THE FREEMAN

IDEAS ON LIBERTY

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PERSPECTIVE

China: Why the Worst Got on Top

The recent slaughter of student demonstrators in China's Tiananmen Square led me to reread "Why the Worst Get on Top," a chapter in F. A. Hayek's classic *The Road to Serfdom*, written in 1944. Why were the Chinese authorities so brutal? Why did the soldiers shoot their own countrymen? Consider Hayek's perceptive comments about totalitarian leaders and their minions:

"To be a useful assistant in the running of a totalitarian state, it is not enough that a man should be prepared to accept specious justification of vile deeds; he must himself be prepared actively to break every moral rule he has ever known if this seems necessary to achieve the end set for him. Since it is the supreme leader who alone determines the ends, his instruments must have no moral convictions of their own. They must, above all, be unreservedly committed to the person of the leader; but next to this the most important thing is that they should be completely unprincipled and literally capable of everything. . . .

"Yet while there is little that is likely to induce men who are good by our standards to aspire to leading positions in the totalitarian machine, and much to deter them, there will be special opportunities for the ruthless and unscrupulous. There will be jobs to be done about the badness of which taken by themselves nobody has any doubt, but which have to be done in the service of some higher end, and which have to be executed with the same expertness and efficiency as any others. . . . The readiness to do bad things becomes a path to promotion and power. . . . It is only too true when a distinguished American economist [Frank Knight] concludes from a similar brief enumeration of the duties of the authorities of a collectivist state that 'they would have to do these things whether they wanted to or not: and the probability of the people in power being individuals who would dislike the possession and exercise of power is on a level with the probability that an extremely tender-hearted person would get the job of whipping-master in a slave plantation.'"

—Brian Summers

On Envy

It is ludicrous to envy anyone who succeeds in a capitalistic economy. Those who achieve great financial success do so through their productivity and are our most efficient servants. Their genius and energy produce the cheapest, the best, or the most desirable products that we buy. If they didn't, we wouldn't buy, and they wouldn't be so rich. Ours is truly a symbiotic relationship. Our good fortune is their good fortune—and vice versa. Their genius and energy are ours for the purchase price of their goods and services.

—JIM RUSSELL
Beachwood, Ohio

Beyond Numbers

The success of recent privatization efforts can obscure the fact that privatization seeks merely to redress the damage done by collectivist actions and principles. Often those principles are left essentially unchallenged, even after property has been returned to private hands. The strong anti-property, anti-capitalist bias of government officials is still largely intact. Some officials may have concluded that government action in the marketplace is inefficient, but few think it immoral.

We will not make real progress in shrinking the size of government if we only react to government programs and if our reaction consists only of bar graphs and balance sheets. The figures, while providing empirical evidence against state intervention, apply to only one specific case at any time; there is nothing to carry over, no "big picture" to leave people with. The fact is that most people will countenance a good bit of inefficiency if they believe it to be for a good cause.

The goal should be to nip plans to expand government in the bud, before a protective constituency sprouts up. To accomplish this, the mind-set of decision-makers in government must be changed. Such a change can occur only when the intellectual battle moves beyond simple number crunching. For success, the conflict must be waged where notions of freedom and liberty are the most compelling—the realm of ideas.

— JEFF A. TAYLOR
Kingstree, South Carolina

The Worst Polluter

Crude waste disposal practices, which the Federal government banned in the private sector a decade ago but allowed to continue at its own nuclear weapon plants, are largely responsible for extensive environmental damage at those plants. . . .

At the Portsmouth Uranium Enrichment Complex in Piketon, Ohio, workers dumped oil on the soil and plowed it under until 1983, failing to analyze it for cancer-causing solvents that have now contaminated the underground water and threaten drinking water supplies. . . .

At the Savannah River Plant near Aiken, S.C., wastes laden with radioactive and chemical pollutants were dumped until the mid-1980's into seepage lagoons. . . .

At the Pinellas Plant in Largo, Fla., toxic substances have been discharged into the Pinellas County Sewer System. . . .

The reports make clear, and experts agree, that the pollution was allowed to continue long after techniques for controlling it were thoroughly understood.

—MATTHEW L. WALD,
writing in the December 8, 1988,
New York Times

Equal Rights

Do rights exist in the individual or in the group? If rights exist in the individual, then there are no other rights that come with belonging to any group. A cajun does not have more rights because he belongs to a group labeled "cajuns" because there is no such thing as "cajun rights." A black does not have more rights than non-blacks because he joins other blacks to form a politically active group. Therefore, there's no such thing as "black rights" per se, but only *individual* rights that are the same for any black, white, cajun, and everyone else.

—KEVIN SOUTHWICK,
editor, *Centre Democrat*,
Bellefonte, Pennsylvania

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A Triumph for Bootstraps Capitalism

by Clint Bolick

Ego Brown never fancied himself a crusader. His ambition is more that of a classic entrepreneur. His dream, as Mr. Brown describes it, is to "spread the shine" with shoeshine stands on street corners throughout Washington, D.C., and eventually in other cities as well.

The story of Ego Brown in many ways exemplifies the great American tradition of bootstraps capitalism: the methodical climb up the economic ladder by means of creativity, talent, and hard work. Indeed, Ego Brown's little enterprise took on added luster by providing employment opportunities to the homeless—a classic case of an entrepreneur doing good by doing well.

But along the way, Mr. Brown encountered an unexpected obstacle—a District of Columbia law that forbade him from pursuing his chosen business. This law and thousands of others like it form an oppressive barrier that prevents entrepreneurs like Ego Brown from earning their share of the American Dream.

The resulting battle for the right to earn a living free from excessive governmental interference cast Brown in the unlikely role of champion in the cause of economic liberty. His pathbreaking triumph is a beacon to others outside the economic mainstream that opportunity still exists in America.

An Entrepreneur in Action

Ego Brown launched his career after he quit his job as a voucher examiner for the Navy seven years ago. "I used to look outside and think about how good it would be to work for myself," he recalls. He cast about for the right opportunity to do just that.

Mr. Brown quickly discovered a lucrative potential market in the thousands of scuffed shoes pounding the sidewalks of downtown Washington. "It's an image city," he says. "People care about their appearance and they wear nice clothes, but they forget about their feet."

He set out to remedy this anomaly by providing the "finishing touch"—a quality shoeshine. Drawing upon the talent he developed as a youngster shining shoes for pocket money, Mr. Brown went to work. He started out in a barber shop near Howard University, but soon hungered for his own business. In 1985, he obtained a vending license from the District of Columbia, invested in a portable two-seat shoeshine stand, and set up shop at the corner of 19th and M Streets, N.W. Attired in his trademark tuxedo, Brown quickly attracted a large clientele for his distinctive "Ego Shine."

Mr. Brown dismisses the notion that shoeshining is degrading to blacks. "I'm out to change that stereotype," he says. "I'm a shoeshine *artist.* I provide a valuable service, and I do it with a touch of class."

The success of his first stand encouraged Brown to expand his business. That's when the idea of employing homeless people occurred to him. He recalls that "when I used to see these people on the streets, I'd dig into my pockets and give them money. Then one day I realized I wasn't helping them. They didn't need a handout. What they needed was an opportunity, a chance to lift themselves by their own bootstraps."

Thereafter, Ego Brown enlisted workers from

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the ranks of the homeless. He provided his homeless recruits a shower, clean clothes, a shoeshine kit and training—and most important, a renewed sense of dignity. Brown estimates he employed as many as 20 homeless men, both black and white, at shoeshine stands in downtown Washington. His efforts were so successful, in fact, that a District of Columbia social worker regularly referred enterprising homeless people for the "second chance at life" Ego Brown offered.

But during the summer of 1985, these efforts came to an abrupt end as District of Columbia police shut down Mr. Brown's business. They cited a 1905 law providing that "No permit shall issue for bootblack stands on public space." Regulated vendors peddling goods and services ranging from hot dogs to photo opportunities with cardboard celebrities were allowed to operate, but shoeshine stands were prohibited.

Mr. Brown appealed to his elected representatives for help, to no avail. Although Mayor Marion Barry was calling for massive private sector assistance to cure the homeless problem, he ignored Brown's plight, apparently preferring to have homeless people sleeping on the streets rather than earning their livelihood on those streets.

Thwarted by this anachronistic law, Brown struggled to stay in business by shining shoes in private establishments. But by late 1988, he was a step away from the welfare rolls, his dream dimmed to a faint glimmer.

Sordid Origins

The District's shoeshine stand prohibition was a relic of the Jim Crow era. Governments during that time frequently placed severe constraints on economic activities pursued by blacks. Though ostensibly race-neutral, these laws were designed to prevent blacks from gaining economic self-sufficiency.

The shoeshine ban was such a law, adopted in a political environment permeated by racial bigotry. A 1906 District of Columbia Health Service report reflected the government's prevailing attitude when it spoke of blacks as "a race just entering what is termed civilized life."

The same District Board of Commissioners that adopted the bootblack ban took a number of other steps designed to subjugate blacks. W. Calvin Chase, editor of *The Bee*, Washington's black daily newspaper during this period, assailed the District government for erecting a public whipping post and enacting stringent licensing requirements for the building trades. Chase called the whipping post "a pet scheme to deter the white wife-beaters by whipping the negroes. The moment a white man is thrashed, the law will go out of business." Of the builder licensing requirements, Chase asked "[W]hat becomes of the minor builders, who are fully competent to construct a house, but not able to pass an examination?" (*The Bee*, January 7, 1905)

The shoeshine ban fit neatly into this pattern. According to the 1900 census, the public streets of Washington provided a means of living to 1.5 percent of the city's employed black male population as "bootblacks," "hucksters," and "peddlers." By prohibiting bootblacks on the streets—hence confining them to hotels and barber shops as employees rather than independent entrepreneurs—the government eliminated an important outlet for economic self-sufficiency.

Today, oppressive economic regulations such as occupational licensing laws and government-conferred business monopolies proliferate at the state and local levels. These laws often far exceed legitimate public health and safety concerns. Like their Jim Crow antecedents, these laws are race-neutral but impose their harshest burdens on people outside the economic mainstream—primarily minorities and the poor.

From the Street to the Courtroom

For more than 50 years, the courts have consistently declined to protect entrepreneurs from arbitrary or excessive economic regulation. Moreover, establishment civil rights groups have ignored such barriers to opportunity, preferring to focus on social engineering schemes like quotas, business set-asides, and welfare.

As a result, in May 1988 the pro-free enterprise Landmark Legal Foundation launched its Washington-based Center for Civil Rights, which initiated a long-range economic liberty litigation program. The Center hopes to restore the basic civil right of individuals to pursue a trade or profession—a civil right that provided substantial impetus for many of the major civil rights laws, including the Fourteenth Amendment and the Civil Rights Act of 1964. The Center promptly filed its first economic liberty lawsuit against Mayor Barry and the District of Columbia on behalf of Ego Brown and two homeless men who worked for him.

In light of a half century of adverse legal precedent, the Center faced an uphill battle. The District cited scores of decisions in which the courts refused to strike down economic regulations, no matter how onerous. But the Center argued that the shoeshine ban went too far, violating the Fourteenth Amendment's equal protection, due process, and privileges or immunities clauses. Allowing the District to extinguish opportunities in this quintessentially entry-level business, the Center charged, would destroy economic liberty.

Ego Brown's lawyers suffered a setback in October 1988, when Federal District Court Judge George H. Revercomb denied an injunction on procedural grounds. But Judge Revercomb expressed strong sympathy for the merits of the case, declaring that individuals have a Constitutional right "to follow a chosen profession free from *unreasonable* governmental interference," adding that "the federal courts' role in protecting American citizens from unreasonable economic regulation has been one of the hallmarks of American liberty, prosperity, and progress."

Heartened by Judge Revercomb's language, the Center pressed forward. Finally, on March 22, 1989, Judge John H. Pratt declared the shoeshine ban unconstitutional and permanently enjoined its enforcement. "We would have to 'strain our imagination,' " Judge Pratt declared, "to justify prohibiting bootblacks from the use of public space while permitting access to virtually every other type of vendor." The District is free to adopt reasonable regulations, he ruled, but may not altogether prohibit shoeshine stands.

An Entrepreneur Vindicated

Ego Brown's victory in the courts may signal a crucial turning point in the battle to protect economic liberty. The Center plans to use the *Brown* v. *Barry* decision as a building block for other assaults on excessive economic regulation, and already has filed a challenge to the Houston Anti-Jitney Act of 1924 on behalf of entrepreneur Alfredo Santos.

For Mr. Brown, the ruling means vindication and a chance to pursue his dream. His enthusiasm waned during the four years following the forced demise of his business. Brown remarked a week before the court decision, "I lose sleep because I can't understand why."

But following his triumph, Ego Brown displayed the resilience that is the hallmark of a successful entrepreneur. "I plan to get back on the streets and prove—to myself more than anybody else—that my idea, my dream can become a reality." Asked if he feared competition from other shoeshine entrepreneurs, Brown replied to the contrary. "It would stroke my ego to see someone else out there with me," he said. "I would think I had something to do with that, that I inspired someone to go into business. I beckon competition."

And compete he will. Even before spring reached full bloom in the nation's capital, Ego Brown was back on the streets of Washington, pursuing his dream. His stand was booming, and homeless people were learning the trade. Well-wishers were streaming by yelling, "Way to go, Ego!"

For countless others like him, however, arbitrary barriers remain. For a nation whose moral claim is staked in its doctrinal commitment to opportunity, such barriers are a matter of shame. Challenging such barriers—securing for all individuals the ability to control their own destinies—is part of the unfinished business in the quest for civil rights.

But Ego Brown's successful struggle provides hope to would-be entrepreneurs that one day our nation will honor that basic opportunity that is every American's birthright—every American's *civil* right. □

Speculators: Adam Smith Revisited

by Christopher L. Culp and Fred L. Smith, Jr.

Financial middlemen are in disfavor everywhere. From the movie *Wall Street* to the pages of *The Wall Street Journal*, they have become the villains of our age. Our modern media and intellectual leaders recognize a range of legitimate economic activities such as farming, distribution, storage, and manufacturing, but see little value in such unfamiliar, "immoral," and "unproductive" activities as corporate takeovers, insider trading, and junk bond financing. These activities involve too much mental acumen and too little honest sweat.

To reinforce their biases, journalists quickly assign pejorative labels to those things they don't understand: "insider" trading, "junk" bonds, "leveraged buy-outs," "hostile" takeovers, "poison pill" defenses, "greenmail," and those old favorites, "speculation" and "profiteering." The plot outline of the media story varies, but when the story ends, the middleman always winds up wearing the black hat.

Those in the media are not alone in their condemnation. Politicians and other social commentators find it useful to chastise such middlemen as serving no useful purpose. In fact, these entrepreneurs are typically portrayed as being mere paper-pushing, tape-watching profit maximizers who exist only to skew the distribution of wealth. But if middlemen are so non-productive, we might well ask why competitive capitalist societies have created so many types of them. Some insight into this question is gained when one realizes that today's respected service and distribution workers were once also condemned as parasitic middlemen.

We should not be surprised that the Michael Milkens of today are caricatured and pilloried. What is not understood is often condemned, and few people understand the value of entrepreneurial activities. Mankind is reactionary—the new, the novel, and the unusual may be essential, but such activities rarely receive honor in their own day. Today's insider traders and junk bond salesmen were yesterday's draymen and warehousemen. In their day, transportation and storage were viewed as suspiciously as innovative financial vehicles are today.

The story is told well in Adam Smith's discussion of the Corn Laws in *The Wealth of Nations*. Smith reviewed 18th-century public attitudes toward two new forms of wealth creation: "forestalling" and "engrossing" (terms picked for the same connotative reasons that "junk" and "hostile" are the adjectives of choice for high risk, high yield bond financing and changes in corporate control today). "Forestalling" was a new economic activity involving corn purchases during times of plenty in the hope that the corn could later be resold at a profit. "Engrossing" described a similar arbitrage activity focusing on price differentials among different locales within England. Engrossers, for example, bought low in Birming-

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ham and sold high in London—or rather they hoped to do so. Both activities had become possible only as storage and transportation costs dropped.

The Role of the Middleman

Forestalling and engrossing were soundly criticized as sterile middlemen activities that produced no new corn but only raised prices. Such speculation, the conventional wisdom held, could only hurt the general public.

However, Smith explained clearly that such middlemen played an essential role. If speculators predicted scarcity and it failed to materialize, they lost money. They not only had to sell the corn at a loss, but also pay its storage and/or transportation costs. When the scarcity was real, however, Smith explained that "the best thing that can be done for the people is to divide the inconveniences of [that scarcity] as equally as possible through all the different months, and weeks, and days of the year" and, of course, across the nation. Smith noted that the corn merchant—the specialist in this commodity—was the most appropriate party to carry out this "most important operation of commerce."[1]

Moreover, Smith noted, the risks were clearly shifted from the consumers to these specialists. When engrossers and forestallers were wrong (a situation all too likely in commodity markets) and prices fell rather than rose, they bore the consequences of their follies. On the other hand, when these speculators were correct and shortages did occur, both they and the citizenry benefited. As Smith explained, "By making [the people] feel the inconveniences of a dearth somewhat earlier than they might otherwise do, he prevents their feeling them afterwards so severely as they certainly would do, if the cheapness of price encouraged them to consume faster than suited the real scarcity of the season."[2]

Smith detailed the consumer advantages of making uniform the supply of foodstuffs over time and avoiding the feast or famine problems that existed before there were middlemen.[3] In modern terms, forestalling and engrossing were creative forms of voluntary risk-shifting, in which risks were transferred from risk-averse consumers and growers to risk-taking speculators.

Smith stated that "after the trade of the farmer, [there is] no trade contributing so much to the growing of corn as that of the corn merchant."[4] He continued, "The popular fear of engrossing and forestalling may be compared to the popular terrors and suspicions of witchcraft. The unfortunate wretches accused of this latter crime were not more innocent of the misfortunes imputed to them, than those who have been accused of the former." To Smith, "the corn trade, so far at least as concerns the supply of the home-market, ought to be left perfectly free."[5]

Moreover, Smith explained that entrepreneurs seek profits not necessarily *because* their actions will benefit consumers; clearly, entrepreneurs have profit-maximization in mind. Yet, speculative entrepreneurship carries positive external benefits for society *a priori.* It is ironic that the profit-seeking activities of forestallers and engrossers yield such residual benefits, while the actions of politicians, who are generally viewed as those responsible for promoting the welfare of society, often do more harm than good.[6]

The reader will notice the clear similarity between the speculators and arbitragers of today and Smith's corn merchants. Indeed, the forestallers and engrossers were simply pioneers specializing in the fields of risk management, information provision, and information processing. As in Smith's time, such middlemen provide society with services that are no less valuable because they are intangible; speculators are willing to take risks that consumers would prefer to avoid.

The Benefits of Speculation

Speculation comes in many forms and has many benefits. Speculators, for example, constantly question the validity of conventional market wisdom by taking risks which others view as foolish. Even when conventional wisdom is correct, speculators provide a *de facto* cushion of insurance that improves the resiliency of society against economic risks. Speculators also serve a moral purpose by making entrepreneurial activity, and resulting economic growth and prosperity, possible.

Additionally, speculators enhance the efficiency of firms and the deployment of capital in the economy at large. If inefficient management of a corporation, for example, is detected by speculators, capital can be redistributed through the takeover process, with substantive residual benefits arising in society through better allocation of resources. Furthermore, the *threat* of takeovers serves as an implicit economic regulator of corporate management. Publicly held corporations typically become takeover targets when their stock becomes undervalued. This is generally the result of mismanagement or the inefficient use of capital resources. To avoid becoming takeover targets, then, firms have the incentive to operate efficiently.

Forestallers and engrossers in Smith's day—and corporate raiders and junk bond specialists today—are merely entrepreneurs, and thus inseparable from capitalism. Unfortunately, unlike 18th-century England, we have no Adam Smith to explain their role to the American public. Our society finds it all too easy to shift the blame for declining moral standards and failing projects to today's forestallers and engrossers.

Rudolph Giuliani, Anton R. Valukas, and Oliver Stone play before the masses on their respective theatrical stages when they portray and prosecute the evil speculators. Adam Smith did not have to contend with television and Hollywood or crusading prosecutors; he was able to argue directly to policy makers. He did not need to simplify his message for the 30-second sound-bite. Nonetheless, Smith did make a strong case and his viewpoint eventually prevailed. The pejorative terms gradually lost their evocative power as people began to understand what these activities entailed.

Our challenge is to teach the American public about the value of the modern counterparts of Adam Smith's forestallers and engrossers. This task is made even more difficult by the absence of any great Corn Law debate today. Accusations of embezzlement and corruption on the financial markets pale in comparison to the melodrama of impending starvation in 18th-century England. Despite the absence of a life-threatening crisis, though, this issue is as important today as it was in the days of Smith. Failure to consider the necessity of speculation for a growing economy will lead to the decline of entrepreneurial activity.

Attacking speculators deprives society of the vital economic and moral functions they serve. Morality cannot be restored to society by regulating and censuring the speculative class; this action would only sell our future short . □

1. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by R.H. Campbell, A.S. Skinner, and W.B. Todd, Volume I (Indianapolis: Liberty Classics, 1981), p. 534.

2. *Ibid.*, p. 533.

3. Many modern views of commodity futures markets depict them as insurance markets, in much the same way that forestallers and engrossers provided *de facto* insurance for consumers. While this is not altogether inaccurate, it is far more precise to represent these markets as intertemporal allocations of supplies. Forestallers and engrossers controlled the amount of commodities supplied in the present largely through the amount they held in inventory for future consumption. The present-day analogue is found in futures exchanges, where the price of a commodity futures contract is, in large part, a reflection of the fundamental intertemporal supply and demand forces acting on the commodity. This view of futures and forward markets has been discussed, at least briefly, by such noted economists as Piero Sraffa, John Maynard Keynes, Holbrook Working, Paul Samuelson, and, more recently, Steve Hanke. For a detailed discussion of this issue, see Steve H. Hanke, "Backwardation Revisited," *Friedberg's Commodity and Currency Comments*, December 20, 1987.

4. Smith, p. 532.

5. *Ibid*, p. 534.

6. The theory of the public choice, contributions to which won James Buchanan the Nobel Prize in Economics in 1986, helps reveal why politicians and bureaucrats often pursue their own interests at the expense of consumer welfare.

High-Definition TV: Government or Market Choice?

by Gary McGath

High-definition television (HDTV) promises to be the biggest breakthrough in video broadcasting since color. It will offer wider pictures with much more detail and clarity; watching TV will be almost like seeing a movie in a theater.

The technology for HDTV exists today, and it is even in operation in Japan. Unfortunately, there isn't an industry standard for American HDTV. In accordance with conventional wisdom on broadcasting, the Federal Communications Commission has to approve a standard. There is no shortage of ideas—the FCC has about 20 proposals under consideration.

The problem is one of trade-offs between the higher quality offered by HDTV and compatibility with the existing National Television System Committee (NTSC) technical standards adopted by the FCC in 1941. A TV channel occupies a certain bandwidth, a "space" in the spectrum of broadcast frequencies. If HDTV signals could occupy more than one channel's bandwidth, the task of sending a high-quality picture would be easier; but then fewer stations could operate in a given geographic area without interfering with one another.

Ideally, a broadcast signal would occupy the same bandwidth as an existing TV channel, would be received by existing TV sets, and would contain extra information that the new HDTV sets could receive. But trying to do this brings technology up against certain limits. According to a mathematical principle called Shannon's Law, for a given bandwidth and a given ratio of signal strength to interfering noise, there is a maximum amount of information that can be transmitted in a given time. Whether it's possible to meet the physical limitations and provide full compatibility with existing TV is a hotly debated question. If it isn't possible, the signal either has to use more than one channel or give up full compatibility with today's broadcasting.

Complex trade-offs like these are involved in most technological standards. It's easy to suppose that the best way to deal with these trade-offs is to let the government decide for everyone and guarantee that different companies won't produce equipment that meets different and incompatible specifications.

But the market is capable of resolving competition among proposed standards; it produces results that are acceptable to consumers. When the government sets the standards, there is no reason to suppose that its choices will reflect what buyers actually want.

As an example of how the market works, consider the case of VCR's. Initially, there were two standards, the Beta and VHS systems. Today, VHS is the clear winner, not by anyone's decree, but by the people's choice to buy it. The Beta purchasers may appear to be the victims of inefficient competition; but I still have a Beta recorder in my living room, and mail-order catalogues still offer a wide selection of Beta tapes. No doubt

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these will dwindle away in time, but by then I'll be ready to buy a next-generation VHS recorder. Although other formats have appeared from time to time, they have succumbed to the buyers' judgment that the improvements they offered weren't worth the investment in new equipment.

VHS isn't necessarily the optimal solution; many people consider Beta tapes superior. But most people couldn't tell the difference; VHS was satisfactory, and it was better positioned in the market, so it became the *de facto* standard.

Satisfying the Consumer

Commercially successful standards like VHS satisfy the consumer; government-mandated standards may satisfy only the wishes of the people who devise them. An example of the latter is the computer programming language Ada, which is the standard for Defense Department computer work. Not surprisingly, it's one of the most complicated computer languages ever devised; it has provisions for doing virtually anything, often in several ways. Any commercial implementation must pass rigorous tests for compatibility before it can be called "Ada." Outside of government-related work, Ada gets little use; it's too complicated to learn and too costly in computer resources.

The proposals before the FCC will put an initial premium of $500 to $1,500 on an HDTV set compared to a conventional set, even though studies have indicated that most people who are shown both images don't consider the improvement worth more than $100. The costs of new technologies decrease with time only if they find a market to begin with. The new broadcasting equipment for HDTV also will be expensive; a large potential audience will be needed to justify its cost. If the FCC selects a system that no one is willing to pay for, it will go nowhere.

Government approval of a standard doesn't automatically lead to market success, as is illustrated by the FCC's early experience with color television. In 1950, the FCC approved the CBS system for color TV, which involved a color wheel rotating in synchronization with successive frames of the picture. Not only was this method incompatible with existing black-and-white sets, but it also added a major mechanical component to the TV sets of the day. Because the CBS system was a commercial failure, the FCC reversed itself in 1953 and approved RCA's system, which is the one used today. When the government sets standards, it isn't likely to resist political favoritism. There are currently about 20 major television manufacturers in the United States; of these, Zenith is the only one that is domestically owned. Not surprisingly, Zenith's proposal is one of the leading candidates—perhaps because it really is one of the best, though it's hard to avoid the impression that its political position plays a major role.

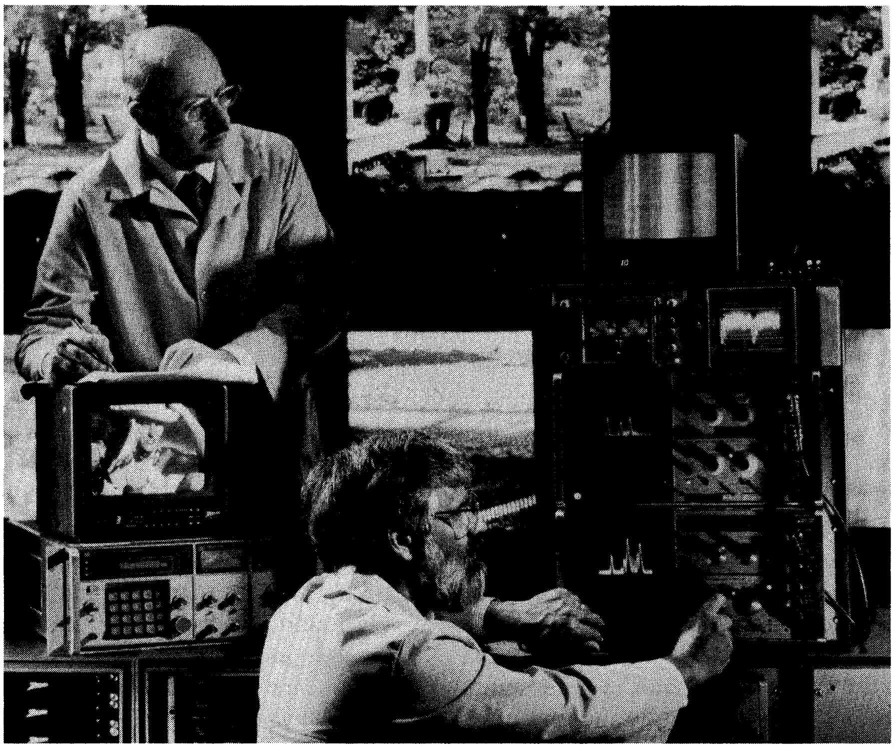
Because many people in the U.S. electronics industry see HDTV as a chance to make a comeback against the Japanese, this will lead government organizations to favor home-grown technology, whether it's better or not. Commerce Secretary Robert Mosbacher has said, "I believe that we should insist that United States firms closely benefit from the [HDTV] effort."

The ideal implicit in the FCC's approach is a single standard that would serve the country for the next 30 years or so. Fixed standards offer some significant economic advantages: people don't have to replace obsolete equipment or get multiple sets to receive incompatible formats. The equipment, however, becomes obsolescent, and nothing can replace it. Today's National Television System Committee broadcasting standard is in fact ancient technology, established in the early days of television. If computers had suffered the same fate, we'd still be using room-sized machines with less power than today's five-pound portables.

It may be that the market would have taken the same route. Perhaps the established base of TV sets would have precluded significant changes in technology until a major leap in quality became possible. On the other hand, an evolutionary market might have resulted in TV sets today that would provide movie-theater quality for the same price that we actually have now.

Letting the Market Decide

What path might HDTV follow, if it were left to the choices of the market? Its first appearance wouldn't be on the broadcast market, but on a market like cable where there is a greater emphasis on quality and a closer link between the viewer and the broadcaster. Viewers could be guaran-


ZENITH ELECTRONICS

Zenith's "Spectrum Compatible" High-Definition Television System will allow broadcasters to use currently unavailable TV channels for HDTV transmissions without causing interference.

teed a full schedule of HDTV programming, and could be directly billed for premium-quality broadcasting. Cable networks would have an incentive to make the necessary capital investment. We could expect to see cable companies offer discounts for advance subscriptions, enabling them to raise capital, and to determine whether the market really is there.

Of course, the cable companies may choose a standard unsuitable for broadcast TV. Since the developers of the technology would want the widest possible market, this isn't very likely, but it could happen. Although this would be a disaster for lovers of homogeneity, the investors whose financial future is at stake would have judged that the over-regulated, overcrowded, commercial-laden world of broadcast television is a dying medium, without enough of a future to justify holding cable technology back to its level.

A non-broadcast path to HDTV could open up remarkable possibilities. Fairly soon, fiber optics—fine strands of transparent material that carry light, instead of electricity, through cables—may replace metal wire for non-broadcast communications. If this happens, tremendous amounts of bandwidth will be available, and true digital television would become possible. Finding bandwidth for signals sent over the airwaves would become as obsolete an exercise as finding a hitching post. But if the FCC holds non-broadcast TV back to the level of the broadcast medium, this won't happen.

A market decision represents the sum of the choices of many people, each having limited knowledge and a stake in the outcome. A governmental decision represents the choices of a few people who have limited knowledge and a stake only in the politics of what they decide. Of the two modes of decision-making, the market will give people what they want. □

The Confession of Yevgeni Turchik: Part-Time KGB Agent

Editors' Note: This interview appeared in Glasnost *(issue 12), a dissident publication founded in Moscow in 1987. The interview was submitted to* Glasnost *by Aleksandr Chernyayev. An English translation has been provided by the Center for Democracy in the U.S.S.R., 358 W. 30th Street, Suite 1-A, New York, NY 10001.*

August 30, 1987, Tambov. During a Christian meeting of the Baptist group "Initiators" in the home of the activists, the Tolstopyatovs, Yevgeni Turchik confessed that he was a KGB agent. He is now serving a compulsory labor sentence (9 Molodyozhnaya Street, Room 153, Uvarovo, Tambov District).

After his confession, several conversations were held with Turchik, two of which were tape-recorded. The conversation below was held in the city of Kirsanov at the apartment of an activist of an Orthodox revival group.

Two weeks after his confession, Turchik was transferred to work at the site of agricultural construction in the city of Uvarovo. Rasskazovo, where he used to live, is 20 miles from Tambov, where he traveled every day (although only visits to one's close relatives were permitted, and no more than twice a month). Uvarovo is 80 miles from Tambov. Turchik has not been able to get permission to leave Uvarovo.

We, Yevgeni's friends, visited him later in Uvarovo. Yevgeni was not allowed out of the dormitory the day we arrived at his job. We were able to talk with him for five minutes in the presence of police functionaries, who heard literally every word. Yevgeni informed us that Colonel Khilko, having learned of Turchik's public confession, came to him and tried again to get him to cooperate. He threatened Yevgeni that the statement/confession he had made would be considered slanderous or made under the influence of drugs. Yevgeni answered: "I only told the truth."

Tell us about yourself Yevgeni.

I, Yevgeni Turchik, was born in 1954 in the city of Donetsk. My parents . . . I didn't know my father. They were atheists and they taught me from the time that I was a child that if I wanted to get anywhere in this world I had to learn to deceive and to rob others. My mother told me straight out: "Take what you want from people who are smarter." So that's what I did. And then, for stealing somebody else's property, a camera, I was arrested. . . .

When did you first become acquainted with religious believers, Yevgeni?

I did not believe in God—probably because everyone around me was an atheist. And I personally did not know any religious people. I had heard about believers. In the newspaper *Tambovskaya Pravda* there was an article about believers—"Sufferers in Christ"—and our instructors showed it to us.

The assistant director of the political section of the colony held a meeting at which he spoke about this article. He said that there is a certain group of people here, believers, called "Initiators," who work for the CIA and have connections abroad, that they receive literature from abroad and are involved in anti-Soviet propaganda.

Not long after that I happened to meet one of them. I was really rather surprised; here we had just been talking about them, and suddenly along comes Ivan Tolstopyatov. It was, of course, interesting for me to get to know him. At first we all laughed at him and thought that this peasant was a little dim-witted. But he was very different from everyone else. He was always ready to help and to make suggestions, and he was very honest. He first told me about Jesus Christ—that He is God, that He loves me and that He died for me.

The bosses weren't pleased that Tolstopyatov had been talking to us about God, and they split up our section. I ended up in another section and didn't see Ivan any more. I corresponded with him and with other believers. I thought that my letters were being read, and only about a year passed before I was summoned to the office of the director of the colony.

Two men in civilian dress were waiting for me there. At first they said that they were journalists and then they started asking me if there was any way they could help me. I asked them straight out: "What do you want from me?" KGB Colonel Yuri Khilko told me who they were and where they were from. They told me: "We chose you, one in a thousand. You must help the motherland. We'll help get you transferred to compulsive labor where you'll be able to visit Tambov without any problems. You must help us fight the Baptists. We know that you correspond with Lyudmila Tolstopyatova, the daughter of a Baptist minister. That's very good. They'll accept you and you can tell us what they do and what they say. Try to find out if they print anything and to determine if you can where G. V. Kruchkov, the leader of the Council of the Evangelical Christian Baptist Churches, is."

How fast did they do everything they promised you?

After about two months I was transferred to compulsory labor and I found myself in the city of Rasskazovo.

And then you started attending the meetings of believers. How did the believers receive you?

They accepted me as one of their own. I didn't think that such a thing was possible—they accept a stranger as a close member of their own family. And that started me thinking about what Colonel Khilko had said. He told me that believers hid behind their religiosity, that they oppose all that is good and that everything they do is constructed on hypocrisy and lies.

How did you pass information about the believers to Khilko?

I would meet them [the KGB] in the Rasskazovo Hotel, unless it was in Tambov, where they had a special apartment. We would arrange the meetings over the phone at the following numbers: work 99-427, home 291-47. These numbers are in Tambov. I would give them written reports about the believers and sign them with the pseudonym "Kashtanov." I would write: "Sources report that. . . ." and so on, where I had been and what I had seen and heard. It went on like this for half a year.

How many reports did you write in this half year?

There were a lot of them. After all, I wrote one every week. They wanted to know literally everything: who dresses how, who is friends with whom, do any of the believers go to the cinema or to a disco, who had a fight, what do they preach, what do they talk about after the meetings, what topics are discussed at the youth sessions for the study of the Word, etc.

Did you give them the books that the believers gave you?

Yes. They were especially interested in books published by "The Christian," but they wanted to see others as well. When I gave Colonel Khilko a copy of *Father Arseni*, a book that I had been given by Orthodox believers whom I had met, he photographed the whole thing. They were even interested in religious calendars and bookmarks. Basically they were interested in all religious literature.

Were the KGB agents interested in Orthodox believers?

Yes. They were especially interested in what the Orthodox were preparing for the 1,000th anniversary of Christianity in Russia. They were also interested in religious conversations among the Orthodox held outside of the church and how the Russian Church clergy behaved.

Did they pay you for your activities?

They didn't exactly shower me with money. Every time I received a sum of money I had to sign a receipt, which was also signed with a pseudonym. There was an interesting occurrence once—Colonel Khilko took a receipt from me for 50 rubles but gave me only 25. He said that he had expenses for photographic materials. That seemed a little underhanded to me, but I didn't ask any questions, of course.

When did you first want to break with the KGB agents?

Sometime in March I prayed aloud at a meeting. It wasn't hypocrisy; it was a real prayer. I had already started believing in God then. When Colonel Khilko found out about this he told me: "You were right to pray out loud, you're a real actor. But if it was serious, it was psychological stimulation and there is nothing blessed about it. In general, there are no gods and no devils."

Sometimes after a meeting I would feel the close presence of God and of the Holy Spirit, but when I met with them [the KGB] again or called them on the phone I would lose everything and become completely empty, and this scared me. And then, at such times, I started to think that I couldn't go on like this.

Which of your friends was the KGB especially interested in?

Sasha Chernev. They asked me to make copies of the keys to the Chernevs' apartment. The Chernevs entrusted me with the keys, but I copied them and gave them to Colonel Khilko. He asked me to describe the Chernevs' apartment and to tell him when the Chernevs were usually not at home. I think that the KGB operatives made visits to the Chernevs' apartment and maybe bugged it.

How did your confession come about?

My position was weighing down on me and then, finally, I told Tolstopyatov's wife everything. I thought that they would hate and despise me, but I saw that they still loved me and they were compassionate. You won't believe it, but when I left them after that I thought that they would throw rocks at my back, but they said: "May God bless you, dear." After that I didn't wonder anymore about whether I had to end my relationship with the KGB. I ended it for good. I'm still a convict and they'll use that against me, of course. They'll try to get me to work with them again, but I won't go back into that hell again. I'm weak and it's possible to scare me, but God, my God, is strong. I don't think the Lord will abandon me anywhere.

What do you think scares the KGB more than anything else?

Glasnost, glasnost, glasnost. That's what they're all afraid of. And I believe that if the Christian world learns about my turning to God, these enemies of Christians, these KGB agents, will be limited in their activities against us. I ask all Christians who read this confession to pray for me; that will be the strongest support.

Dear Christians, pray for me, God's sinful slave, Yevgeni. □

Lenin on Religion

Every religious idea, every idea of God, even flirting with the idea of God, is unutterable vileness, . . . vileness of the most dangerous kind, "contagion" of the most abominable kind. Millions of filthy deeds, acts of violence and physical contagions are far less dangerous than the subtle, spiritual idea of a God decked out in the smartest "ideological" costumes.

—from Lenin, *Works,* Vol. 35

The Real Child Care Crisis

by J. Brian Phillips

The statistics are familiar. More than half of all women with children under the age of six have jobs outside the home; almost 40 percent of all working mothers are single, widowed, divorced, or married to men who make less than $15,000 a year; and the average cost of day care is $3,000 per child. The conclusion is also familiar: government must do something.

But the private sector already is providing a wide range of child care services. National child care chains, such as La Petite, Kinder-Care Learning Centers, and Children's World Learning Centers, aim primarily at middle-income families. Lepercq de Neuflize, a New York investment bank, recently put $3 million into 14 preschools targeted at the upper-income market. And, across the nation, thousands of people operate for-profit child care facilities.

Of course, not every parent can afford such services. But the private sector has generated a number of options. For example, many employers, becoming increasingly aware of the problems their employees face in finding child care, are offering a variety of programs.

Some companies, such as Merck, Campbell Soup, and Apple Computer, operate on-site child care facilities for employees' children. Others, like IBM and BankAmerica, subsidize community centers. In all, the Conference Board estimates that 150 businesses and 600 hospitals have established on-site or near-site child care operations.

A growing number of firms such as IBM, Merck, Hewlett-Packard, SmithKline Beckman, and Transamerica offer alternative work schedules to give parents more time to care for their children. Control Data, Pacific Bell, The Travelers Companies, J.C. Penney, New York Life, and many smaller companies allow some employees to work at home via computer terminals. Rolscreen, an Iowa manufacturer, has used job sharing to overcome a labor shortage caused by a lack of child care options.

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Real estate developers also recognize the growing importance of child care. "Developers are using day care as an amenity the way they used to use shrubbery and health clubs," real estate magnate Leonard N. Stern told *Fortune* magazine (November 21, 1988). Office buildings, apartment complexes, residential subdivisions, and business parks increasingly are offering on-site child care for tenants.

Perhaps the most ignored child care option is the most widely used: home-based care by a relative or hired sitter. Nearly 70 percent of all child care is provided in this manner. Similarly, some parents form co-ops—resources are pooled and parents watch their children on alternate days.

Parental Responsibility

Without a doubt, there is a tremendous need for child care services. Most of this need, however, is being met by the private sector—entrepreneurs, employers, developers, relatives, friends, neighbors, and church groups. But for a small, vocal minority, these alternatives are insufficient. They believe that child care, like education, is a right. And, like education, they believe others should pay for it.

The public school system, few would argue, is

in terrible shape—violence, drugs, crumbling buildings, falling test scores, uninterested teachers, and rebellious students. Increased government controls haven't improved the educational system; in fact, the opposite is true. Yet, in the name of improved quality and affordability, many people want to subject the child care industry to similar controls.

This brings us to the real essence of the child care debate. Contrary to popular belief, parenthood is not a right, but a responsibility. And, with few exceptions, parenthood is avoidable.

What child care advocates seek to avoid is not parenthood, but the responsibilities that follow. Many people give more thought to the financial ramifications of a home or car purchase than to those involved in raising a child. Yet, the lifetime costs of raising a child can easily approach those of buying a house.

Some argue that children are innocent victims of their parents' irresponsibility or misfortune. While this may be true, the childless neighbor, whose tax dollars would pay for government child care programs, is no less innocent. Subsidized child care, in fact, is an undeserved reward. Like all undeserved rewards, it provides an incentive for irresponsible people to continue their irresponsible ways.

Of course, unforeseen events sometimes change an individual's or a family's financial situation. But bad luck is no justification for a coercive redistribution of wealth. Such people must rely on the voluntary charity of others. One person's need is not a claim on the property of others.

Conclusion

The free market can operate effectively only when people are responsible for their actions. When the market provides consumers with a choice of goods and services, the consumer must decide which suits his wants, desires, and values.

The market provides many child care options. Cost and quality vary widely, and parents are free to choose which best suits their budget and requirements. When consumers refuse to accept a substandard product, the market responds accordingly. This is as true of child care as any other product or service.

But a growing number of parents refuse to accept the responsibility of choosing. They want the government to mandate standards, to provide licensing, and to pay for child care. They want the government to assume their responsibilities as parents. Sadly, this is the real crisis in child care. □

Specialization and Exchange

by Gene Smiley

I have spent the last 17 years teaching economics to college students. During this time my wife and I have owned two homes, neither of which we built ourselves. To furnish our homes we have purchased chairs, tables, sofas, coffee makers, stoves, refrigerators, television sets, stereo systems, lamps, computers, and an indescribable mosaic of other home furnishings. When we wanted an automobile, a lawn mower, and a snow thrower we also purchased these.

Like almost everyone else, I have found that I can be better off if I specialize in a few activities—such as college teaching—and let other people specialize in producing other services or products, and then trade with them. The advantages of this market process are so obvious that most of us simply take them for granted.

The metropolitan Milwaukee area where we live produces a multitude of products, most of which are shipped to other areas of the country or sent abroad. Much of that production requires machines and tools produced in other parts of the world. Elsewhere in our state many products, such as automobiles, motorcycles, tractors, paper goods, and magazines, are shipped to other states and countries.

The gains that arise from such specialization in production and market exchanges are the same whether we consider two individuals, the citizens of two cities, the citizens of two states, or, *just as important*, the citizens of two nations. For some reason, however, many people deny that *international* specialization in production and the consequent exchange of products are beneficial.

Recently such thinking led American officials to "convince" Japanese leaders to restrict auto exports to the United States. The U.S. government has continued to prohibit the importation of inexpensive sugar and cheese products. Because some Japanese computer chip makers refused to go along with a world cartel set up by the United States government to raise chip prices, U.S. officials imposed large tariffs on selected Japanese computer imports. For some years now American steel firms have received protection from imported steel through "voluntary restraint agreements." The list of U.S. trade restrictions goes on and on.

Congress is preparing a number of trade bills designed to "protect" American firms and labor even further. Michigan Senator Donald Riegle has said that these moves "will strengthen our nation—and begin to restore our international financial standing."

If the citizens of the United States can be made better off by reducing international exchanges and thus specialization, then the same logic must apply to individual states. The citizens of Wisconsin, Michigan, New York, California, or any other state should be made better off if their state governments reduce or eliminate trade with other states. Why stop there? Why not give the citizens of Los Angeles, San Francisco, Chicago, Milwaukee, Detroit, or New York an improved quality of life by having their city governments reduce or eliminate trade with other cities? It would be even

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better if, say, the residents of the Sherman Park neighborhood of Milwaukee were prevented from trading with all outsiders. Finally, if this restriction of trade is so beneficial, then let us have the government stop the members of each household from trading with any other household. Let each household become self-sufficient.

The logical conclusion is that if specialization and trade are harmful at the international level, then surely they must be harmful all the way down to the level of each individual. We recognize that this is absurd because it would impoverish us all. Voluntary specialization and trade at any level simply are not harmful.

If the government imposes quotas or tariffs on, say, imported steel, then reduced supplies and higher prices for imported steel allow domestic steel producers to sell more steel and raise their prices. That, in fact, is what has recently happened. Firms that purchase steel, such as the producers of stainless steel kitchenware, are facing rising prices. Rexworks, a small industrial firm in Milwaukee, found that even though it had an excellent year in production and sales, unanticipated increases in steel prices wiped out $2 million in profits. Meanwhile the steel producers are reaping huge gains.

These harmful effects extend far beyond the direct purchasers of the protected products. The reduced sales of foreign steel decrease the number of American dollars foreign countries receive. Because foreigners have fewer dollars, their demand for American exports must fall. American exporters find that there is less foreign demand for their products, and their sales and prices and incomes fall.

While the measures designed to protect selected U.S. firms raise their incomes, they reduce the incomes of American firms and individuals that serve foreign markets. Consumers who buy protected products must pay higher prices and face a reduced range of choices. The benefit for the protected firms and industries, then, comes at the expense of consumers in general and firms that export.

Unfortunately, the losses incurred by those who are harmed by the protective measures will be greater than the gains of those who are helped. In free markets, specialization and exchange encourage people to engage in those activities for which they are the most productive. Trade protection stifles this process, so that total output falls. And, when this occurs, we begin the long trek down the road to the general impoverishment of our society—in the name of "protecting" those firms whose owners and employees are enriched at everyone else's expense.

We have gone through this before. In June 1930, during the early stages of the Great Depression, Congress tried to protect Americans by enacting huge tariff increases. Such intervention served only to lengthen and worsen the depression. Current proposals are inviting another Great Depression. The freedom to choose our specialization and to exchange with whomever we wish is the only way to guarantee prosperity. □

Free Trade

IDEAS ON LIBERTY

If a person advocates free trade domestically, he cannot logically advocate protective tariffs and other similar measures that prevent goods and services from moving freely across national boundaries. It is simply not true that a nation and a people are made more prosperous by compelling themselves to pay two and three times as much as they need to pay for the goods and services they want. It just does not make sense to improve the means of moving goods from one nation to another, and then to cancel out the savings in transportation costs by passing laws to hamper the resulting trade. I am convinced that such contradictions arise more from lack of understanding than from evil intentions.

DEAN RUSSELL

The Minimum Wage: An Unfair Advantage for Employers

by Donald J. Boudreaux

Suppose you want to help the sellers of a specific product. One thing you might want to do is try to ensure that a buyers' market for that good or service isn't created.

A buyers' market is an economic situation that favors buyers over sellers. For example, everyone hopes that the real-estate market in his hometown will be a sellers' market when the time comes to sell his house. No one wants to have to sell a house when real estate is in a buyers' market. Nevertheless, people who advocate minimum-wage legislation to improve the lot of unskilled workers in effect support government creation of a buyers' market as a way to help sellers of unskilled labor.

Freely Moving Prices: The Great Equalizer

Economics and common sense teach us that, other things being equal, as the price of a product rises, more units will be offered for sale but fewer units will be demanded by consumers.

If a price is too low, there will be an excess demand for the good or service in question, and buyers will compete for the limited quantities available by offering higher prices to sellers. If a price is too high, there will be an excess supply, and sellers (who cannot sell all that they wish at the high price) will compete for customers by offering lower prices. So long as there are no government-imposed restrictions on prices, prices will tend to adjust in each market so that the quantities demanded will be equal to the quantities supplied.

It is important to realize that prices change only when there are bargaining inequalities between buyers and sellers. Prices rise only when the amount demanded by buyers is greater than the amount supplied by sellers; prices fall only when the amount demanded by buyers is less than the amount supplied by sellers. Put another way, prices rise only when there is a sellers' market, and prices fall only when there is a buyers' market. *The rise or fall of prices, however, eliminates the inequality of supply and demand and, thus, eliminates the conditions that people describe as sellers' markets and buyers' markets.* Freedom of price adjustments ensures equality of bargaining power among buyers and sellers. Freely moving prices are the great equalizer.

Employers compete for human labor services, like most things of value in a society based on private property in a market in which sellers and buyers engage in voluntary exchanges. Wage rates (in combination with other forms of compensation) are determined in the labor market. If this market isn't hampered by government, wages will constantly adjust so employers and employees enjoy equal bargaining power.

Of course, unskilled workers aren't as productive as workers with greater skills, and so wage rates for skilled labor tend to be higher than wages for unskilled labor. It is a myth, however, that highly skilled workers enjoy greater bargaining power with employers than do workers

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with fewer skills. If wage rates are free to adjust to their market-clearing levels, unskilled workers will enjoy as much bargaining power as the most highly skilled workers, because freely moving wage rates adjust so that the amount of each type of labor demanded will tend to equal the amount supplied. Employers can have no bargaining advantage over even the most unskilled workers if wage rates are free to move to the levels at which the amount of labor services demanded is equal to the amount supplied by workers. Freely moving wage rates are the great equalizer of bargaining positions among employers and employees.

The Minimum Wage: The Great Unequalizer

Minimum-wage legislation prohibits wages from falling low enough to equate the number of people seeking jobs with the number of jobs being offered. As a result, the supply of unskilled labor permanently exceeds the demand for unskilled labor at the government-mandated minimum wage.

Minimum-wage legislation thus creates a buyers' market for unskilled labor. And as in all buyers' markets, buyers (employers) have an unequal bargaining advantage over sellers (unskilled workers).

Consider, for example, a grocer. Suppose he decides that a clean parking lot will attract more customers, and that this will increase his sales by $10 per day. Of course, the grocer will pay no more than $10 a day to have his parking lot cleaned. He then investigates how best to get this done.

Suppose there are two options available to him. One way is to hire a fairly skilled worker who can clean the parking lot in one hour, while the second way is to hire two unskilled workers who, working together, will get the job done in the same time. Other things being equal, the grocer will make his decision based upon the relative cost of skilled versus unskilled labor.

Let's assume the skilled worker will charge $6 an hour, while each of the unskilled workers will charge $2.50 an hour. In a free labor market, the grocer will hire the two unskilled workers because, in total, it costs him $5 per hour for the unskilled workers whereas it would cost $6 for the one skilled worker.

But what will the grocer do if a minimum wage of $4 per hour is imposed? To hire the two unskilled workers will now cost him a total of $8 an hour. The skilled worker now becomes the better bargain at $6 an hour. Minimum-wage legislation strips unskilled workers of their one bargaining chip: the willingness to work at a lower wage than that charged by workers with more skills. The result is unemployment of the unskilled workers.

Consider another effect of the minimum wage. Because there are more people who want jobs at the minimum wage rate than there are jobs to go around, employers have little incentive to treat unskilled workers with respect. If an employer mistreats an unskilled worker, the employer need not be concerned if the worker quits. After all, there are plenty of unemployed unskilled workers who can be hired to fill positions vacated by workers who quit.

In addition, the permanent buyers' market created by the minimum wage encourages employers to discriminate in their hiring and firing decisions on the basis of sex, race, religion, and so on. Suppose an employer has two minimum-wage jobs available, but there are ten unskilled workers who apply for the jobs. Because the workers are prohibited from competing with each other on the basis of wage rates, other factors must determine which of the workers will be hired. If the employer dislikes blacks, and if there are at least two non-black workers who have applied for employment, no black workers will be hired. With a surplus of unskilled workers, there is no economic incentive to stop this bigoted employer from indulging his prejudices.

Conclusion

Minimum-wage legislation creates an excess supply of unskilled labor and gives the buyers of unskilled labor an unfair bargaining advantage over the sellers of unskilled labor. It is a fantasy to believe that the welfare of unskilled workers can be improved by such legislation. Unskilled workers shouldn't be restricted to a permanent buyers' market. □

Free Market Money in Coal-Mining Communities

by Richard H. Timberlake

"In the company town, or mining camp, . . . United States coin and currency were not in good supply. . . . During the heyday of the old company town, scrip circulated more freely than U.S. currency and was indeed the coin of the realm. . . . Eleanor Roosevelt . . . in the mid-thirties, during [one of] her humanitarian crusades, attacked the use of scrip by coal mining companies as a very evil thing. . . .

Although many mourn the days of a bustling and active coal economy, little can be said to support the . . . issuance of scrip." (Truman L. Sayre, "Southern West Virginia Coal Company Scrip," in *Trade Token Topics,* reprinted in *Scrip,* Brown, 1978, pp. 343-344)

1. The Possibility of Free Market Money

Ever since the abolition of the operational gold standard in the early 1930s, the federal government through its agent, the Federal Reserve System, has been almost the sole creator of the monetary base, and has also been the licensing agent for the banks that create most of the demand deposits used in the United States. No money of any significant amount can be created today without some sanction or act of the Federal Reserve System.

This condition has encouraged the notion that government is a necessary, or at least desirable, regulator of any monetary system—that without government involvement any monetary system quickly degenerates into "chaos." If this supposition were valid, the evolution of money could hardly have occurred. The barter system that preceded early monetary systems, in which government had no part, would not have been superseded if the resulting monetary systems were destined to be chaotic. This logic suggests the possibility and perhaps the feasibility of a nongovernment money. However, the practical efficacy of such a system cannot be deduced from a theory that merely suggests its possibility, but must be sought from historical evidence of monetary arrangements that have developed spontaneously in the private sector.

This paper examines one such incidence of private money creation—the issue and use of scrip, which occurred primarily in the isolated economic environments of mining and lumbering company towns during the first half of the twentieth century. Fortunately, numismatic collections and records reflect the operational character of the scrip systems in these communities so that some evaluation of their monetary properties is possible.

Much of the recent research on the creation of private money has focused on that issued by private banks in the presence of a dominant legal money such as gold. (White 1984, Sylla 1976, Rolnick and Weber 1982) The issue of scrip, however, had nothing to do with banks. It was issued by private mining and lumbering enterprises. While it, too, was redeemable in a dominant money, its issue and acceptance were not critically dependent on any dominant money. For this

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reason, the phenomenon of scrip issue is especially revealing.

2. Legal Restraints Against the Issue of Private Money

Proscriptions against the arbitrary or casual issue of money appeared at the very beginning of this country's political formation. First, the Constitution stated: "No state shall . . . emit bills of credit, [or] make anything but gold and silver coin a tender in payment of debt." (U.S. Constitution, Art. 1, Sect. 10) No money except gold and silver was to be the legal tender issue of any governmental unit.

Money to be money, however, does not have to be *legal* tender. It can be what one might call *common* tender, i.e., commonly accepted in payment of debt without coercion through legal means. Indeed, privately issued money to exist at all would have had to be common tender, and would have had to earn its acceptability in a market environment.

Even though the states and Congress were constrained to monetizing only gold and silver, the general laws of contract and commercial instruments sanctioned the appearance of moneys issued by privately owned commercial banks. (Hurst 1973) In addition, "Nothing in the Constitution barred private manufacture of coin, and through the first half of the nineteenth century Congress did not act against private coinage. . . . General contract law allowed any contractor to issue his notes and coins and circulate them so far as the market would take them." (Hurst 1973)

Free enterprise in the issue of common tender money was accidentally encouraged in practice by the federal government's ineptness in establishing a useful denominational spectrum of fractional currency during much of the nineteenth century. (Carothers 1967) Private transportation companies—canals, turnpike companies, and railroads—issued significant amounts of such currency between 1820 and 1875. Municipal and state governments did likewise. Redemption of transportation currency when called for was in services rendered, while state and local government currency was redeemed as tax payments. (Timberlake 1981)

The paucity of government-issued fractional currency was catastrophically aggravated by the first issues of greenbacks during the Civil War. The metallic values of subsidiary coins rose rapidly above their monetary values in the summer of 1862, and the coins disappeared from circulation. These circumstances provoked not only the ill-conceived issue of postage stamp currency, but also extensive private issues of minor coin. (Carothers 1967, Faulkner 1901) The act that authorized postage stamps as currency in 1862 also outlawed the private issue of notes, memoranda, tokens, or other obligations "for a less sum than one dollar intended to circulate as money or to be received or used in lieu of lawful money of the United States." (Act of Congress, *12 Statutes at-Large*, 592, July 17, 1862) Then in 1864, even the private issue of gold and silver coin was forbidden, again, "when the coins were intended for use as current money." (Hurst 1973)

3. The Appearance of Scrip as an Economizing Medium

The lack of adequate denominations in government-produced money was not the only factor that stimulated the private production of money. Shortly after fractional coinage was stabilized around 1885, coal mining and lumbering became major industries. Both coal mining and lumbering enterprises had to be organized in the vicinity of the contributory resources, so were often located in isolated areas with low population densities significantly distant from commercial centers. Coal-producing regions were hilly or mountainous areas where agriculture had been marginal and other commercial development had lagged. "The 'Main Street,' " noted one observer in describing a coal mining community "was often railroad tracks." (Brown 1978) Coal mining entrepreneurs, therefore, had unique problems to contend with in organizing their enterprises.

Their common problem was what is known today as a lack of infrastructure—no streets, no churches, no schools, no residences, no utilities, and no banks or financial intermediaries. The specialized industries that might otherwise have provided these services were dissuaded from doing so by the high start-up costs and the enduring uncertainties of dealing with low-income communities that might be there today and gone tomorrow. Alternatively, the coal mining companies could deal with such conditions because they were in a better strategic position to change uncalculable uncertainties into calculable risks. (Fishback 1986, Johnson 1952) Mining companies, therefore, built residences, churches, schools, and water works, and opened company stores or commissaries. In so doing, they became both buyers of labor from, and sellers of commodities to, the coal miners and their households. This kind of organization invited an economy in the community's payments system—the use of scrip in lieu of ordinary money.

"Scrip" has become a generic term for the issue of a localized medium of exchange that is redeemable for goods or services sold by the issuer. Originally printed cards or "scraps" of paper, scrip evolved into metallic tokens with many of the physical attributes of official coins. Indeed, scrip in the very beginning was more in the nature of a trade credit, or demand deposit, at the single local general store. Ledger credit scrip, however, gave way to scrip coupon books, which "eliminated the tedious bookkeeping chores that were incident to over-the-counter credit (day book or journal entries followed by ledger entries)." (Brown 1978)

The use of scrip not only implied an issuer—the mining company—and a demander—the miner, it also required a supplying industry. The institutions that supplied coupon scrip were companies already in business printing tickets, tokens, and metal tags for various other kinds of enterprise. They advertised extensively in mining catalogues during the first half of the twentieth century touting the advantages of their own scrip systems. The Allison Company of Indianapolis, for example, noted that when one of its coupon books was issued to an employee, "He signs for it on the form provided on the first leaf of the book, which the storekeeper tears out and retains for the [company] time-keeper, who deducts the amount from the man's next time-check." Then, when the employee buys goods from the company store, "he pays in coupons, just as he would pay in cash, and the coupons are kept and counted the same as cash. . . . The coupon book is a medium of exchange between the company employees and the company store." (from 1916 *Mining Catalog*, Brown 1978) Other scrip-producing ticket companies emphasized the safety of the scrip coupon system in coal mining communities "where little or no police protection is afforded." (adv. of the International Ticket Co., in the *Keystone Catalog* of 1925, Brown 1978)

The Arcus Ticket Company of Chicago advertised a list of advantages of scrip to both the employer and employee, one of which for the employer was the fostering of employee good-will by avoiding misunderstandings on charge accounts. The advantages to the employee included keeping the "'head of the house' better informed as to the purchases made by his family from day to day. . . . This frequently puts a check to extravagance and debt." (*Keystone Catalog*, 1925 in Brown 1978) Local scrip of this type was very similar to modern day travelers checks. The costs of travelers checks were also the costs of coupon scrip: each unit could be used only once. It had to be signed out when it was issued and signed when it was spent. (Brown 1978)[1]

The transactions costs of coupon scrip eventually encouraged the increased use of metal scrip. This medium became cheaper overall than coupon scrip, in spite of metal's higher initial cost, largely due to the invention and development of the cash register after 1880. Pantographic machines also were instrumental in reducing the unit costs of metal tokens. (Brown 1978)

Instead of receiving cash, the scrip-issuing "cash registers" paid out metal tokens, made a record of the pay-out and to whom it had gone, and kept a grand total of the amount issued. The scrip registers would eject a specified "dollar" amount of scrip when a lever like that on a slot machine was pulled. In a 1927 advertisement, the Osborne Register Company (ORCO) of Cincinnati pictured a 10-year-old child who, in a demonstration, issued $600 worth of metal scrip in various amounts to 200 hypothetical employees in 55 minutes, implying an average emission of $3 per employee every 16.5 seconds. (Brown 1978)

4. The Positive-Sum Benefits of Scrip

The economics of scrip issue, as with all exchange between economic agents, required that both the issuer (the coal mining company) and the acceptor (the employee) benefit from the transaction. The company necessarily had contact with the outside world. It bought machinery and other resources and sold coal in a national market. All these activities required the use of standard money.

Scrip was used essentially as a working balance of money with which the coal operator could make advances to his impecunious employees between paydays. It was issued at the request of the miner to the extent of the wages he had already earned, and it was redeemable in standard money on the next payday. The amounts were usually small—five or ten dollars, or even less. To the worker it amounted to an interest-free, small-sum loan that he could get with almost no effort. It enabled him to buy ordinary household goods at the company store. To those workers who had "gone out and got drunk" on the previous weekend, or who had suffered some kind of household emergency, scrip was a blessing only measurable by the cost of its common alternative. (Clark 1980, Johnson 1952)

Its alternative in a conventional urban setting without scrip was the pawn shop, loan shark, or installment peddler. (Johnson 1952) An industrial worker in the same unfortunate position in, say, Detroit, Pittsburgh, or Chicago, had access to money between paydays only by borrowing against his household capital at a pawn shop where he paid exorbitant interest rates if he reclaimed his pawned goods.

The scrip system could be abused in such a way that a discount would also appear in some scrip transactions. Since the company store did not sell liquor—for the obvious reason that its sale would encourage absenteeism and worker inefficiency—workers would at times obtain scrip from the company clerk and sell it for conventional currency in order to buy liquor. The bootlegger (during Prohibition) or other liquor vendor, whose shop was not likely in the neighborhood of the company store, faced significant costs in redeeming the scrip for conventional money, thus giving rise to a discount. (Brown 1978, Caldwell 1969)[2]

In spite of the obvious advantages of the scrip system to both worker and mine owner, scrip, the company store, and the company town have been universally bemeaned. (Brown 1978) The accounts of their operations include contradictions that appear sometimes in the same paragraph. (For example, see quote of Sayre used as an epigraph, p. 1, Brown 1978.) All accounts, while critical of the scrip system, acknowledge, first, that it was issued at the behest of the miner; second, that its issue cost the miner nothing; and, third, that it was redeemable in standard money on payday. The dogma of scrip's critics was that the company store, in which the scrip had to be spent, raised prices to monopolistic levels and thereby exploited the defenseless miner. (Dodrill 1971) Fishback's and Johnson's studies of prices in company stores versus those in independent stores refute this popular prejudice. Prices were four to seven percent higher, but so were costs. (Fishback 1986; Johnson 1952)

The advantage of scrip issue to the mine operator was that it was one worker perquisite he could offer to attract labor into a somewhat unattractive environment. He already offered housing and mercantile services; by issuing scrip against future wages he also provided commercial credit with virtually no interest charges to the borrowers. (Johnson 1952) The practice, indeed, was so widespread that it can only be viewed as a traditional perquisite of the trade. A company that did not offer the scrip privilege would have been at a competitive disadvantage.

The mine operator thus became a quasi banker. His cost for metal scrip during the 1920s varied from slightly less than 1 cent to 5 cents a unit for scrip tokens of simple design made in aluminum. In brass or nickel silver and with scalloped edges and more intricate designs, costs could run as high as 11 cents a piece. (All these values are unit costs in thousand-unit lots, and are from advertisements of several different scrip manufacturers between 1925 and 1940, in Brown 1978.)

Scrip sales information from the Ingle Company sales journal of 1928 reveals that the average denomination issued was about $ .25. (Brown 1978) Since the average cost per token was only about 3 cents and could have been even less, an investment by the coal company bank in, say, 5,000 pieces cost it about $150 for the scrip coin, and perhaps $100 more for a scrip-issuing machine. To carry out this same banking function with regular U.S. currency would have required an investment in cash alone of $1,250, as well as substantially greater security costs to protect the money. One observer noted, "The mining company could pay almost its entire payroll in company scrip, disturbing only a few dollars of actual working capital." (Sayre, in Brown 1978) Of course, paying out scrip gave workers some additional claims on the working capital of the company stores. So the monetary economy of using scrip was in part offset by higher costs of merchandising goods.[3]

The difference between the payment system costs of scrip and of real money was a form of seigniorage revenue the coal mine operator realized and shared with his employees. They received interest-free loans; he was able to offer a fringe benefit that tended to reduce what would have been a higher working capital requirement.

While scrip was usually specialized to one company in a particular community, many coal mining companies had mines in different regions. Their scrip was good in all the different locations where their mines operated. As the scrip-using communities gradually came to experience more extensive commercial relations with each other, their localized scrips became interchangeable. Even some independent stores accepted coal company scrip. (Brown 1978)

Given the proscriptions against the private printing or coining of money by the Acts of 1862 and 1864, one may wonder how scrip could have been issued and used legally. The key is the word "intended" in the proscriptive laws. The courts ruled that scrip was not *intended* to circulate as money: first, because it was redeemable only in merchandise until payday; and, second, because it resembled money only superficially and was clearly distinguishable from standard money. (The coin under the court's scrutiny was a 50-cent token, but weighed only one-fifth as much as a standard 50- cent piece.) Any token that was redeemable in lawful money *on demand* was construed to be illegal, and whether the token in question was coin or pasteboard did not matter. (Brown 1978)

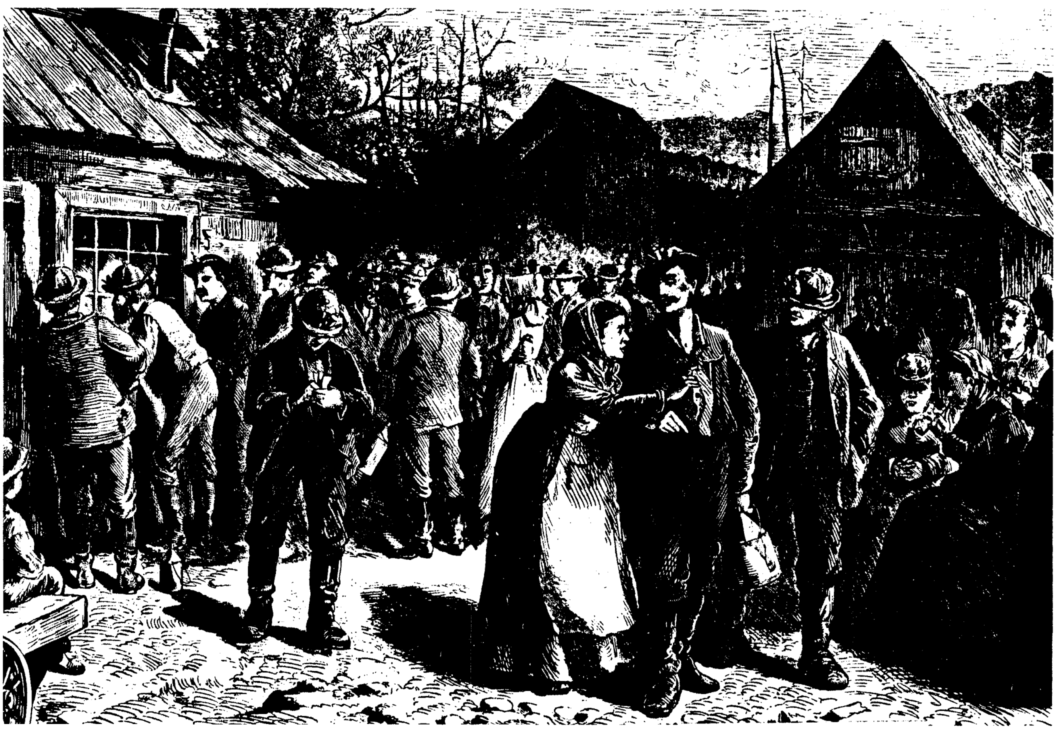
5. The Environments in Which Scrip Appeared

The extent of scrip use has many dimensions—temporal, geographical, and industrial. Its most notable occurrence in the twentieth century was in the coal mining regions of West Virginia, in part because the state government passed a "wide open" scrip law some time before 1925. However, it was extensively used in other states as well. The Tennessee Coal Iron and Railway Company, for example, ordered 547,500 pieces between 1933 and 1937 from the Ingle-Schierloh Company of Dayton, Ohio. (Brown 1978) Another source lists 20,000 coal company stores in the United States, Canada, and Mexico all of which used scrip between 1903 and 1958. (Dodrill 1971)

Numismatic records indicate that scrip was also used extensively in several other industries—fishing canneries, agriculture (to pay crop-pickers), fruit canneries, logging and lumbering companies, and paper companies. (Brown 1978, Trantow 1978. Trantow's index lists over 1,100 companies that issued scrip currency in 40 states.) One scrip numismatist cites a Chicago newspaper of 1845 that regularly quoted the discounted prices of coal scrip, city scrip, canal scrip, railroad scrip, Michigan scrip, Indiana State scrip, and Indiana land scrip, as well as the notes of private and chartered banks. Private businesses issuing such scrip numbered in the thousands. (Harper 1948) Furthermore, as Brown observed, "The use of paper scrip was much wider than the use of [coin] scrip . . . [but] only a comparatively small amount [of the paper] has survived." Therefore, the extent of scrip use must have been much greater than the vestiges in metallic collections would indicate. (See also Caldwell 1969.)

Just as Brown in his work seemed unaware of scrip that had preceded the issues by coal companies, Harper in his study of *Scrip and Other Forms of Local Money* thought that intensive use of scrip only appeared in the United States during the depression years, 1932-1935. His research uncovered several sources of "depression" scrip: (1) issues by local governments due to decreases in tax revenues; (2) issues by chambers of commerce after local bank failures as a means of "corralling as large a proportion of the depression diminished volume of business as possible for their membership"; (3) issues by "home-owned stores as a weapon against . . . chain- store competition"; (4) issues by "barter groups as a means by which the unemployed could more conveniently exchange services"; and (5) issues by charitable organizations to needy persons as "commodity orders" for foodstuffs. "Local money in some form," he concluded, "is likely to recur in response to a public demand under substantially similar circumstances."

Most of this "depression" scrip had appeared



Miner's pay day.

in earlier times—for example, municipal scrip that was redeemable as tax payments. The depression scrip, however, was usually linked to a dated stamp scheme that required the holder to fix low denomination (2- or 3-cent) stamps to the scrip at specified times. The stamps were to provide the revenue to redeem the scrip and to encourage spending, but they added an undesirable burden that greatly reduced the efficacy of the scrip's use. They also detracted from the scrip's effectiveness as an addition to the existing stock of ordinary money. (Harper 1948)

6. Implications of the Scrip Episode

The phenomenology of scrip issue has significant implications. First, no one had any incentive to leave scrip behind for monetary researchers to count or to analyze. Demanders of such currency would not regard it as a store of value for any time longer than the period between paydays. Suppliers, to whom the scrip was an outstanding demand obligation, would redeem it first if they liquidated, merged, or closed down their enterprises. In addition, everyone who used it and benefited from it was aware of its questionable legality. Archival records of its outstanding quantities, therefore, are almost nonexistent. (Timberlake 1981)

Scrip's unrecorded existence is emphasized as well by the research that has uncovered its former use. Each scholar who has unearthed one of the diverse scrip appearances has treated the phenomenon as unique, and with good reason. Each one was widely separated in time, place, and circumstance from the others. Yet, each one had characteristics similar to the others. All episodes combined emphasize the feasibility of the spontaneous production of money in the private sector.

The coal mining scrip episode adds significantly to the total scrip experience for a number of reasons. First, it lasted for over 50 years, so it was not just a temporary happenstance. Second, it appeared in a wide range of independent communities. In West Virginia alone, almost 900 coal mining companies employing about 120,000 miners issued scrip in one form or another. In other areas of Appalachia—southern Virginia, eastern Kentucky, eastern Tennessee and southwestern Pennsylvania—the experience was similar.

Third, scrip's tenure was not dependent on the previous existence of standard legal tender money. True, the coal company was bound to redeem the scrip on payday, but this guarantee was only a flourish that enabled scrip issuers to avoid violating the proscriptive laws against the issue of private moneys. As it was, many children living in coal mining communities did not see a dollar of "real" money until they grew up and left the area. (Caldwell 1969)

The self-sustaining nature of the scrip system, without recourse to standard money, stemmed from the fact that both the demander and supplier of scrip were active participants in both the labor market and the household goods market at the company store. This intimacy in two markets by both participants enabled them to evaluate wages paid and received in real terms, that is, by the quantity of household goods that the scrip wages could purchase. A decline in the purchasing power of scrip at the company store would simply have indicated to the miner that the real value of his services to the company had declined. He thereupon would have moved to another location or occupation. If the decline in real wages was due to an industrial depression or the competitive decline of the coal industry, as occurred simultaneously in the 1930s, both mine workers and mine operators would realize reduced real returns in the mode of any resource owners under similar circumstances.

A fourth important result of the scrip system was its reflective emphasis on the returns to the capital structure of the payments system. In the scrip system the money was supplied endogenously: the coal company banks, the borrowing miners, and the scrip suppliers were all parts of an economy of private ownership. Scrip money was not dependent on any outside money, but was produced under the same conditions and incentives as any common commodity. The mining companies rather than the workers produced the scrip because in working without wages until payday, the workers were implicitly extending credit to the company. Scrip issue was a means of clearing this debt before the regular payday. In addition, the coal mining company had the collateral value of the mined coal to secure the "loan."[4]

Both the companies and the workers realized the seigniorage returns from its existence. While the scrip system was small-scale and had a low profile, the government could ignore it because it posed no threat to the government's monopoly over the production of money. However, if scrip issue had shown any tendency to become a national practice, the proscriptive laws against private coinage would surely have been interpreted and enforced much more rigorously.[5]

An observer of the scrip system might conjecture that the experience of the isolated communities could have ramified into an intercommunity system using some kind of scrip clearinghouses (i.e., scrip banks) if the laws restraining the private issue of money had not existed. Over time, technological and organizational developments could have led to economies of scale and enterprise. Probably as few as three or four or as many as two dozen issuers of scrip money might have appeared. Some of the minters of scrip—Ingle-Schierloh, Osborne, Insurance Credit, Adams, Dorman, and others—would have expanded their enterprises to include management of intercommunity scrip systems and ultimately their probable evolution into credit card systems. Such an extension of function would have been analogous to automobile dealers expanding into the car leasing business—a sort of horizontal integration to reap certain economies of scale.

Had the scrip system become intercommunal and given rise to scrip-on-deposit in scrip banks necessitating bank reserves and clearing operations, some high-powered scrip into which local scrips could be converted would probably have appeared. The experience of the ages seems to confirm this evolution. (Friedman and Schwartz 1986) Less clear is why the high-powered money has to be issued or regulated by the state. The question of whether or not the market system could, alternatively, produce a private monetary base that would prove to be both stable and serviceable has not been attempted or allowed, and will remain unimaginable until a general belief in market efficacy becomes pervasive. That time as yet seems nowhere near.[6] □

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1. This comparison must be qualified. Many travelers checks, as well as other U.S. currency, are currently used as hand-to-hand media in foreign markets. Sometimes travelers checks return from abroad with more than a dozen endorsements on them. They are called "checks," but like food "stamps," they are a quasi currency.

2. Scrip was frequently advertised as redeemable only to the worker to whom it was originally issued. This condition applied in some mines. However, for metallic scrip, it could hardly have been enforced, and would have detracted from the utility of any scrip if it were enforced.

3. I am indebted to Huston McCulloch for this observation.

4. I am indebted to Huston McCulloch for suggesting these details.

5. In a thought-provoking paper, David Glasner argues convincingly that governmental assumption of a monopoly role over money enabled governments to enhance their fiscal powers, particularly during war emergencies (Glasner, "Economic Evolution and Monetary Reform," especially the section: "A Rational for Government Monopoly over Money"). In short, not only is seigniorage an important revenue to the state, but capital expropriation through debasement of money's function as a unit of account may be even more lucrative.

6. However, the commercial bank clearinghouse system in the United States during the second half of the nineteenth century is an example of a private lender of last resort that produced base money efficiently at critical times. (Timberlake 1984)

The Forgotten Right of Association

by David Hood

The Century Club of New York City, an all-male social club, was told by city officials a few years back that it no longer could refuse to admit women members. The Club, thinking that private clubs weren't subject to such public regulation, took their case to the Supreme Court, arguing that the rights of privacy and association gave them the power to set their own membership rules. After all, this was the way the courts had always viewed private clubs.

In 1988, though, the Court decided that it would begin to make the rules. In a powerful opinion written by Justice Sandra Day O'Connor, the Court ruled that all-male clubs could no longer exclude female members, since such exclusion denied the women access to business deals with club members. No longer would the Century Club, or any similar men's club, be allowed to hang a "No Girls Allowed" sign outside their "clubhouse."

No consideration was given to the rights of club members to associate with whomever they please. Freedom of association traditionally has been one of the central foundations of the American way of life. This freedom enjoyed some measure of protection throughout our nation's history, as an inherent part of our First Amendment liberties. As early as the 1830s, Alexis de Tocqueville noted this American trait with favor in his book *Democracy in America.* "In no country in the world has the principle of association been more successfully used or applied to a greater multitude of objects than in America," he wrote. Unfortunately, our judiciary's support for the right of citizens to associate freely with each other has greatly wavered over the years, as "substantive state interests" have been allowed to supersede human liberty.

Freedom of association can take many forms. The doctrine would allow people to organize formal groups under any mutually agreed-upon guidelines, including criteria for membership. It also would allow a person to become friends with anyone he chooses, or to invite any person onto his property. (One possibly legitimate caveat would be cases of criminal conspiracy.) The obvious corollary to these liberties is the freedom *not* to associate, since state action to force association between two parties is as unjust as preventing them from voluntarily associating.

Modern jurisprudence has taken a curious view of this right. Associational liberty has been upheld in some situations. Landmark cases in this century allowed trade unions to organize, for instance, and prevented governments from outlawing certain political groups like the Communist Party. Privacy also has been seen as an important value. One 1961 case defended, correctly, the right of the NAACP to withhold its membership list from the State of Alabama. (*NAACP* v. *Alabama*, 357 U.S. 449)

However, the courts have recently eroded the rights of private citizens to choose with whom they will associate. Associational freedom has lost out to "state interests" like foisting racial or sexual equality upon unwilling

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subjects. In 1964, for example, two cases were decided that prevented private property owners from deciding who could enter their premises. The Heart of Atlanta Motel and a Birmingham, Alabama, restaurant called Ollie's Barbecue were told that they could no longer refuse to serve blacks. The fact that these businesses were on private property was not seen as an obstacle to state determination of who would be allowed to associate there.

A similar intrusion into freedom of association was witnessed in 1988 when the Supreme Court decided that certain private clubs in New York City had to abide by a city law that required them to admit women.

Now, all these decisions were greeted favorably by the media. I must confess that I myself find it difficult to suppress my elation that a bunch of racists and sexists were told to shape up by the Supreme Court. However, we must not allow our personal evaluations of other citizens' beliefs to obscure what is really going on in these cases. Even the Nazi has his freedom of speech protected by the First Amendment. The Flat Earth Society is allowed to associate and promote its ideas. Freedom of thought necessarily entails the freedom to be *wrong*. That is why the above court decisions can be seen as having fundamentally negative consequences for human freedom, especially that of associating with other human beings.

The Ideal of Autonomy

Why is freedom of association so important? Tocqueville championed this right by arguing that its roots are firmly planted in the ideal of autonomy: "The most natural privilege of man, next to the right of acting for himself, is that of combining his exertions with those of his fellow creatures and of acting in common with them. The right of association therefore appears to me almost as inalienable in its nature as the right of personal liberty. No legislator can attack it without impairing the foundations of society."

Thus the right can be seen as central to individual autonomy, or the power of a person to control his own actions. One should be allowed to associate with whomever he wants, just as one should be allowed to think whatever thoughts he wants. Freedom of association is just as important to individual autonomy as freedom of speech.

Indeed, freedom of association is an integral part of those liberties more commonly thought to reside in the First Amendment. Can we truly have freedom of speech if the audience is determined by the law rather than by private choices? Can we exercise freedom of the press if the readership is regulated by the state? Can we have freedom of religion if congregations are determined by government? The freedom of association sets the stage for the exercise of all these other freedoms.

Another way to think about freedom of association is under the rubric of contract law. Membership in a private club can be seen as a form of contract between the prospective member and the current members. This is how the right traditionally has been enunciated in English common law. Just as the state cannot violate freedom of contract between competent adults, so should it be prevented from interfering with the freedom to form contractual associations. Also, the state never should have the power to compel parties to contract with each other, but it certainly did in 1988 when New York's Century Club was forced to admit women members.

Charles Murray spells out another benefit of associational liberty in his book, *In Pursuit.* Associations, he writes, are an integral factor in one's pursuit of genuine happiness. This is especially true of church groups, social groups, and neighborhood associations. Murray argues that free human interaction as a process is much more important to people than any results-oriented form of welfarism. Freedom of association thus can be seen as a bulwark of the private sphere, through which most people derive their happiness and self-worth.

The key issue in legal battles over freedom of association is the definition of "public" versus "private" interaction. It is obvious that arbitrary criteria like race or gender shouldn't be utilized in governmental decision-making, since laws should apply equally to all. However, it is difficult to see why private decisions should be subject to the same rules. Government has neither the ability nor the right to dictate how people should conduct their personal lives, providing that private interactions are conducted by *mutual assent* among the parties involved.

Access to the benefits of association with certain persons should not be an "overriding state interest" that justifies abrogation of associational liberty. Blacks who want some good barbecue are free to go to a shop that has a more sensible admissions policy than that practiced by Ollie's Barbecue. There certainly were such places, even 25 years ago. Women who want membership in New York clubs should find ones that don't shoot themselves in the foot by prohibiting female membership. More fundamentally, though, the state should not be in the business of providing "access to commercial opportunities" in the form of possible business deals with certain club members. The government might just as well tell us whom to invite to our homes for dinner, or with whom to play golf, since many business deals are conducted in these settings as well.

Also remember that if the sexist club members don't want women there, it is highly unlikely that they will seek out the new women members to make them business propositions!

Coercion is hardly ever the answer when one is faced with people who make the wrong decisions. This is especially the case when associational freedom is at stake. The correct path is not to seek state intervention into the makeup of private associations; it is persuasion, or competition through the formation of alternative associations. Assuming that the "bad" organization doesn't enjoy monopoly status (like a bar association), the marketplace eventually will lead to the adoption of more legitimate admissions practices, since the "old boy network" clubs will be missing out on the increased vitality and productivity brought to other clubs by their female or minority members. Just as it would be bad business these days to restrict one's barbecue consumers to whites only, it is equally bad business to restrict one's business dealings to members of an all-male club.

The world will not end just because the Rotary Club and Century Club have to admit women members. In fact, the clubs themselves may be better off in the long run. However, the principle of free human interaction itself is ending, if government decides it can invade the private sphere of its citizens with impunity. Freedom of association is an integral part of our Constitutional liberty, as well as a primary means of pursuing happiness. But in the final analysis, it is also an important weapon in the continual struggle against "Big Brother" statism. A society not free to associate is not free to do much else, either. □

IDEAS
ON
LIBERTY

Education for Privacy

We are living in a world and in a time when powerful leaders with millions of fanatical followers are committed to the forcible regimentation of their fellow men, according to formulas which have no initial authority but that of their own private dogmatism. They not only refuse to recognize the right of private thought and a personal conscience to be considered in the management of public affairs, but they have abolished the concept of the individual as a private personality and have reduced him to the level of the bee in the hive. To restore the individual to his former dignity as a human being is the urgent need of the day.

—MARTEN TEN HOOR

Movie-Goers Can Think for Themselves

by Tibor R. Machan

Bull Durham is a nice little movie, about minor league baseball and love and good times and friendship. But it recently came in for a strange criticism.

This and other movies, including television shows, are being charged with a kind of subliminal advertising. Some charge that these films are being used by Hollywood producers to peddle brand-name products. (In *Bull Durham* it was beer and other products, none of which I remembered after I saw the movie or even noticed as I watched it.)

Of course, films that deal with contemporary life would be entirely artificial if producers disguised brand products used in the course of the action. I have always felt cheated when someone in a movie picks up a pack of cigarettes or a can of beer and hides the label. Mind you, I never remember a visible label, but I do remember when it is artificially hidden from view.

What exactly are these critics complaining about? They are insulting movie-goers by implicitly accusing them of being robots who cannot keep from going out and buying what is shown on the screen. Imagine it. The viewer is conceived of, not as a person with a will of his own, nor as someone who knows what he wants, but as a mechanism that responds automatically to subtle stimulation. The movie makers, by implication, are accused of being manipulative and exploitative.

The evidence for both these charges is feeble. People aren't robots available for easy exploitation: the advertising industry has learned that you cannot sell things that people don't want. Of course, people may want silly and useless things, but they have to want them before they really pay attention to brand-name ads. If this weren't so, advertising campaigns wouldn't flop as often as they do. (Even ads we love to see don't always manage to sell the products we are invited to buy—we like the jokes, the characters, the themes, the scenery—but not necessarily the product or service.)

Furthermore, why must these critics assume that movie makers have nothing else in mind when they include various brand-name products in their films? Why not assume that they simply wish to be realistic? Why not consider the possibility that they see the phoniness of pretending that while everything else in the film fits the picture, those disguised products do not?

Consider, also, that every movie "advertises" the actors who appear in it, the locales in which the movie takes place, the kind of clothing worn by the characters, and so on. No one, as yet, has complained about that.

I am confident that this special attack on the movies is yet another way in which the critics express their hatred for the market. These critics are power-seekers—admittedly for motives that seem sincere and virtuous to them.

But these motives are not virtuous, however sincere they may be. They are dangerous and should be exposed as such. They are subtle messages to the public that consumers are generally inept, and need the wise guidance of intellectuals who will occupy various seats of power and tell film makers and television producers what to do.

Let us respond to these folks forcefully, and tell them to take care of their own problems and leave us to cope with ours. We are able to handle anything offered us on the screen—we can even walk out if we find something offensively pushy. □

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A REVIEWER'S NOTEBOOK

A Critical Examination of Socialism

by John Chamberlain

"All through our childhood they hung around the houses of our minds, the Four Uncles: Uncle Shaw, Uncle Wells, Uncle Galsworthy, and Uncle Bennett." The quotation, which is from memory, is from Rebecca West's essay on the Four Uncles, written for the old *New York Herald-Tribune*.

I cite it here because it did much to fix in peoples' minds the idea that Fabian Socialism had taken over in England for good. The two Uncles who contributed to the Fabian essays, Shaw and Wells, were powerful voices.

Russell Kirk, author of *The Conservative Mind*, was an early objector to the idea that England, under Fabianism, was lost to the West. Biding his time, he has projected the idea of a series of books to be published under the general heading of the Library of Conservative Thought.

"Our Library of Conservative Thought," he says, "will not amount to a corpus of infallible writings from which zealots might derive a conservative Thirty-Nine Articles; rather, we mean to recognize the diversity of conservative ideas—if you will, the varieties of the conservative experience."

As the first book in his series, Kirk has picked *A Critical Examination of Socialism* by William Hurrell Mallock (New Brunswick, N.J.: Transaction Books, 302 pages, $37.95 cloth). "This book," Kirk writes in his introduction, "grew out of a series of lectures that William Hurrell Mallock delivered in the United States during 1907. Mallock was an English man of letters, of an old Devonshire family; he had risen to celebrity as a wit at the age of twenty-eight, when he published *The New Republic, or Culture, Faith, and Philosophy in an English Country House*. He had been born a year after the Communist Manifesto was published; he would live to see the destruction of the old order in eastern Europe and other lands. . . . this *Critical Examination* has been selected . . . because the debate into which Mallock entered more than eighty years ago has not yet ceased, and because the book is a good example of Mallock's polemical skill."

Mallock crossed swords with all the theorists who believed in some variant of the labor theory of value. To him, the theory only accounted for muscle work, not brain work. The principal producer of wealth, according to Mallock, was ability. "Ability," he wrote, "is a kind of exertion on the part of the individual which is capable of affecting simultaneously the labour of an indefinite number of individuals, and thus hastening or perfecting the accomplishment of an indefinite number of tasks." It is, adds Kirk, "the faculty that directs labor; that produces inventions, devises methods, supplies imagination, organizes production and distribution, maintains order."

Labor without ability, says Kirk in his interpretation of Mallock, "is simply the primitive effort of natural man to obtain subsistence. Recognizing that mankind cannot prosper by mere labor, society hitherto has endeavored to encourage Ability by protecting Ability's incentives. In destroying those incentives, the Marxists would bring down civilization. So Mallock told his American audiences in 1907, and so, in much of the world, it has come to pass."

Socialists think that men of ability should work out of pure idealism. But the man of ability presumably has a family and the prospect or reality of heirs. What chance does idealism toward an abstraction called the State have in competition with the family?

Kirk finds sustenance for these opinions in a very odd place. Mikhail Gorbachev, in his book *Perestroika*, says, "Equalizing attitudes crop up from time to time, even today. Some citizens understand the call for social justice as 'equalizing everyone.' But society persistently demands that the principle of socialism be firmly translated into life. In other words, what we value most is a citizen's contribution to the affairs of his country. We must encourage efficiency in production and the talent of a writer, scientist, or any other upright and hard-working citizen. On this point we want to be perfectly clear: *socialism has nothing to do with equalizing*."

Gorbachev, says Kirk, "unlike Shaw, finds it necessary to take into account the claims of Ability, so strenuously advanced by Mallock eighty years ago." Maybe "capability" would be a better word to use when talking about the subject—it has a slightly broader sound. But it makes no real difference.

There is an implicit bargain between the man of organizing ability and the ordinary muscle worker. Neither can do without the other. The organizer must have someone to organize. Just to keep things happy the organizer, after his own family has been cared for, will allow a portion of brain- work profit to go to the muscle worker.

Socialists, according to Mallock, do not have the mental qualifications to understand machinery. "They have never made two blades of grass grow where one blade grew before. They have never applied chemistry to the commercial manufacture of chemicals. They have never organized the systems or improved the ships and engines by which food finds its way from the prairies to the cities which would else be starving. . . . They would never set themselves to devise, as was done in the English midlands, some new commodity, such as the modern bicycle, which was not only a means of providing the labourers with a maintenance, but was also a notable addition to the wealth of the world at large. They fail to do these things for the simple reason that they cannot do them; and they cannot do them because they are deficient alike in the interest requisite for understanding how they are done, and in the concentrated practical energy which is no less requisite for the doing of them."

Mallock does not use such terms as "entrepreneur," or even "enterpriser." The words change; the realities remain the same. Capable men will seize opportunities without worrying about definitions of the word "ideology," which has some strange uses in the dictionary. Kirk doesn't like the word, and he offers Mallock's book as helpful to freeing us "from the chains of ideology." Whatever those "chains" may be, it is good to be reminded that the man of ability need not respect them. □

HONG KONG

by Jan Morris

Random House, 400 Hahn Road, Westminster, MD 21157 • 1988
359 pages • $19.95 cloth

Reviewed by Russell Shannon

"Hong Kong," says British writer Jan Morris in her new book, "has always been the brazen embodiment of free enterprise." Although Hong Kong has existed on the principle of laissez faire as a British colony for 150 years, it is only since the 1949 revolution in China sent hordes of refugees to this tiny place that it has truly flourished.

That, of course, is ironic. At the same time that Mao Zedong in mainland China was proving that Communism simply doesn't work, industrious Chinese people in Hong Kong were eagerly showing how effectively capitalism does. While China with its vast natural resources stagnated, Hong Kong, with almost nothing to boast of but an excellent harbor, proved the assertion that American economist Julian Simon makes so well in his book, *The Ultimate Resource*: "Our cornucopia is the human mind and heart," he wrote, "and not a Santa Claus environment." As Simon puts it further on, "The ultimate resource is people—skilled, spirited, and hopeful people who will exert their wills and imagination for their own benefit, and so, inevitably, for the benefit of us all."

Ironically, politically speaking, the government Britain provided for Hong Kong is scarcely more democratic than the one provided for one billion Chinese by Beijing. As Morris points out, the population of Hong Kong "enjoys freedom of speech and opportunity, but no freedom at all to choose its rulers."

How all this came about is the subject of Morris's fine book. Skillfully alternating chapters on

Hong Kong's historical development with portraits of its present people, procedures, and problems, she offers the reader both great delights and much insight.

The picture she paints is certainly not all pretty. Initially, Hong Kong was a focal point for the opium trade. Over the years, it has been plagued by piracy, corruption, counterfeiting, and discrimination. In one particularly poignant tale, the author points out that Chinese coolies were not allowed to use the tram to carry heavy supplies of items such as coal and ice to British homes nestled in the upper elevations. "In 1921 a compassionate clergyman discovered that one small laborer, aged six, spent twelve hours a day, six days a week, carrying fifty-eight-pound loads of coal from the waterfront to a house of lofty eminence."

Nor is Hong Kong's capitalism pure. Confronted by massive influxes of refugees in recent years, the government has felt obliged both to establish public housing and to provide low-cost medical care.

But throughout its existence, private enterprise has been the prevalent factor in this British colony. Most notable, of course, were great British merchants, such as Jardine, Matheson, and Swire. Yet the extent of private enterprise is truly astonishing. A century ago, even "public lavatories were run by private contractors." In more modern times, elements of public transportation, such as the underwater tunnel which connects the island of Hong Kong with Kowloon on the mainland, are profit-making enterprises.

What will happen when Hong Kong reverts to Chinese control in 1997? The question arose on my own brief visit to the area two years ago when, with a group of American economists, I visited a joint American-Thai feed mill in Shenzhen, one of the flourishing new enterprises just inside the Chinese border north of Hong Kong. In response to this question, the young American finance officer who had been our able and outspoken guide responded that he believed the question should be reversed: we really should be asking what will happen when Hong Kong takes over China!

The return of Hong Kong to Chinese control, Morris feels, is inevitable, because it was taken under what the Chinese consider the "unequal treaties" imposed on a declining Chinese empire by emerging Western empires during the last century. Yet while noting that once-prosperous Shanghai, under Communist domination, has been reduced to "dingy impotence," to a large extent the author echoes the young American finance officer. Rapid commercial and manufacturing developments not only in Shenzhen but also northward to Guangzhou (Canton) already bespeak Hong Kong's strong influence on its great northern neighbor.

The reader who completes the tour through Morris's pages will not put the book down with a heavy heart. Rather than lament the plight confronting Hong Kong's residents, one is more inclined to take comfort from the success of the Chinese in Hong Kong (as well as in nearby Taiwan) which amply demonstrates that prosperity is not a uniquely Western phenomenon. Furthermore, the success of the Chinese expatriates may have had more than a little to do with turning the present regime in Beijing away from the pathetic failure of Marxism and toward the principles of the free market. That may well be the most important achievement of this tiny but remarkable colony. □

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THE FATAL CONCEIT: THE ERRORS OF SOCIALISM

by F. A. Hayek

The University of Chicago Press, 5801 South Ellis Avenue, Chicago, IL 60637 • 1989 • 180 pages • $24.95 cloth

Reviewed by Robert Taylor

At the ripe old age of 90, Nobel Laureate Friedrich von Hayek has loosed one final curve ball at the academic world. While intended as a capstone work to summarize his lifelong contributions to the social sciences, this book takes a somewhat novel tack by examining the origin and nature of ethics.

Like Marx, Hayek sees an inherent contradiction in Western capitalistic societies. Unlike Marx, however, Hayek sees this contradiction in terms of an ethical dualism, not a materialistic dialectic, and he also feels that this contradiction is both necessary and beneficial—though nonetheless problematic.

Hayek approaches ethics from an entirely different angle from most philosophers. While philosophical ethics usually entail rationalistic system-building from certain assumptions about human nature or from bits of empirical data, Hayek's ethics are non-rationalistic and based upon the historical process. Hayek rejects the explicit, rationalistic construction of most ethical systems because such constructions rest upon the "fatal conceit" of human reason. Reason, Hayek argues, is incapable of commanding the information necessary to design an ethical system.

Hayek believes that ethics lie somewhere between instinct and reason. Ethics—like language, the marketplace, and the common law—are a spontaneous order that, in the words of Adam Ferguson, is the product of "human action, but not human design."

Our ethical system was not designed by anyone; it is traditional, handed down from generation to generation, and learned by imitation. Its progress and development were achieved by a process of social evolution: those cultures which adopted "good" ethical systems survived and flourished, while those with "bad" ones either floundered or adopted more successful ethical systems. This subtle process of trial-and-error has produced Western ethics, a highly successful system.

In what way do Western ethics contain a "contradiction"? To understand this proposition, one must examine Hayek's theory of the actual historical development of ethics. Hayek holds that the original human ethical system was that of the small group—the hunter/gatherer tribe. These "small group" ethics were both solidaristic and altruistic. The primitive tribes at the dawn of human history were each united by a shared purpose—rudimentary survival in an uncontrollable, hostile environment—that superseded the different purposes of the tribes' individual members.

As time passed, agricultural techniques were developed and cities were founded. These events provided a basis for two further developments that made "small group" ethics untenable: economic trade and population growth. Trade placed members of closed communities in constant contact with "foreigners" who usually did not share the group's purposes or beliefs. Population growth, spurred by relative economic security, made the small group rather large, with the result that members of the same group were often strangers to one another and often pursued different ends.

These social changes were matched by changes in the ethical sphere. "Small group" ethics were not applicable to diverse, cosmopolitan communities; groups that failed to adapt became isolated and economically stagnant. Through the social evolutionary process, "small group" ethics were gradually replaced by what Hayek calls "extended order" ethics. "Extended order" ethics abandoned commands that sought collective ends in favor of abstract, generally applicable rules that facilitated varied individual ends. These ethics served as an impersonal mechanism for the coordination of individual actions and plans, whereas "small group" ethics were dependent upon the highly personal rule of the tribal leader, who directed the group to a common goal.

While "extended order" ethics replaced "small group" ethics as the dominant system, "small group" ethics continued to exist side by side with their more successful counterparts. Families, friendships, and businesses continued to operate according to the solidaristic principles of "small group" ethics for obvious reasons. Love, camaraderie, and shared purpose—so necessary to human fulfillment—are possible only within the small group. Thus, contemporary Western ethics are a heterogeneous mixture: "extended order" ethics tell individuals and groups how to act within the larger social order, while "small group" ethics instruct individuals how to behave within the confines of the various voluntary organizations to which they belong.

But, as Hayek notes, individuals have only a "limited ability to live simultaneously within *two* orders of rules." The dividing line between the two ethical structures often becomes fuzzy in application, leaving individuals confused concerning their obligations. For instance, one would clearly have an obligation to assist a friend or family member in financial need. But what about a needy stranger who accosts one on the street? Or a fellow businessman, teetering at the edge of bankruptcy, with whom one is competing in the marketplace of the extended order?

Hayek warns that, as strong as the tension may be, the balance between the two systems of ethics must be maintained. Both systems serve vitally important functions within their own spheres: "small group" ethics provide for warmth and compassion essential to man as a social animal, while "extended order" ethics provide a coordination function necessary to maintain economic security and further growth in both population and wealth.

While no one (with the possible exception of Ayn Rand's followers) is calling for an extension of "extended order" ethics into the realm of the small group, there is an influential intellectual group, the socialists, calling for just the opposite: the reconquest of the West by "small group" ethics. Needless to say, Hayek looks upon this prospect unfavorably. Hayek, while admitting that such an event might initially satisfy our instincts, points out its long-range consequences: poverty, starvation, and widespread death. "Extended order" ethics, Hayek notes, are chiefly responsible for making possible our present level of population and economic well-being; their abandonment would lead to chaos and primitive tribalism, a tribalism which, lacking large-scale coordinating capabilities, would be unable to sustain Earth's population.

The ethical dualism Hayek sees in Western society is ultimately incapable of resolution. The socialist alternative, argues Hayek, is reactionary and inapplicable to the complex yet subtle extended order of the modern world. Hayek's final message in *The Fatal Conceit* is wise counsel that should be pondered by all: the maintenance of a classical liberal society, an extended order composed of individuals and voluntary organizations freely interacting, is, without exaggeration, a matter of life and death. □

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ROOSEVELT AND STALIN: THE FAILED COURTSHIP

by Robert Nisbet

Regnery Gateway, 1130 17th Street NW, Washington, DC 20036
1988 • 120 pages • $14.95 cloth

Reviewed by Richard M. Ebeling

Once at a press conference in the 1930s, a reporter asked President Franklin Roosevelt what his political philosophy was—was he a communist, a fascist, a liberal? Roosevelt seemed bewildered by the question, and after hesitating for a few moments replied, "Why, I am a Christian and a Democrat." Roosevelt's bewilderment seems never to have left him. He just did not think in terms of ideologies. For Roosevelt, Hitler and Mussolini were merely "gangsters," and the law-abiding nations of the world were using their police to take them off the streets.

The same naivete hovered over Roosevelt's relationship with Joseph Stalin. World politics seemed to be nothing more to Roosevelt than local ward politics writ large—a matter of alliances, horse-trading, personalities, and power. Personal loyalties and relationships were the heart of politics for the President. The same methods that got things done in Albany or Washington would work with Stalin at Teheran and Yalta, Roosevelt believed. The absurdity of Roosevelt's view of how to deal with the Soviets, and the disastrous results that followed, are the themes of this book.

While the personal relationship of ward politics was to be Roosevelt's means of dealing with Stalin, what were the ends he wished to attain? Nisbet explains that the President viewed himself as fulfilling the mission Woodrow Wilson began in World War I: to take upon himself the moral leadership of making the world safe for democracy, *of molding the world* in his own image of American freedom. Having given the nation a New Deal at home, Roosevelt wanted to give the entire world a New Deal. But the attainment of this goal was going to require the leadership and prodding of the two great powers, the United States and the Soviet Union.

What made Roosevelt see the Soviets as the natural partner for this task? In Nisbet's words, "Somehow in Roosevelt's vision all the ugly [of Soviet brutality] was squeezed out and what was left was a system in Russia not extremely different from his own New Deal. . . .the Soviet Union, with all warts conceded in advance, was still constitutionally pledged to its people to provide jobs, medical care, and welfare very much on the order of his own New Deal. . . .There was also the constitutional pledge to build a classless society. . . .the Soviet Union was forward-looking, progressive in thrust." Stalin and the Soviets, in other words, were just like us, only a bit more uncouth.

In Roosevelt's mind, the enemy of peace and order in the postwar era wouldn't be Soviet Communism, but the imperialism and colonialism of the European empires, particularly Great Britain's. This was the threat to a future of Soviet-American "democracy."

But Stalin was suspicious of the capitalist West, Roosevelt argued. He had to be coaxed into trusting the West and working for the worldwide "New Deal." This was the motive behind Roosevelt's infamous remark that "I think if I give [Stalin] everything I possibly can, and ask nothing from him in return, *noblesse oblige*, he won't try to annex anything and will work with me for a world of peace and democracy." (Roosevelt's dreams were reinforced by leftist intellectuals and government employees—a handful of whom later were found to be Soviet agents—who surrounded the President during the New Deal days and the war years.)

Stalin didn't have to worry about pushing his own postwar demands. At the November 1943 Teheran Conference, where Roosevelt and Stalin met for the first time, the President held informal, secret meetings with the Soviet dictator. Roosevelt himself suggested that the Baltic states of Estonia, Latvia, and Lithuania, and the eastern portion of Poland that Stalin had seized as part of his 1939-1941 nonaggression pact with Hitler, should remain under Soviet rule. All he asked of Stalin was that he remain quiet about it so Roosevelt could get the Polish vote in the 1944 election. Roosevelt also accepted the idea of postwar eastern European governments that would be "friendly" to the Soviet Union. And Stalin was promised vast territorial gains in the Far East, if he would agree to join in the war against Japan once Hitler had been defeated. All Roosevelt asked in return was Stalin's participation in the President's dream of a peace-keeping United Nations in the postwar era.

As Nisbet demonstrates, the Yalta Conference of February 1945 only formalized what Roosevelt had promised at Teheran. The importance of this later conference, Nisbet explains, was that "Yalta performed a service to the Soviets that was almost as important to Stalin as the occupied areas themselves. This was the invaluable service of giving moral legitimation to what Stalin had acquired by sheer force." Yalta legitimized and justified the Soviet domination of Poland, Czechoslovakia, Hungary, Romania, Bulgaria, East Germany, and Mongolia. It gave moral standing to the Soviet Empire.

At the Yalta Conference, Roosevelt felt morally bound to legitimize Stalin's claims. As the President's confidant, Harry Hopkins, wrote Roosevelt at the conference, "The Russians have given us so much at this conference that I don't think we should let them down." What had Stalin given? He agreed that in the new United Nations, the Soviet Union would have only three votes—one for the U.S.S.R., one for the Soviet Ukraine, and one for Soviet White Russia—instead of 16 votes, one for each of the Soviet Republics.

And what did Stalin think of his own Yalta promises to work for a new Rooseveltian world order, and to guarantee free elections in the eastern European nations that the Red Army had conquered on its way to Berlin? In early April 1945, less than two months after the signing of the Yalta agreements, a Yugoslav Communist delegation led by Tito was in Moscow. At a late-night banquet in their honor, Stalin ruminated on the postwar era. In his book, *Conversations with Stalin*, Milovan Djilas recounts that Stalin at one point explained, "This war is not as in the past; whoever occupies a territory also imposes on it his own social system." And as for the future, Stalin assured his guests, "The war shall soon be over. We shall recover in fifteen or twenty years, and then we'll have another go at it."

Here was the true Stalin, the real "Uncle Joe," as Roosevelt and Churchill affectionately used to call him. And was his own postwar vision limited to eastern Europe? At the Potsdam Conference in July-August 1945, President Truman went up to Stalin and congratulated him on the successes of the Red Army, successes that had brought Soviet power to Berlin in the heart of Europe. Stalin glumly replied, "Czar Alexander reached Paris" during the war against Napoleon in the 19th century. It appears that Stalin had dreams, too. □

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