our side, I therefore recommend, along with the usual reliance on facts and logic, an equal emphasis on promoting pride and self-respect—or anything else that might successfully combat guilt.

—Allan Levite
Dallas, Texas

(Readers are invited to share their opinions on ideas appearing in The Freeman.)

Private Property and the Environment: Two Views

by Jane S. Shaw and John Hospers

Editors' Note:

In the May 1988 issue of The Freeman *we published John Hospers' review of* Property Rights and Eminent Domain *by Ellen Frankel Paul. In the following essays, Jane S. Shaw and John Hospers exchange views on some issues raised in that review.*

Jane S. Shaw:

People concerned about freedom recognize the importance of property rights as the foundation for a system of cooperation and mutual exchange. Often, however, they abandon their convictions about the value of property rights when they address environmental issues. Yet a more thorough understanding of property rights would lead them to recognize that private rights offer the best hope for protecting many components of the natural environment.

Many writers have expressed concern about environmental devastation such as the loss of wild animals in Africa and the destruction of tropical forests in Latin America. In the May 1988 issue of *The Freeman,* for example, John Hospers shared his alarm about these losses and suggested that private property rights are part of the problem: "And here the property rights in land conflict sharply with the need for retaining the natural links in the food-chain. . . ."

It's right to be concerned about environmental harm, but we need to understand that solutions will occur when private property rights are strengthened rather than weakened.

Wanton destruction of animals occurs primarily because no one owns wildlife. Contrast wildlife with cattle: No one worries about the destruction of livestock and the reason is simple—cattle are owned and the owner has a direct interest in protecting them.

It is lack of ownership, or common ownership, that leads to destruction. Aristotle observed this more than 2,000 years ago. He noted that "what is common to many is taken least care of, for all men have greater regard for what is their own than for what they possess in common with others."

As James Gwartney and Richard Stroup wrote in *The Freeman* in February 1988, the devastation of the American buffalo on the Great Plains came about because no one owned the buffalo. Without ownership, it was to the advantage of Indians, and later white men, to kill whatever buffalo they could. Without ownership, no individual could benefit by saving more buffalo—someone else could easily go after any buffalo an individual refrained from killing. Had the buffalo been owned, it would have been in the interest of the owner to assure that enough buffalo remained to reproduce for the future. While ownership of the buffalo was not practical then, Gwartney and Stroup point out

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that other Indians successfully turned to a system of private rights to protect other animals such as beaver, which did not have the nomadic characteristics of Plains buffalo.

Of course, common ownership does not always pose an environmental problem. At earlier periods of human history, when human beings were scarce, grazing land could be held in common. However, even with extremely low levels of population, people could barely subsist on it! Similarly, as long as Indians didn't have horses or weapons such as guns, they couldn't threaten the buffalo. But the Indian standard of living was extremely low and their population sparse. Once people got beyond a primitive standard of living, common property became a serious problem, one that private ownership corrected.

Private property assures accountability. A person who owns property will reap the rewards of good stewardship and bear the consequences of poor stewardship. The owner who lets his land erode pays the price because the value of that land sinks as soon as the erosion becomes visible. The owner who protects the land enhances or sustains its value. In general, private property makes good stewardship pay.

When property rights are insecure or incomplete, so that someone else bears the costs or reaps the rewards, accountability is missing. That is the case with the Amazon rain-forest.

In Brazil, government policies are encouraging deforestation of the rain-forest through subsidies and tax credits. The biggest effect is that owners of land are reaping the rewards of ownership without paying the costs, and thus are encouraged to act irresponsibly. A study by The World Resources Institute (by no means a group committed to private property) concludes that cattle ranching and settlements by small farmers are the major factors behind deforestation. Both of those activities are heavily subsidized by the government. Author Robert Repetto says that the subsidies encourage the livestock industry to cut down trees to promote pastureland and encourage settlers to turn forests into farmland. (In addition, the government subsidizes the forest products industry.) "By supplying virtually free money, the federal government invited investors to acquire and clear large tracts of forested lands," says Repetto.

Under a system of true private ownership, where owners were required to pay the full cost of their activities, the Amazon forest would be far more likely to be preserved. Yes, tree-cutting would occur, but not on today's scale. With so much forested land, some conversion of trees to pasture does not pose an environmental problem; some land undoubtedly will be more productive as pasture. However, where cutting is excessively costly, owners would refrain from cutting trees. In the U.S., recent economic research has shown that contrary to received wisdom, cutting down forests in the Midwest during the 19th century was not wasteful. The trees were simply quite valuable when cut; to keep them standing longer would have been costly to society.

Furthermore, in a system of private property, individuals who believe that the forests will be valuable in the future have a strong incentive to protect them. Some might be speculators who believe that the value of endangered species in the future will outweigh the current cost of preserving the land from cultivation. Under the present scheme in Brazil, the cost of preservation is high because taxpayers are subsidizing so many of the costs of devastation.

Others who would preserve the rain-forest in a private property system are likely to be private groups and individuals concerned about ecological balance. In fact, today, non-profit organizations such as the World Wildlife Fund and The Nature Conservancy are taking steps to save tropical forestlands in Latin America. (Since they have to work with governments, however, they face a number of difficulties they probably wouldn't face if the land were privately controlled.)

In conclusion, what causes environmental destruction is the *lack* of private property rights, when resources are owned in common or by the government. Strengthening private property rights will improve the chances for wildlife and forests. □

John Hospers replies:

Jane Shaw seems to assume that my quarrel is with private property. But it is not: the deforestation of the Amazon basin would be an ecological tragedy regardless of by whom or under what auspices it is done, whether by private owners, communal owners, or government owners. If Brazil had a Homestead Act similar to that of the U.S.A. in the nineteenth century, and the new owners destroyed the forests, the result would be the same as it now is under a government program of resettlement. It is *what* is done that portends disaster, not *by whom* it is done.

But, one may say, ecological damage is *far less likely* to occur if property is in private hands. Probably so: government programs are usually wasteful and counterproductive, and take little thought for the environment, a matter which is not usually very high on politicians' list of priorities. Still, this issue is something of a "mixed bag." Sometimes it happens the other way round: in a safari through the Okavanga basin in Botswana I found (and all safari guides confirmed this) that lions, leopards, giraffes, zebras, and antelopes continued to exist at all *only* in those large areas designated by the Botswana government as national parks. In the areas owned by the native tribes themselves, there was not a single bit of game to be found—all the animals had long since been slaughtered by the natives. The same is true in India and elsewhere, where hungry people do what they can to eat today, with not much thought for tomorrow.

Under private ownership, Botswanans are now growing cattle, ecological intruders which (because of their form of grazing, the protection they need against the tsetse fly—to which all the native animals are immune—and the construction of fences, making it impossible for the wild game to reach the rivers) after a time destroy the habitat of the native animals. The native animals can no longer roam free to find food and water. Private ownership has sealed the doom of most African wildlife.

You can, indeed, preserve *some* species of plant or animal by owning a tract of land and growing the plant or animal on it. But this won't do in the case of migratory animals whose primary need is to roam, and who would be shot down the moment they crossed the boundaries into someone else's land. And it would hardly apply at all to birds, which fly over people's lands. You can raise condors on your ranch, but unless there are strictly enforced conservation laws the birds will be shot down by the owners of other land who have no soft spot in their hearts for condors.

"Individuals who believe that the forests will be valuable in the future have a strong incentive to protect them," writes Ms. Shaw. (1) Yes, and *not* to protect them if for one reason or another they do *not* believe this. (2) Or they may believe it but not act on it—perhaps they want quick profits now; there are, surely, people who care less about their children and grandchildren than they care about themselves. (3) Or, like the Botswanan cattle-growers, they may not have the luxury of thinking all that much about tomorrow, because they desperately need the game today, just to survive at all.

The point I was making in the essay was that vast ecological damage has been and is being done through the misuse of land in one part of the world, which affects soil and weather patterns in other parts of the world—that the fate of these parts is *interdependent*. (See my paper, "Ecology and Freedom," in the September 1988 issue of *Liberty*.)

Thus, the main problem is *not* whether you make wise use of your own land for the sake of your own future and that of your children; the ecological problem I was trying to dramatize occurs when the use of *your* land may have catastrophic effects on the use by others of *their* lands, which may be many thousands of miles away. How does one provide a motivation for taking care of your own land, not in order to preserve your land but to preserve that of others? □

A REVIEWER'S NOTEBOOK

Basic Economics

by John Chamberlain

If there is a puzzle to Clarence Carson's *Basic Economics* (American Textbook Committee, P.O. Box 8, Wadley, Alabama 36276, 390 pp., $12.00 paperback), it is that the author skips about when visualizing his audience. Much of the book is addressed to students who have barely learned in high school or freshman year in college to parrot phrases about supply and demand. But nothing remains simple for long in Carson's expositions. The book abounds in scores in qualifying distinctions.

First, as an Austrian economist who believes that individual choices are unpredictable, Carson rejects the idea that mathematical certainty in economics is possible. Statistics tell you what happened yesterday. "All attempts to reduce the complexity of what occurs in the market and the diversity of human motives in acting in the market to some one explanation or to mathematical precision must ultimately fail . . . ," says Carson. Still, Carson believes there are economic principles. Men have natures, and natures may be studied with an eye to determining likely uniformities.

One of the uniformities of behavior is that men try to establish their own monopolies. "The most basic of all monopolies," says Carson, "is the exclusive right of free men to dispose of their services. Indeed, it is the specific difference between freedom and slavery. It is a natural right, hence a natural monopoly, in that the individual is the only one who can direct the constructive use of his services." Land, of course, is a monopoly of its owner. So are shares in corporations, copyrights, patents, automobiles, and currencies.

But, having established these points, Carson finds himself in semantic trouble. Most of our historic debate about monopoly has not been cast in these terms. Carson has already said that one of the definitions of monopoly is the grant by government of an exclusive privilege to carry on the traffic in some good or service. Force enters the picture here. If an individual should attempt to deliver a first-class letter, he might find himself under arrest. When government, with its monopoly of legal force, intrudes into the market, "it tends to bring habits formed in another arena with it."

The Sherman Antitrust Act quickly became unenforceable because no one could be sure of what it meant. The Clayton Act, which supposedly exempted labor organizations from the provisions of the antitrust laws, declared that labor is not a commodity. But labor is nonetheless bought and sold in the marketplace. Congress, in its attempt to help the unions, was, so Carson writes, "caught once again in the illogic of trying to prevent what does not so clearly exist, i.e., private monopolies, and doing it by hampering competition." The National Labor Relations Board, as the constituted clarifier, was supposed to bring order out of chaos by insisting on bargaining in good faith. Alas, the phrase "good faith" eludes easy quantification.

Land, labor, and capital are correctly accepted by Carson as the basic factors of production. They are all scarce to varying extents. It is when one turns them into "isms" that semantic troubles begin. Landism was particularly important in the Middle Ages, when feudal overlords kept their serfs from moving about. But towns persisted, often on old Roman and Greek sites, so there were avenues of escape from serfdom. The Black Death gave laborism its big opening. But labor needed tools. Its guilds tried to monopolize tools. But fluidity had come to stay in Western economic systems. The capitalist, in his first guise as a mercantilist, had arrived with the eighteenth century.

Karl Marx is described by Carson as a "cosmic thief." He advocated stealing both the land and all important tools from their owners, his justification being that all property is theft anyway. But the cosmic thief was deficient as a cosmic thinker, as were Lenin, Trotsky, and Stalin after him. The Russian peasants thought they were going back to a peasant-owned landism. Bolshevik Party members, with their union adherents, thought the new day would be one of laborism. They were all fooled. What happened was that capitalism, in the form of state capitalism, took over in the developed or developing parts of the world.

It is at this point that Carson falls back on his remarkable descriptive powers. The last part of his book goes into detail to explain the various formulations of mercantilism (in which the new nation-states vied with each other to corner gold and silver) and the big breakout in Adam Smith's Britain when mercantilism gave way to free trade. With the lowering of tariffs and the repeal of the Corn Laws, Britain became, for the nineteenth century, the workshop of the world. Carson goes to T. S. Ashton, among other historians, for his knowledge of the "workshop" period. The tremendous growth of population in Britain during the Industrial Revolution is explained by the "substitution of wheat for inferior cereals . . . the use of brick instead of timber in the walls. . . ." There was more soap and cheap cotton underwear. The "larger towns were paved, drained and supplied with running water. . . ." Many more people were surviving birth and childhood diseases.

From England Carson moves on to America, where the British experience was repeated at a much faster tempo. Carson includes a look at Sweden, where capitalism fuels the welfare state, which "keeps the cow fat in order to increase the amount of milk it can get from it." A general description of welfarism throughout the West, and a scathing chapter on Communism as a centrally planned economy, conclude a book whose biggest audience may want to tackle it at the end before going to its beginning. □

IN PURSUIT OF HAPPINESS AND GOOD GOVERNMENT

by Charles Murray

Simon and Schuster, 1230 Avenue of the Americas, New York, NY 10020 • 1988 • 301 pages • $17.95 cloth

Reviewed by Joan Kennedy Taylor

The 1988 national election campaign offered a contest over whether Republicans or Democrats could create more and better social programs to help the family, educate and care for children, and above all, alleviate poverty. "Poverty," writes Charles Murray, "has in recent years been to policy analysts what damnation is to a Baptist preacher. . . . It is the generic stand-in for the social problems of our age. Solve the riddle of poverty, we have often seemed to hope, and the rest of our problems will solve themselves."

Murray's first successful book, *Losing Ground,* argued persuasively the now widely accepted thesis that poverty programs are part of the problem rather than the solution. Now, in this new book, he suggests that, in an even wider sense (no matter what the politicians say) the failure of social policy is not a failure of compassion or human feeling—it is a failure to connect cause and effect; a failure to have realizable goals and standards; a failure to see that *all* policies have unintended outcomes, but that those unintended outcomes can be positive rather than negative, if they are policies that restrain government and maximize individual choice.

Adam Smith, Bastiat, Mises, Hayek, and Milton Friedman have explained unintended outcomes in economics. Now, Charles Murray details for us how both the invisible hand and the invisible foot work in that vast spider web of regulation, redistribution, and indoctrination that we call "social policy" today—coming to many of the same conclusions as these freedom philosophers, although his argument doesn't build on theirs.

"First, I will associate myself with a particular set of views," he says bluntly. "Reduced to their essentials, these views are that man acting in his private capacity—*if restrained from the use of force*—is resourceful and benign, fulfilling his proper destiny; while man acting as a public and political creature is resourceful and dangerous, inherently destructive of the rights and freedoms of his fellowmen. I will explain these views using the language and logic of the American Founding Fathers. Next, I will suggest that if one accepts that set of views of man, the way we assess social policy is pushed in certain directions."

He starts this book by asking, "What constitutes success in social policy?" and goes on: "For most of America's history, this was not a question that needed asking because there was no such thing as a 'social policy' to succeed or fail. . . . As late as the 1930s, there was still no federal 'policy' worthy of the label affecting the family, for example, or education, or religion, or voluntary associations."

Murray finds complex answers to his question by going back to the beginning, to the Declaration of Independence, and re-examining that little-understood phrase, "the pursuit of happiness." He starts by asking, "What is happiness?"

There is a long philosophical tradition, or rather, there are two long philosophical traditions that assumed the question could be answered definitively and attempted to do so. The first stemmed from Aristotle, focused on the nature of the good life, and attempted to define and rank all aspects of happiness. The second, which arose in the eighteenth century, stressed individual psychological satisfaction, but both traditions agreed substantially on how men should *pursue* happiness—develop those talents you have, do your job well, raise a family, contribute to the community—even though they disagreed profoundly on such issues as whether or not an outsider could rank "happiness" for others.

"It was not until the twentieth century," says Murray, "that social science dispensed with the intellectual content of both traditions and began to define happiness by the response to questionnaire items." Despite this refreshing irreverence, he proceeds to examine more modern approaches to the question also, and summarizes a wealth of argument, experiment, and data collected by contemporary social scientists, to show that there is hard evidence out there that there are objective criteria for the pursuit of happiness.

Government, he says, can provide the "enabling conditions" for this pursuit, a framework that has little or nothing to do with the distribution of material resources other than to protect a functioning market economy. The wrongheaded focus on poverty has obscured the importance of such things as safety from criminals, dignity and self-respect (Murray presents persuasive evidence that self-respect cannot be faked, but results from the successful response to challenge), and finally, the possibility of self-actualization.

Happiness, of course, pertains to individuals—groups, whether united by class, race, creed, or special interest cannot properly be said to be happy. So taking the pursuit of happiness seriously as a standard exposes as meaningless all the aggregate statistics that social policy analysis relies on, statistics showing that a particular policy creates so many jobs, or saves so many lives, or raises so many income levels. Murray hopes to turn the whole field of social policy analysis on its head, by persuading analysts that they should ask instead, what effect will this social policy have on the happiness (properly understood) of the individuals affected by it?

By this standard, our social policies are found sadly wanting. The training program that produces such hopeful aggregate statistics is found overwhelmingly more likely to teach any individual in it that he cannot succeed—only one in 25 trainees actually finds a job. The speed limit that "saves thousands of lives" is, on examination, only infinitesimally raising the chances that any one individual will escape an accident caused by someone else, but it exacts a measurable price in time and money from that same individual. And happiness, properly understood, Murray shows, requires the opportunity to build a self-respect based on efficacious individual action and choice—but those are precisely what most social programs limit or eradicate.

For all its theoretical bent *In Pursuit* is full of facts, findings in sociology and social psychology, summaries of the differing views of scholars and thinkers, and hardheaded, real world arguments, as well as wonderful "thought experiments" on how associations ("little platoons") can take the place of government action—how, for instance, people might join together to hire teachers to educate their children, or to limit the depredations of crime.

This is a book to treasure for a number of reasons. Primarily, it is a rare example of a modern liberal arguing himself into a classical liberal stance. Never mind that in the beginning the author seems to imply, for instance, that everyone thinks that food stamps are good—the more you read, the more you will realize that this is a book written by someone who has been a professional policy analyst, for the policy analysis community as well as the general reader, using language and data that can reach that community. Never mind that, like the patron saint of this book, Thomas Jefferson, Murray's standard for the pursuit of happiness seems to leave room for some government role in fields such as education. A book that begins with the Declaration of Independence and ends by quoting Jefferson on the need for some form of severely limited government is a valuable weapon in the fight for freedom, especially when it is by a fine and original mind whose argument is a pleasure to follow. □

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PUBLIC CHOICE AND CONSTITUTIONAL ECONOMICS

edited by James D. Gwartney and Richard E. Wagner

JAI Press, Inc., 55 Old Post Road, No. 2, Greenwich, Connecticut 06830 • 1988 • 422 pages, $56.50 (Available at $29.95 from Laissez Faire Books, Department F, 532 Broadway, New York, NY 10012-3956: Telephone: 212-925-8992)

Reviewed by Robert W. McGee

This book is a compilation of eighteen articles written by authors from slightly different perspectives. There are essays by James D. Gwartney and Richard E. Wagner, James Dorn, James M. Buchanan, Knut Wicksell, Gordon Tullock, Roger Pilon, Richard Epstein, Terry Anderson and P. J. Hill, Peter Bernholz and Malte Faber, Gale Ann Norton, Peter H. Aranson, Forrest McDonald, Robert Bish, Robert Higgs, Dwight R. Lee and Richard B. McKenzie. But unlike most compilations, there are few gaps or overlaps, and the authors are writing from a common viewpoint—public choice, broadly defined. They all agree that government has overstepped its bounds. Their discussions range from how things got out of hand to how we can get back on course.

The first two chapters provide an especially good backdrop for those who are new to public choice theory. Gwartney and Wagner do a fine job of outlining public choice theory in nontechnical language. Over the last 200 years, the Constitution has protected political rights fairly well, but economic rights have been seriously eroded. Politicians act in their own interests rather than those of their constituents. Voters choose candidates who promise them the most. The result is that democracy takes from the majority, whose power is dispersed, and gives to concentrated special interest groups. A few people benefit a lot, while everyone else has to pay just a little bit. But the effect is cumulative. Everyone is trying to live at the expense of everyone else. As the eighteenth-century Scottish historian Alexander Tytler said:

> A democracy cannot exist as a permanent form of government. It can only exist until a majority of voters discover that they can vote

themselves largess out of the public treasury. From that moment on, the majority always votes for the candidate who promises them the most benefits from the public treasury, with the result being that democracy always collapses over a loose fiscal policy.

While government is not supposed to take property for public use without just compensation, it now "takes" as a matter of course, for both public and private use, seldom thinking of compensating the individuals whose property has been taken. Rent control laws are but one of many examples given. One of the most outrageous instances is the 1984 Supreme Court case of *Hawaii Housing Authority* v. *Midkiff*, wherein the court permitted the State of Hawaii to use eminent domain to take land and apartments from their owners and sell them to the previous tenants. This action not only was a taking, but a taking for private rather than public use. Yet the action was declared constitutional, even though the Constitution grants authority to government to take only for "public" use. The definition of "public" has become so twisted over the years that it has come to the point where just about anything government does is for the "public."

Federal spending is supposedly limited to common defense and the "general welfare." Yet many Federal expenditures go to benefit very small groups, such as sugar farmers, artists at state universities, or any other group that can line up at the Federal trough. But government control over our lives isn't limited to government spending. Government can take our tax dollars and give them to others, although tax rates can be raised only to a certain point without generating a backlash. Our elected representatives get around this by regulating businesses and forcing them to pay for things that otherwise would be paid for with tax dollars.

Other constitutional protections of economic rights have been seriously eroded over the years. The contract clause has withered and died on the vine. Parties no longer can enter into a contract without worrying about violating a minimum wage law, antitrust law, civil rights law, labor law, or numerous other statutes and regulations. The equal protection clause has been massaged to the point where it now means whatever the court says it means. None of the clauses in the Constitution still can be taken at face value. To learn what each sentence means, we now must look to case law rather than the original wording. It is almost as though the Constitution is void where prohibited by law.

Government is no longer restrained by the chains of the Constitution. The only limits are those in the eyes of our elected and unelected officials. People are now using government to do what they would be prohibited from doing as private citizens.

How did we get into this position? Several of the authors provide answers. As I read each chapter I could see a multi-layered mosaic being woven before my eyes that, on the whole, gives a good, detailed, and scholarly explanation. One of the most interesting interpretations is given by Robert Higgs. Government power (and abuse of individual rights) expands during times of crisis, and never fully retreats after the crisis has passed. Our various wars, as well as the Great Depression, have given rise to new governmental powers. Over the centuries, the power of government has expanded to the point where it now permeates every aspect of our lives.

How can we get out of this mess? Higgs is not optimistic. Electing better public officials is not enough. Neither is appointing better judges. Things will start to turn around when public sentiment demands that things be turned around. In the words of Abraham Lincoln, "With public sentiment nothing can fail; without it, nothing can succeed. Consequently, he who molds public sentiment goes deeper than he who enacts statutes or pronounces decisions."

This book is one of the better ones on public choice theory. Its scholarly approach, detailed footnotes, and case, name, and topical indexes provide a wealth of references for further study. The fact that it was written by numerous authors does not detract much from the unity of the presentation because the editors did a good job in selecting the articles to be included. □

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THE PRESENT AGE: PROGRESS AND ANARCHY IN MODERN AMERICA
by Robert Nisbet

Harper & Row, Keystone Industrial Park, Scranton, PA 18512 • 1988 • 145 pp. • $17.95 cloth.

Reviewed by Richard M. Ebeling

Robert Nisbet is one of the most respected sociologists in America. His works, *The Sociological Tradition* and *Sociology as an Art Form,* have long been classics in the field. Professor Nisbet also stands out because, unlike many in his discipline, he is neither a socialist nor a welfare statist. He views himself in the tradition of Edmund Burke and Alexis de Tocqueville, and espouses a conservatism that blends a deep respect for spontaneous social order and cultural tradition with a strong belief in the dignity and autonomy of the individual. This blending makes Professor Nisbet a powerful and eloquent defender of the free society and individual liberty. Two of his best works in this defense are *The Twilight of Authority* (1975) and *Conservatism* (1986).

In his latest book, *The Present Age: Progress and Anarchy in Modern America,* Professor Nisbet takes critical stock of the political, economic, and cultural status of the United States 200 years after the founding of the Republic.

He argues that a fundamental break occurred in American history with the entrance of the United States into the First World War in 1917. Prior to that, he explains, America was a land of limited government with a small Federal presence. Americans believed in and practiced political and economic liberty. The U.S. had a "small town" orientation in which the individual saw himself primarily as a member of a local community to which he gave his allegiance and from which he received support through a variety of voluntary, religious, and traditional associations.

This environment (and the social psychology that went with it) was shattered by America's entry into the war. Woodrow Wilson's ideal was of a "national community" that would be guided by strong governmental leadership emanating from Washington and manned by a new intellectual elite that would regulate and mold economic and cultural affairs. The goal was the creation of a new state-managed society for a higher "moral good."

Seventy years later, Professor Nisbet says, the United States has become a moralizing world policeman, a vast bureaucratic state in which government intrudes into practically every corner of our economic and personal affairs, and a culturally bankrupt society in which pursuit of short-run monetary rewards has increasingly replaced loyalty and fidelity to all ethical standards in personal and social conduct.

Since Wilson's crusade to "Make the World Safe for Democracy," Professor Nisbet insists, America has been armed with the vision that it has a duty not only to offer a moral example to the world, but also to take upon itself the responsibility actively to intervene in the affairs of other nations to "teach them" good government. This policy has bred a vast military establishment, fostered an often-corrupting symbiotic relationship between the Pentagon and sizable segments of the business community, and produced disastrous outcomes in foreign policy. (As an example, Professor Nisbet discusses Franklin Roosevelt's naive fawning over Stalin at the Tehran and Yalta Conferences, all in the name of getting "Uncle Joe" on "our side" in making a better and more moral postwar world.)

Domestically, the emergence of a state-managed "national community" has politicized every facet of economic and social life. While Americans constantly complain about the burden and irritations of the new bureaucratic state, practically everyone wants to see it expand—in the direction that materially benefits them. Professor Nisbet explains that this has arisen from a subtle shift in the meaning of freedom. As he expresses it, freedom no longer means "autonomy from power but participation in power." In the new lexicon, a free society is one in which each individual has an equal opportunity to plunder all the others.

But it is in the social and cultural realm that Professor Nisbet sees the worst effects of the new America that has grown up since 1917. The omnipresent state has created "the loose individual." It has intruded upon, disrupted, and, in many instances, fostered the demise of the cultural webs of spontaneous social order and stability. In so doing, the bureaucratic state has severed both individuals and groups from the traditional networks of family, community, and religion that have historically taught, reinforced, and protected the ethical and social values essential for a sound, healthy, and growing society. Today the individual has fewer and fewer attachments to these traditional institutions. The individual has been increasingly "atomized" as the State has destroyed or weakened the intermediary social institutions that historically separated and protected him from political authority. Man in modern American society has lost an Archimedean point to stand on outside of himself. Hence, modern man collapses into an unending introspection about himself and how he "feels" about things, with nothing greater or more worthy outside himself to which he should aspire. His values have been reduced to a narrow "cash nexus" and the pleasures money can buy.

The critical reader can find many points upon which to disagree with either the emphasis or the argument in Professor Nisbet's analysis. For example, his conception of the "cash nexus" in a market economy ignores the positive role the anonymity of money transactions has played in enhancing and protecting individual liberty and freedom of choice. His conception of the workings of trading deals, and corporate takeovers in financial markets, likewise, suffers from a fundamental misunderstanding of how a competitive market establishes avenues for shifting control of capital resources to more competent hands.

But it is the general focus and orientation that make Professor Nisbet's reflections an insightful contribution to our understanding of late twentieth-century America. The America of the 1980s would have been radically different from the America of 1917 even without two World Wars and the introduction of the Welfare State. What Professor Nisbet shows is that many of the most repellant features of the present age are the unintended consequences of the plans of those in the political arena who wished to implement an American "new order" at home and abroad. The question now is, how do we undo what has been done? □

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