

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
NOVEMBER
1990
VOL. 40
NO. 11

404 The Great Banking Scandal

Hans F. Sennholz

Why is Congress skirting the real issue behind the S&L mess?

406 Boom Time for State and Local Government

John Hood

The truth about state and local spending in the 1980s.

409 Environmentalism: Freedom's Foe for the '90s

Robert James Bidinotto

Cleaner air and water are not the only items on the agenda of the environmental movement.

421 Markets and Pseudo-Markets

Donald J. Boudreaux

Arguments in favor of "the market" are not necessarily arguments in support of classical liberal values.

424 The Myth of Public/Private "Cooperative Enterprises"

Barbara R. Hunter

A transfer payment is a transfer payment is a transfer payment.

426 Sweden: No Model for Eastern Europe

Eric Brodin

Why newly emerging democracies should not view Sweden as the ideal welfare state.

429 The Two-Edged Sword of Chaos

Gary McGath

Before asking whether a mathematical model fails in its predictions because it is chaotic, we should ask if any such model is valid in the first place.

433 Rising Prices: The Market's Way of Conserving Oil

Jorge Amador

Have oil companies "gouged" consumers during the most recent Mideast crisis?

436 The Nature of Government

Fred Dekkers

The more the power of the state is concentrated in fewer hands, the greater the danger of abuse.

438 Book Reviews

John Chamberlain reviews *The Politics of Plunder: Misgovernment in Washington* by Doug Bandow; also featured: *Free Market Morality: The Political Economy of the Austrian School* by Alexander Shand.

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

President of
The Board: Bruce M. Evans
Vice-President: Robert G. Anderson
Senior Editors: Beth A. Hoffman
Brian Summers
Contributing Editors: Bettina Bien Greaves
Edmund A. Opitz
Paul L. Poirot
Copy Editor: Deane M. Brasfield

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; Philip M. Spicer, vice-chairman; Paul L. Poirot, secretary; Don L. Foote, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies \$1.00; 10 or more, 50 cents each. For foreign delivery, a donation of \$15.00 a year is required to cover direct mailing costs.

Copyright © 1990 by The Foundation for Economic Education, Inc. Printed in the U.S.A. Permission is granted to reprint any article in this issue, except "The Great Banking Scandal" and "Environmentalism: Freedom's Foe for the '90s," provided appropriate credit is given and two copies of the reprinted material are sent to The Foundation.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1971 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

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

FAX: (914) 591-8910

Cover art © Washington Post Writers Group.

Sweden

In a society where individuals cannot easily increase their income, or accumulate private wealth by ordinary work, they turn increasingly to the zero-sum game of transferring incomes from one another rather than engaging in the positive-sum game of producing income through work, capital accumulation or productive risk-taking. The problem is not that it is impossible to get rich in Sweden, but rather, that it is difficult to remain so through honest productive activities.

Problems associated with public sector monopolies, such as slack management and large bureaucracies, are also typical in Sweden. The notion of uniformity seems attractive to egalitarian spirits, but apart from the normal problems, this creates a new problem in a contractionary economy when government budgets have to be reduced. It is difficult to find alternative sources of supply. This fosters tensions in society since it becomes imperative for each pressure group to gain access to political power at the expense of others. Since part of the welfare state concerns distribution over the life-cycle, one should add that groups seeking to gain benefits from some programs may hurt their future position if present gains accrue at the expense of programs favoring the elderly.

—PETER STEIN,

writing in the *Journal of Economic Growth*
(Vol. 2, No. 4)

(Note: Please see page 426 for Eric Brodin's "Sweden: No Model for Eastern Europe.")

The Permissive Society

If everyone must be equal and no one is to feel inferior, moral distinctions are no less objectionable than intellectual or social ones, and the surest way of eliminating them is by denying that there is any moral difference between competing values and modes of conduct. You cannot, for instance, criticize ruthlessness in business if there is nothing wrong with sacrificing honesty to the pursuit of success. Similarly, if it is true that individuals should be free to gratify their impulses in any way they choose, without risking social or moral sanctions, it implies that the idea of an objective moral law is an illusion, otherwise moral neutrality would

be indefensible. You cannot, after all, condemn adultery if it is considered that the pursuit of sexual pleasure justifies breaking your marriage vows. It is consequently more than a coincidence that most left-wing intellectuals combine an attachment to socialism with hostility toward "conventional morality." What adds fuel to the cultural fire is that the process of moral and social decomposition set in train by the Left has been reinforced in recent years by a mistaken conviction among political libertarians that the permissive society is the moral corollary of the free society—a logical extension of freedom into the moral sphere.

—PHILIP VANDER ELST,

Freedom Today, April 1990, published by the
Freedom Association, London, England.

Monitor Update

The September 1988 *Freeman* carried scuba diver Gary Gentile's account of his lengthy struggle with the National Oceanic and Atmospheric Administration to gain permission to explore the wreck of the *Monitor*. On July 4, 1990, having won his court battle, Gary led a team that photographed the remains of the Civil War ironclad.

Administrative Law Judge Hugh J. Dolan handed down the pivotal decision that allowed Gentile to make his dive. In his decision, Dolan quoted the *Idaho Law Review* (1980): "A venturesome minority will always be eager to get off on their own, and no obstacles should be placed in their path; let them take risks, . . . let them get lost, sunburnt, stranded, drowned, eaten by bears, buried alive under avalanches—that is the right and privilege of every free American."

No Peanuts

If your father grew peanuts in the 1940s, there is a good chance that you or your siblings have a government-granted entitlement known as a peanut quota. Should you not inherit a peanut quota, you can expect to pay rather dearly if you wish to obtain one. Today peanut quotas on farm land are usually far more valuable than the land itself.

The nation's 44,000 peanut-quota owners are protected against any and all competition, domestic and foreign. Moreover, they are guaranteed a

\$631.47 per ton support price by the federal government. This is approximately twice the price on world markets, and about twice the growing costs of efficient U.S. growers.

The national quota for foreign-grown peanuts is 850 tons a year. This is less than one-tenth of 1 percent of U.S. consumption. Thus, for all practical purposes, foreign-grown peanuts are forbidden to U.S. consumers. However, U.S.-grown peanuts are available to foreign consumers at about half (or less) the price to U.S. consumers.

American farmers who grow peanuts without a Federal quota are "free" to sell their crops in the domestic market *only* for peanut oil or meal. If they cannot sell their crops in these markets or to foreign consumers, they must turn them in to the government for \$149.75 per ton—less than 25 percent of the floor price for the peanuts of quota owners.

Is this equality? Is this freedom? Can this really be America?

—C. F. FISCHER, III
Dothan, Alabama

Fighting the Wrong Enemy

I gave a lecture to about 200 people at the University of the North in South Africa, which is a black university. A black student stood up and said, "I'm a Marxist. I believe in Marxism and socialism."

I said, "Fine, may I ask you a few questions?" I asked him, "Do you think you ought to be able to open up a business wherever you want to?"

He said, "Yes."

"Do you think you ought to be able to independently negotiate your wages with an employer?"

He said, "Yes."

I said, "Do you think you ought to be able to live wherever you want to live without interference by a third party?"

He said, "Yes."

Then I said, "You're really for laissez-faire capitalism. The problem you have been fighting all these years is Communism, because Communism means government ownership and/or control over the means of production."

—WALTER WILLIAMS,
speaking at The Fraser Institute,
February 19, 1990.

The Great Banking Scandal

by Hans F. Sennholz

Federal Reserve Chairman Alan Greenspan recently shocked the financial world when he estimated the eventual cost of the savings and loan bailout at half a trillion dollars. And Treasury Secretary Nicholas Brady added a jolt by admitting that taxpayers must bear most of the burden.

It is a scandal, all agree, the greatest ever in U.S. financial history. It is greater by far than the bailouts of Chrysler, Lockheed, and New York City, even greater than the costs of the default of Third-World debtor countries. In ages past, it would have been ignored as a malicious story that was absurd and impossible. Yet, it is as real as the S&L losses and bankruptcies.

It is even more scandalous that most of the perpetrators are escaping unscathed. The legislators and regulators who created the system during the 1930s have left the stage of life and can no longer be held accountable. But there are many who helped to fashion the S&L structure, who drafted and enacted the Depository Institutions Deregulation and Monetary Control Act of 1980 that stoked the fires of inflation, and the Garn-St. Germain Act of 1982 that invited crooked appraisals and dubious accounting. They are making their escape.

A few politicians actually paid a nominal price for the damage they inflicted. Representative Ferdinand St. Germain of Rhode Island, co-author of

the law that made matters worse, was defeated for re-election. Speaker Jim Wright, who badgered Federal regulators for his favorite S&L bankers, resigned in disgrace. Five Senators are at risk because they intervened with regulators on behalf of big campaign donors. Yet, no Representative or Senator is expected to lose a penny from the debacle. In fact, they voted themselves several boosts in salaries and pensions and are about to raise them again.

The politicians who created and nurtured the system are quick to point at the bankers who saw an opportunity to splurge and steal. Some 50 thrift officials and accountants already have been convicted, and more are likely to face indictments as inquiries proceed. But even if a few hundred incompetent and corrupt owners and managers should be found out, their numbers are puny when compared with some 50,000 employees laboring in the industry. It is unlikely that the number of industry perpetrators will ever reach 1 percent of employees, but it is obvious that more than one-half of legislators created and fashioned the system and that regulators guided it every step of the way.

The greatest outrage, however, is the lack of Congressional interest in the causes of the disaster. There are no hearings, no investigations, no special prosecutors, not even committee debates on the real causes of the scandal. Congress is visibly skirting the real issue.

The reasons for such conspicuous silence may be as numerous as the voices against the hearings and investigations. Some legislators undoubtedly are convinced that they have the

*Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is the author of the 57-page booklet *The Savings and Loan Bailout: Valiant Rescue or Hysterical Reaction?* available from *The Foundation for Economic Education* at \$4.45.*

answer: the irresponsibility and greediness of bankers. Many newspapers and broadcast media share this opinion, which implicitly exculpates the legislators.

The conspicuous silence may also hide an awareness of guilt. Many legislators not only cast their votes for the system but also have used it, and continue to use it, for their own ends. Savings and loan associations and other government-sponsored and regulated institutions are among the most generous contributors to the re-election campaign funds of the politicians who legislate and regulate the conditions of S&L existence. The contributions amount to many millions of dollars, bolstering the political and financial fortunes of incumbents. Surely, any Congressional investigation would soon discover the connection, which would be rather embarrassing to the legislators.

Public opinion, which offers a ready answer to all things, usually points at a lax Reagan Administration and a reckless industry. It neither theorizes nor analyzes, nor argues on grounds of inexorable principle. In vague and eclectic fashion, public opinion clings to simple notions of good and evil, command and obedience. It places the blame on evil bankers and lazy regulators who neglected their police function.

Actually, the bankers' greed and the regulators' negligence merely are visible symptoms of much greater evil. The real cause of the disaster is the very financial structure that was fashioned by legislators and guided by regulators; they together created a cartel that, like all other monopolistic concoctions, is playing mischief with its victims.

The structure was erected on the foundation of government force rather than voluntary cooperation. Held together by numerous laws and regulations, it weakened from the inflation fever of the 1970s and growing institutional competition during the 1980s. It suffered severely during the Nixon, Ford, and Carter Administrations which lifted interest rates high above the rates S&Ls were permitted to pay and charge. As depositors withdrew their deposits and turned to higher-yielding money market funds, S&Ls were caught in the vise of inflation and regulation. Moreover, rising interest rates caused S&L instruments consisting primarily of long-term mortgages to plummet in price. All S&Ls suffered staggering losses. It is surprising that some actually managed to survive.

In desperation about their sinking ship, the legislators finally consented to "deregulate," that is, they relaxed some rules while they tightened others. They passed the Depository Institutions Deregulation and Monetary Control Act which reduced aggregate reserve requirements for Federal Reserve member institutions by about 43 percent and tightened Federal Reserve control over financial institutions.

To lower reserve requirements is to pour more fuel on the fires of inflation. The 43 percent reduction that member banks experienced was unprecedented in scope and magnitude; it flooded the markets with new credits, caused interest rates to skyrocket to a 20 percent prime rate, and precipitated an inflation rate that reached a staggering level of 18 percent. To control the price inflation, the Carter Administration then invoked the Credit Control Act of 1969 and placed controls not only on banks and thrift institutions but also on all consumer lenders, such as retailers and auto dealers.

The Depository Institutions Deregulation and Monetary Control Act extended Federal Reserve credit controls by imposing reserve requirements on all transaction accounts. At the same time, credit unions, savings banks, savings and loan institutions, and nonmember banks were required to keep their reserves with the Fed. In short, the extension of Federal Reserve controls and the expansion of Federal Reserve funds greatly tightened the vise that was to crush more than 3,000 thrift institutions.

The S&L industry is a component part of the American financial cartel that builds on legislation and regulation. Federal deposit insurance was added in 1933 to prevent a repeat of the sad banking picture of the Great Depression. Unfortunately, government insurance is self-defeating. The greater the protection government provides, the greater the risks the insured are willing to take. Depositors who are fully insured have no incentive to select a solid bank over a poorly managed bank. Federal deposit insurance contributed to the debacle of the S&L industry.

As with so many government programs gone awry, the S&L system was born of good intentions and economic ignorance. Unfortunately, the economic ignorance of politicians and officials is always visited on the people. It is visited anew on the American people who are facing a bailout bill of some \$500 billion. □

Boom Time for State and Local Government

by John Hood

If the press has anything to do with it, the 1990s will be a decade of higher taxes and government expansion in America. The last year or so has seen article after article, editorial after editorial, proclaiming an end to the “Decade of Greed” and calling for a new surge of activism—and a corresponding surge in taxes to pay for it. Much of the media’s pro-tax and pro-government sentiment coalesced around Earth Day 1990, which was really a couple of months of constant calls for America to “invest in a clean environment.”

The most recent development in this barrage has been the addition of state and local budget gaps to the perennial example of the Federal budget deficit as proof that Americans are undertaxed. In both 1989 and 1990, state governments around the country experienced slower-than-expected growth in tax revenues, leading to record budget deficits in some states. Since most of the affected states have balanced-budget provisions, they have not been able to delay their day of reckoning—as has the federal government so far. Consequently, highly visible battles have been waged between advocates of budget restraint and those of tax increases to balance state budgets. The national press, among others, has seized upon these state budget woes to predict that the 1980s of governmental restraint are preparing to give way to the 1990s of renewed governmental expansion.

John Hood is a columnist for Spectator magazine in Raleigh, North Carolina, and publications director of the John Locke Foundation, a state-policy think tank.

Whether or not their prognostication is correct, the press and the various interest groups that manipulate it (teachers’ unions, state employee unions, etc.) have based their entire case on a false proposition: that the 1980s was a decade of governmental contraction. Nothing could be further from the truth. Although the rate of government expansion may have slowed a bit on the Federal level during the Reagan Administration, the share of national income consumed by Federal spending was the same in 1989 (22 percent) as it was in 1980. “Budget cuts” blamed on Reagan were only reductions in the rate of increase in government spending, not real reductions in government’s role in society and the economy.

On the Federal level, this story has been told more than a few times. But since the new battlegrounds of government activism are state legislatures and city halls, it is important to recognize the truth about state and local government in the 1980s—that during a time when the federal government retained its already large role in American society, state and local governments *increased* theirs dramatically, by 17 percent in real per-capita spending from 1981 to 1989. And the state and local tax burden on typical households increased steadily during the same period, according to the Tax Foundation, while the Federal burden remained roughly the same. Far from being a decade of fiscal conservatism, the 1980s were a boom time for government on the state and local level. Consider the record of government expansion in two dissimilar states: New York, the stronghold of

Northeastern liberalism, and North Carolina, a Southern state with a conservative image.

New York

As of April 1990, New York State faced a projected \$3 billion budget deficit for fiscal year 1991. While Governor Mario Cuomo, other state politicians, and the state press have attributed the state's budget problems to tax cuts, slower-than-expected economic growth, and the 1987 stock market crash, Ed Rubenstein of the Manhattan Institute attributes the deficits to runaway government spending. During the 1980s, he reports, New York state spending outpaced inflation, population growth, and per-capita income growth, consuming 16 percent of New Yorkers' personal income in 1988—up from 14.7 percent in 1983.

The state's general fund, which doesn't include federally funded programs or capital projects, grew at an average rate of 9.6 percent a year from 1980 to 1989, doubling every seven and a half years. Chip in Federal and other funds, and the total state budget grew by about 53 percent from 1983 to 1989.

Naturally, the meteoric rise of state spending in New York has been accompanied by higher effective tax rates on New York households. From 1983 to 1988, state taxes as a percentage of personal income rose by almost 10 percent—a rate more than three times as fast as that in "Taxachusetts."

In New York, as in many other states, one reason asserted for state government expansion has been President Reagan's New Federalism, which shifted the burden for some programs from the Federal level to the state level. But the fact is that Federal funds followed the programs more often than not. In the case of New York, Federal aid money to the state and to local governments actually increased by 15.4 percent *after inflation* between 1983 and 1988, according to Rubenstein.

Where did the state and local governments in New York spend their massive influx of taxpayers' money? Virtually every area of the state budget increased in real terms during the decade, especially in education, environment, anti-poverty, and economic development programs. For much of the decade, New York led the nation in per-capita state spending on public welfare; in fiscal year 1987, it spent almost \$600 per capita on public welfare, over \$100 more than the next highest

spending state, Massachusetts. New York maintained higher-than-average spending levels in education and environmental programs during the decade, and expanded the state government's role in "economic development." By 1987, it had attained the dubious distinction of being second only to Illinois in state spending to encourage tourism.

North Carolina

While New York's reputation squares with its profligate record during the 1980s, North Carolina has somehow maintained an image of a small-government, low-tax state while expanding government programs, expenditures, and taxes at almost the same rate as New York. In some ways, as a matter of fact, North Carolina taxpayers have had an even rougher time of it.

From 1978 to 1990, the state budget increased by 50 percent after inflation, which far outstrips the increase during roughly the same period in population growth (up 13 percent) or state per-capita income (up 15 percent). Moreover, the spending authorized for the current 1990 fiscal year capped several years of uninterrupted budget growth, establishing a spending plateau 49 percent higher than in 1983.

Meanwhile, North Carolina taxpayers paid an average of almost \$1,500 in state and local taxes in 1988, 26 percent more after inflation than they did in 1978. North Carolina levies the highest individual and corporate income taxes in the Southeast, and recently raised its gas tax to almost 21 cents per gallon—one of the highest rates in the nation. Significantly, observers outside the state are beginning to regard North Carolina as a high-tax state. In January 1990, *Money* magazine ranked North Carolina 11th in the country in total tax burden levied on a typical reader of the magazine, and first in the Southeast.

As in New York, state officials have blamed the increases in spending on Reagan's New Federalism, complaining that new Federal mandates have forced more spending. But the flow of Federal funds to the state has increased by 26 percent in real terms since 1978.

During the 1980s, North Carolina dramatically increased state spending on education and on economic development programs, assuming that higher government expenditures would "solve"

these and other problems. State subsidies for private industries and organizations, deemed a "progressive" investment in economic development, expanded greatly during the 1980s. One subsidy, to the North Carolina Microelectronics Center, rose to \$26 million by the end of the decade.

What About the Tax Revolt?

Some might be surprised to learn that state and local governments in so many states have expanded during the 1980s. After all, a nationwide tax revolt, starting in 1978 with California's Proposition 13, was supposed to be a defining political event for the 1980s.

And, indeed, it was—in those states where the "revolt" actually ended up restraining the growth of government and even rolling it back a bit. Usually, this required some kind of mechanism restricting taxes or spending, or requiring large legislative majorities to enact increases. California's tax limitations spared the state the kind of fiscal woes that occurred in New York, Massachusetts, North Carolina, and other states.

The problem was that during the 1980s, an expanding economy led to increasing revenue collections, both at the Federal level and in many states and localities. These revenue windfalls gave legislators the latitude to increase spending on so-called "pressing needs" while maintaining their reputation as fiscal conservatives. This became a politician's dream (regardless of party affiliation) and a public choice economist's nightmare: while special interest lobbies were successful in expanding government's role, taxpayers felt no real incentive to call for restraint. Some states did enact tax rate hikes, but most financed massive expansions of government on projections of increased revenues for future years.

In the last two years, however, this bubble has popped. As the economy has cooled off, revenue collections have failed to keep up with projections, and suddenly government officials are

faced with a dilemma. They must either impose new taxes on the slackening economy to meet their revenue needs, or they must scale back the tremendous surge in government action they enacted during the 1980s. Their decision will determine whether the United States is headed for a true rebirth of limited government and free markets, or for the continued growth of bureaucratic, interventionist government that regulates and subsidizes virtually every sector of the economy.

Whatever their decision, public officials will eventually have to answer to the public. And despite the constant drumbeat to maintain the current level of government spending, there is some evidence that voters won't countenance new taxes to finance it. Recent initiatives to increase state or local tax rates in Michigan, Washington State, North Dakota, and Virginia have lost at the polls. And a recent vote in California to increase the state's gas tax to finance highway renovation and construction succeeded not due to voter acceptance of big government, but instead because the taxes were successfully depicted as "user fees" dedicated to a specific purpose.

There are even signs that a new tax revolt might be brewing: tax limitation referenda in states from Massachusetts to Oregon are attracting substantial public support. The question now is whether voter resistance to taxes—the "supply side" of government expansion—will lead to reductions in the demand for government programs, subsidies, and regulations. Advocates of government restraint, free markets, and liberty have much to do if a new tax revolt is indeed to be translated into a fundamental rollback of government on the state and local levels. An important first step is simply to realize that the 1980s, widely believed to be a period of government restraint and contraction, was a boom time for state and local government—and that after this decade of big government ascendancy, no problems appear to have been "solved." □

Environmentalism: Freedom's Foe for the '90s

by Robert James Bidinotto

The following is an abridged version of Mr. Bidinotto's speech at a Foundation for Economic Education conference on April 28, 1990, held at the Alderbrook Resort Inn on the Hood Canal in Washington State.

I woke up early this morning to the view of the pre-dawn sun catching the snow-capped peaks of the noble Olympic Mountains across the water. Sea gulls whirled and screeched above the boats moored at the dock, framed by the deep green pine forests that hug the canal.

It was a quiet moment, laden with expectation and hope. I thought: What a beautiful environment for a conference; what a beautiful environment for man. And I thought: How fortunate that I am here to see this, for only my seeing it gives this morning its beauty, and only my hearing it gives this day its song.

Then, drawn back to the reason for my presence here, I was deeply disturbed. I knew that this was not the view of many who called themselves "environmentalists." They viewed my presence as an intrusion—not as giving meaning to nature, but as spoiling its purity. That, indeed, was the message reiterated endlessly during the Earth Day celebrations. I wondered: Where did they ever get so perverse a view?

Mr. Bidinotto, a staff writer for Reader's Digest, writes and lectures on criminal justice and environmental issues. He is the author of Crime and Consequences, published by The Foundation for Economic Education in 1989.

Children of Rousseau

At the time of the first Earth Day in 1970, some young people, intimidated by the pace and complexity of modern life, were looking either to rebel or to retreat—to tear down "the System," or to withdraw to nature for a "Colorado Rocky Mountain high." Children of Rousseau, they preached the inherent goodness of untouched nature and undisciplined emotion; the corrupting influence of reason, culture, and civilization; economic egalitarianism and small-scale participatory democracy; the mystical infallibility of the collective will and the sacrifice of the individual to the group. And they were united in their hatred of a common enemy: modern American, capitalistic society.

While most of their moderate contemporaries grew up to become our architects, accountants, and automobile dealers, a small cadre—the Rousseauian residue of the Woodstock Generation—never outgrew their fundamental cultural alienation and hostility. They never developed the slightest interest in the basic values accepted by most people. For 20 years, they have been seething on the fringes of society. Now, like scavengers scenting a wounded animal, they are closing in on a vulnerable culture.

This small group of fanatics sets the *moral* premises of today's environmentalist movement. Contrary to the beliefs of many decent people who call themselves "environmentalists" and even of most of those who join environmental groups, the

leadership cadre is not primarily interested in clean air, land, and water, in abundant resources, or in resolving disputed claims to their use. They have a far different agenda.

Before I continue, let me clarify a very important point. I'm emphatically *not* arguing that environmental concerns are trivial or misplaced. Pollution, overuse of various resources, toxic waste disposal, and other environmental issues are legitimate concerns. Yet these problems arise, not from a failure of the free market system, but from the very failure to apply free market principles to resource management in the first place.

The failure to define property rights in all natural resources has led to "the tragedy of the commons"—the tendency to treat "publicly owned resources" as free goods, to which everyone has a claim, but for which no one bears any responsibility. The competing collective claims upon vast tracts of government-owned land, the abuse of air and water, the conflicts between protecting "endangered species" versus advancing the economic well-being of people—these and many other dilemmas are caused by the absence of the principles of property rights, free markets, and individual accountability.

How market mechanisms may deal with these problems has been addressed by others, and is not my primary concern here.¹ What I intend to explore, rather, is the philosophical meaning of the contemporary environmentalist philosophy and movement, as it has been shaped by its leadership cadre.

Deep Ecologists vs. Greens

This cadre is loosely divided into two competing, but often overlapping camps. For simplicity, I'll distinguish these camps as the Deep Ecologists and the Greens.

The Deep Ecologists are the apolitical heirs to the old "counterculture" movement. Tending toward mysticism and nihilism, and sometimes paying explicit homage to the anti-technology Luddite movement of the Industrial Revolution, they see the environmental crusade not as a means of reforming modern society, but of escaping or obliterating it. These contemporary pagans and Druids march under the banner of "Green lifestyles" and "biocentrism."

Many are misfits, attracted to the bizarre and

mystical as a means of escapism. *Ms.* magazine breathlessly reported on the growth of "eco-feminism" and the "resurgence of earth-based paganism, including . . . Native American religions and Goddess-worship." One itinerant environmentalist conducts "workshops" in which participants are urged to remember their alleged evolutionary history by rolling on the ground and imagining what their lives were like as dead leaves, slugs, and lichens.²

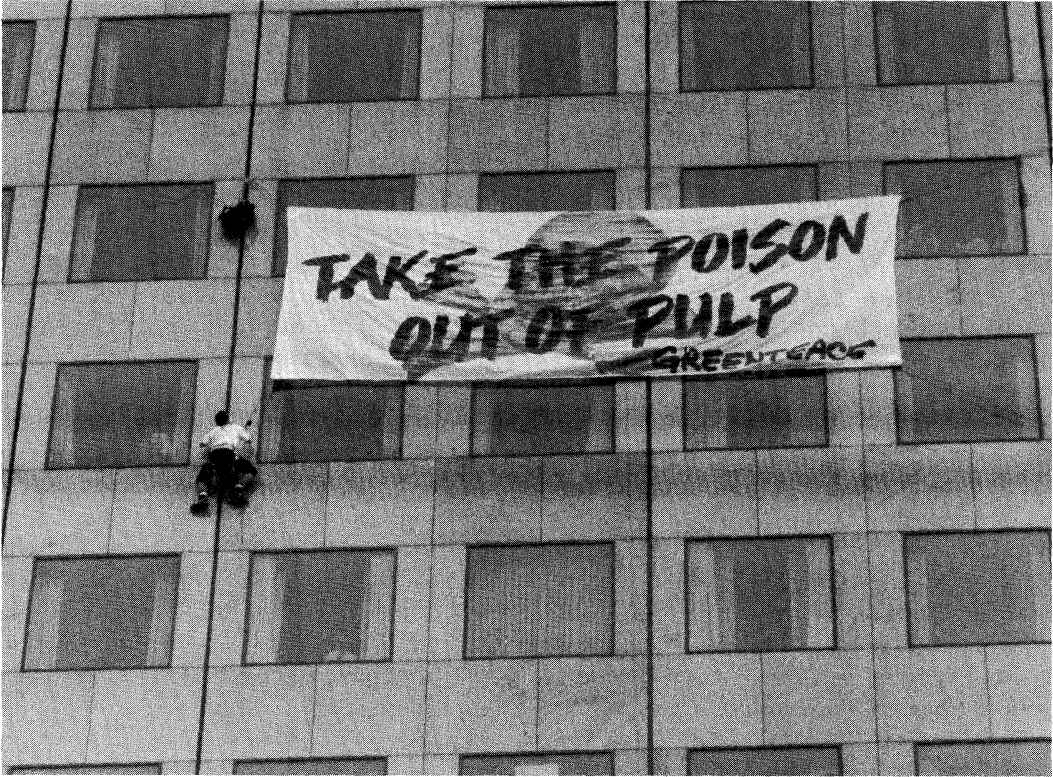
Other Deep Ecologists prefer "direct action" against corporate and governmental targets, ranging from theatrical civil disobedience to outright terror, sabotage, and violence. They man groups like Greenpeace, Earth First!, Sea Shepherds, Rainforest Action Network, People for the Ethical Treatment of Animals, and the Animal Liberation Front.

The Greens, by contrast, are the political heirs to the New Left. Marching under the banners of "Green politics" or "Social Ecology," they profess at least a nominal concern for human values and modern culture. But their goal is a socialist, redistributionist society, which they claim is nature's proper steward and society's only hope.

The most consistent among them join the various Green Parties and groups; but the more pragmatic and sophisticated join the more respectable, better-heeled fronts, including the Natural Resources Defense Council, the Environmental Defense Fund, the Sierra Club, the Wilderness Society, the Worldwatch Institute, the Union of Concerned Scientists, or even the United States Environmental Protection Agency and its regulatory sisters.

For all their feuds, both camps supplement each other. The Deep Ecologists set the moral tone and spiritual direction: they inspire, radicalize, and recruit. Meanwhile, the Greens translate these raw assets into political power—into proposals, manpower, candidates, and ultimately laws.

Both factions—particularly the countercultural "direct action" groups—have been growing rapidly. But the more radical ones have been expanding far faster than old, mainstream liberal, "tree-hugger" groups such as the Nature Conservancy, the National Audubon Society, the Humane Society, and the National Wildlife Federation. These latter have struggled to keep up, becoming increasingly radicalized by the competitive demands of the environmentalist marketplace, and



AP/WIDE WORLD PHOTOS

Georgia Pacific's Atlanta headquarters is assailed by Greenpeace demonstrators who unfurled a banner protesting the company's use of chlorine in the processing of paper products.

by the logic of the environmental ethic itself.

In its purist form, the so-called "environmental ethic" was defined in 1966 by UCLA historian Lynn White Jr., and in 1972 by Norwegian philosopher Arne Naess.

White blamed the ecological crisis on the West's Judeo-Christian heritage, which, he said, was based on the "axiom that nature has no reason for existence save to serve man." He called for a "new religion" based upon "the spiritual autonomy of all parts of nature" and "the equality of all creatures, including man."³

Naess took this a step further. Individuals do not exist, he said; we're all only part of larger "ecosystems." The "shallow ecology" of mainstream conservation groups, he argued, was still anthropocentric or homocentric—that is, man-centered. It aimed only at improving the environment for the benefit of humans. "Deep ecology," on the other hand, led to a view of "biospheric egalitarianism . . . the equal right [of all things] to live and blossom."

In short, this philosophy maintains that all things are created equal; they should be venerated

as ends in themselves, as *intrinsically valuable* apart from man; and they have equal rights to their own kinds of "self-realization," without human interference or exploitation.⁴

The "Animal Rights" Movement

The most prominent manifestation of "biospheric egalitarianism"—the "animal rights movement"—emerged with the publication in 1975 of philosopher Peter Singer's book, *Animal Liberation*. Led by a group of young philosophy professors, this movement went far beyond traditional concerns for animal welfare or protection. Its basic premise was captured in the title of Singer's first chapter: "All Animals Are Equal."

"This book," Singer wrote, "is about the tyranny of human over non-human animals." That tyranny amounts to "speciesism," akin to "racism." A speciesist, Singer said, "allows the interest of his species to override the greater interest of members of other species." Note the word "greater."⁵

As philosopher Tom Regan, author of *The Case for Animal Rights*, put it, "the fundamental

wrong is the system that allows us to view animals as *our resources*, here for *us*. . . .” Instead, Singer and Regan held that all beings with a capacity to feel pleasure and pain have an “inherent value of their own.”⁶ Or, as columnist and ethologist Michael W. Fox asserted, “Each sentient being should be valued in and for itself.”⁷

According to three other animal rights philosophers, this means “. . . there can be no rational excuse left for killing animals, be they killed for food, science or sheer personal indulgence.”⁸ It means: no animal testing of medicines or surgical techniques; no hunting, circuses, or rodeos; no bird cages or dog pens; no leather; no meat, milk, or eggs; no use of animals, period.

Even man’s most innocuous activities are viewed as intruding upon the rights of other species. Philosophy professors Dale Jamieson and Tom Regan, addressing 200 marine scientists, declared that whales have rights, since “they have a mental life of greater sophistication than many humans.” They attacked the training of whales to perform in aquatic parks, and even oceanic whale-watching cruises. “Whales,” they admonished the group, “do not exist as visual commodities in an aquatic free market, and the business of taking eager sightseers into *their* [emphasis added] waters . . . is exploitative.”⁹

There can be no compromises on animal rights, say its proponents. Steven Wise of Attorneys for Animal Rights contends, “The lives of tens of millions of animals do not belong to us and are not ours to compromise.”¹⁰ The authors of an animal rights anthology affirmed: “Compromise, in the traditional sense of the term, is simple unthinking weakness.”¹¹

This fanaticism has led some activists to acts of terrorism and violence against the “tyrant species.”

In April 1987 the Animal Liberation Front torched a university research building in Davis, California. In October 1988 the same group tossed paint and acid on the homes and cars of people working for the San Diego Zoo.¹² Bombs have been planted at British fur stores and, this year, at up-scale department stores around San Francisco. Women wearing furs have been attacked on the streets of New York City. One woman there was recently convicted for attempting to murder the president of U.S. Surgical Corporation, which uses animals to teach doctors surgical procedures; this

animal lover was captured with two pipe bombs filled with nails.¹³

The “Rights” of Nature?

Such acts are the cul-de-sac of the premise that animals have intrinsic value and inherent rights. To see why, it is important to grasp how different this view is from the Lockean-based tradition of rights. That tradition regards rights as arising from human nature. Rights are moral principles that define the boundary lines necessary for peaceful interaction in society. The purpose of these boundaries is to let men pursue their well-being and happiness without interference.

Any intelligible theory of rights must presuppose entities capable of defining and respecting moral boundary lines. But animals are by nature incapable of this. And since they are unable to know, respect, or exercise rights, the principle of rights simply can’t be applied to, or by, animals. Rights are, by their nature, based on a homocentric (man-centered) view of the world.

Practically, the notion of animal rights entails an absurd moral double standard. It declares that animals have the “inherent right” to survive as *their* nature demands, but that man doesn’t. It declares that man, the only entity capable of recognizing moral boundaries, is to sacrifice his interests to entities that can’t. Ultimately, it means that *only* animals have rights: since nature consists entirely of animals, their food, and their habitats, to recognize “animal rights” man must logically cede to them the entire planet.

“Is it not perverse to prefer the lives of mice and guinea pigs to the lives of men and women?” asks philosopher Patrick Corbett. Not really, because “if we stand back from the scientific and technological rat race for a moment, we realize that, since animals are in many respects superior to ourselves, the argument collapses.”¹⁴ Man, snarls Michael W. Fox in his book, *Returning to Eden*, “is the most dangerous, destructive, selfish and unethical animal on earth.”¹⁵ All animals may be equal in animal rights theory; but—as Orwell pointed out in *Animal Farm*—some animals are more equal than others.

Some “biospheric egalitarians” (or “biocentrists”) have decided that even plants and inanimate objects have rights *not* to be used by humans. In *The Rights of Nature*, Roderick Frazier Nash



AP/WIDE WORLD PHOTOS

Earth First! demonstrators are removed and arrested after they blocked a truck entering the Louisiana Pacific Lumber Company in Samoa, California, last June.

notes that "ecological egalitarianism," as he calls it, "accords nature ethical status at least equal to that of humans. The antipode is 'anthropocentrism,' according to which humans are the measure of all nature."¹⁶

In 1972, Christopher Stone published an article in the *California Law Review* titled "Should Trees Have Standing?—Toward Legal Rights for Natural Objects." This absurd viewpoint was further dignified by the prominent liberal Harvard law professor Laurence H. Tribe, in a 1974 *Yale Law Journal* article, and later in a book of essays. Worse yet, Stone's argument was actually accepted and cited in a 1972 dissenting opinion written by Supreme Court Justice William O. Douglas.¹⁷

Direct Action and Eco-Terrorism

The most successful of the Deep Ecology groups is Greenpeace International, whose activists engage in highly visible acts of "non-violent" civil disobedience, such as plugging up smokestacks and chemical waste pipes, or invading missile test sites on inflatable rafts. Their

Robin Hood image has paid off with at least 4 million contributors worldwide and an annual income over \$100 million. Greenpeace has become the darling of the liberal media, and the entertainment industry's charity of choice. The cable music network, VH-1, financed and is airing dozens of free commercials for the group, many narrated by Hollywood celebrities. A movie about Greenpeace founder David McTaggart is in the works.¹⁸

Even more disturbing is the fawning media treatment given to the group Earth First!, the violent guerrilla arm of the Deep Ecology movement. It specializes in sabotaging bulldozers, tearing down billboards and power lines, putting nails on roads to stop logging trucks, and pounding spikes into trees to destroy saw blades.¹⁹ One of its slogans is "Back to the Pleistocene"²⁰—meaning, back to the last Ice Age. Another slogan is "no compromise in defense of mother earth."²¹

"The only thing we have in common is an absolute conviction that the Earth comes first," says a U.S. government scientist who is a secret member.²² Another member, Christopher Manes, has recently published a book, *Green Rage: Radical Environmentalism and the Unmaking of Civiliza-*

tion. His closing line: "The time to make the choice between the natural and cultural world has come."²³

Neo-Luddism

Appropriately, the patron saints of the Deep Ecologists are the 19th-century Luddites—English workmen who, during the Industrial Revolution, went on a rampage to destroy factory machinery.

Today, says Daniel Grossman in the left-wing *Utne Reader*, "modern-day critics of industrial automation, nuclear technology, pesticides, genetic engineering, and other dubious technologies proudly wear the label of 'Neo-Luddites.' Indeed, the 19th century Luddites . . . offer a source of inspiration for today's Neo-Luddites. . . . Neo-Luddites judge the acceptability of a technology not merely by its impact on human health and the environment but also by its effects on human dignity and traditions of society. . . . Neo-Luddites are unwilling to accept disruptive technological forces as the inevitable cost of progress." In short, Neo-Luddites are proclaiming a right to perpetual stagnation—not just for themselves, but imposed upon the rest of society.²⁴

Chellis Glendinning, a psychologist and author, defines the "principles of Neo-Luddism" in a companion article. Neo-Luddites "perceive the human role not as the dominator of other species and planetary biology, but as integrated into the natural world with appreciation for the sacredness of all life." The only appropriate technologies, she says, are those created "by the people directly involved in their use—not by scientists, engineers, and entrepreneurs. . . ." These must be "understandable to the people who use them and are affected by them."

This means a technology simplified, intellectually, to a level comprehensible to society's lowest common denominators. Thus, she concludes, "*we favor the dismantling of the following destructive technologies [italics in original]: nuclear technologies . . . chemical technologies . . . genetic engineering technologies . . . television . . . electromagnetic technologies . . . computer technologies.*"²⁵

A Death Wish for Humanity

Human values, even human life itself, mean little to Deep Ecologists. In one interview, Arne

Naess targeted ideal world population at 100 million people. Given that current world population is about 5.3 billion, what do Deep Ecologists hope will happen to the remaining 5.2 billion?²⁶

Reviewing a recent Deep Ecology manifesto—Bill McKibben's *The End of Nature*—David Graber, a biologist for the National Park Service, expressed his own hopes thusly:

Human happiness, and certainly human fecundity, are not as important as a wild and healthy planet. I know social scientists who remind me that people are part of nature, but it isn't true. Somewhere along the line—at about a million years ago, maybe half that—we quit the contract and became a cancer. We have become a plague upon ourselves and upon the Earth. . . . Until such time as Homo Sapiens should decide to rejoin nature, some of us can only hope for the right virus to come along.²⁷

Mr. Graber isn't alone in his death wish for the human race, as Earth First! leader David Foreman makes clear: "We advocate bio-diversity for bio-diversity's sake. That says man is no more important than any other species. . . . It may well take our extinction to set things straight."²⁸ Or how about this: "An ice age is coming, and I welcome it as a much needed cleansing. I see no solution to our ruination of Earth except for a drastic reduction of the human population."²⁹

Foreman therefore finds a silver lining in the horrible Ethiopian famines: they are, he says, Mother Earth's natural defense against overpopulation.³⁰ Likewise, his group's official publication has cheerfully suggested that, from an ecological perspective, the AIDS epidemic might mean the end of industrialism, which is "the main force behind the environmental crisis. . . . [Thus] as radical environmentalists, we can see AIDS not as a problem but a necessary solution."³¹

Despite such nihilistic ravings and criminally destructive acts, Earth First! is being treated more and more respectfully by the liberal media. David Foreman, arrested by the FBI for conspiring to sabotage two nuclear power plants, was given a flattering profile on CBS's "60 Minutes" program.³² Earth First! was also glowingly depicted in a segment narrated by pop singer Carole King for the syndicated program, "A Current Affair."³³

Mainstream environmentalists often refuse to repudiate Earth First! Former Senator Gaylord

Nelson, who was a founder of the first Earth Day and now is with the Wilderness Society, has said, "I think groups like Greenpeace and Earth First! make a significant contribution to the educational process."³⁴ Darrell Knuffke, a regional coordinator for the Wilderness Society, calls Earth First! "extremely important to the movement."³⁵ Environmentalist guru David Brower, who built the Sierra Club to prominence, defends Earth First! sabotage without qualification: "They're not terrorists. The real terrorists are the polluters, the despoilers."³⁶

Earth First!'s growing acceptance by the media and mainstream environmentalists demonstrates the radicalization process within the movement. In fact, Earth First!'s Foreman had been the chief lobbyist for the Wilderness Society until 1980, when he quit because it was too moderate for his taste. Likewise, even the direct-action group Greenpeace was too tame for Paul Watson, one of its co-founders; so he founded Sea Shepherds, a more violent group which boasts of having sunk 12 whaling ships.³⁷

David Brower explains how this radicalization process works. "I founded Friends of the Earth to make the Sierra Club look reasonable. Then I founded the Earth Island Institute to make Friends of the Earth look reasonable. Earth First! now makes us look reasonable. We're still waiting for someone to come along and make Earth First! look reasonable."³⁸

Nature vs. Human Nature

What is the distinctive aspect of human nature that so offends these radical environmentalists? As they make clear in virtually every utterance, it is man's power to reason, and everything that flows from it: abstract knowledge, science, technology, material wealth, industrial society, the capitalist system.

Animals, lacking any rational capacity, survive by adapting themselves to nature. Human beings can survive only by utilizing reason to adapt nature to themselves. This means that to subsist, man must unavoidably use and disrupt animals and their habitats, transforming natural resources into food, clothing, shelter, and tools (capital). By nature and necessity, man is a *developer*.

To traditional Western thinkers, this was man's power and his glory. To Deep Ecologists, however,

man is the only thorn in an otherwise perfect Garden of Eden. They go beyond (or below) Marx, rejecting even the labor theory of value, and substituting a "natural resources standard of value." They equate natural resources with *capital*, and thus the development of resources with "capital consumption." Therefore, to develop resources, as man must, is to destroy. And since man is *destructive by nature*, everything in the universe is "natural" . . . except *human* nature.

In summary, Deep Ecology is an example of what I call "neutron philosophy": it kills people, while leaving their environment intact.

The Greens

While the Deep Ecologists denounce a man-centered perspective toward nature, the more pragmatic political types within the environmental movement are reluctant to admit such an underlying animus. Besides, these would-be "planet managers" don't want to destroy the world: they want to run it. So, to garner political power, they posture (like their Marxist ancestors) as friends of humanity. In well-furnished offices, their lawyers and lobbyists crank out endless reports and legislative proposals, often cloaked in the ill-fitting mantle of the very science and technology they privately despise. Even the legitimate scientists among them tend to look at facts through Green-colored lenses.

In his 1968 book, *The Population Bomb*, Dr. Paul Ehrlich declared: "In the 1970's . . . hundreds of millions of people are going to starve to death. . . . Nothing can prevent a substantial increase in the world death rate. . . . We must have population control at home, hopefully through a system of incentives and penalties, but by compulsion if voluntary methods fail. . . ."³⁹

But the only mass famines or deaths were politically engineered by Communist governments in Cambodia and Ethiopia. Everywhere else, food production went up, population soared, death rates went down, and life expectancy increased.⁴⁰ This hasn't ruined Ehrlich's credibility with the media: he's now a commentator for NBC television, and has another book out, *The Population Explosion*, regurgitating his same old Malthusian horrors.

Then there was the great cultural angst over the "nuclear winter." Nuclear war, declared Green astronomer Carl Sagan, would stir up a vast overcast that would freeze the planet, destroying all

life. Immediate nuclear disarmament was the only answer. Alas, later studies determined that Sagan's calculations from computer models had been badly flawed: the dreaded "winter" probably would be only a two-week cool snap. But *that* information never made it to the front pages.⁴¹

How about the great asbestos scare? All that insulation in our homes and schools was going to create a cancer epidemic, environmentalists told us. Well, a 1988 Harvard symposium, and articles in *Science* magazine and the *New England Journal of Medicine*, all confirmed that the levels of asbestos exposure faced by most occupants aren't dangerous at all. Nonetheless, the EPA-generated asbestos scare has cost the public millions of dollars in taxes and depressed real estate prices, and asbestos removal has actually *increased* the danger by stirring up particles.⁴²

Similar scientific nonsense undergirds the scares over the ozone hole,⁴³ acid rain,⁴⁴ genetic engineering,⁴⁵ nuclear power plants,⁴⁶ radon gas in our homes,⁴⁷ and the great Alar-on-our-apples cancer scare of 1989.⁴⁸

Consider today's overriding environmental concern, the "greenhouse effect." It's a case study of how science is being manipulated by Green politics.

"Global Warming" = Political Science

In the sweltering summer of 1988, Dr. James Hansen, director of NASA's Goddard Institute for Space Studies, told Congress: "The earth is warmer in 1988 than at any time in the history of instrumental measurements. . . . The four warmest years . . . have all been in the 1980s. . . . In my opinion . . . the greenhouse effect has been detected, and it is changing our climate now."⁴⁹

Hansen's alarming statements launched a wave of frightening predictions and controversy about what might happen if the planet warmed up.⁵⁰ Yet how good is the *evidence* for global warming?⁵¹

Heat-trapping "greenhouse gases" (e.g., carbon dioxide) have, in fact, been growing by minute quantities in our atmosphere.⁵² But claims that this has already warmed the earth about 1 degree Fahrenheit over the past century⁵³ have been refuted by recent reviews of earth temperature records and NASA satellite data.⁵⁴ Moreover, the frightening predictions—of future rising tempera-

tures,⁵⁵ killer heat waves, giant hurricanes,⁵⁶ and melting polar ice that will raise sea levels and inundate coastal cities⁵⁷—are being scaled down with each new scientific study.⁵⁸

If greenhouse gases increase and all other factors remain the same, the earth will warm up. But other factors *aren't* remaining the same.⁵⁹ For example, clouds keep the planet some 20 degrees Fahrenheit cooler than it would be under clear skies.⁶⁰ Many scientists think global warming would produce more cloud cover, which might act as a natural thermostat.⁶¹ Oceans also have a complex effect upon climate.⁶² Sunspots, volcanos, and small changes in earth's rotation or orbit can easily overwhelm any warming impact of minute greenhouse gas increases.⁶³

Proponents of global warming—such as James Hansen, and Stephen Schneider of the National Center for Atmospheric Research—crank out their dire predictions from computerized climate models. But poorly understood climatic processes are only crudely represented in these models.⁶⁴ Schneider himself concedes that it's an "even bet" that the models overestimate future warming "by a factor of two."⁶⁵

The best evidence for the global warming theory, Hansen told me, came from air bubbles trapped deep in Antarctic ice. These revealed lower concentrations of atmospheric carbon dioxide during ice ages, but much higher concentrations during warm interglacial periods.⁶⁶ The greenhouse theory, of course, is that carbon dioxide changes are supposed to *cause* temperature changes. But when questioned, Hansen admitted that, according to the ice samples, *the temperature changes came first*.⁶⁷ In short, the actual sequence of climatic events was exactly *backwards* from the greenhouse theory.

For such reasons, dozens of atmospheric scientists participating in a 1989 greenhouse workshop concluded that claims for greenhouse warming could not be made "with any degree of confidence."⁶⁸ Richard Lindzen of M.I.T.'s Department of Earth, Atmospheric and Planetary Sciences says flatly, "The data as we have it does not support a warming."⁶⁹

Yet the absence of evidence hasn't deterred the Greens from demanding that we adopt drastic political, economic, and lifestyle changes to "protect ourselves" against a threat that may never materialize.

The Insurance Policy Ruse

Global warming has become the favorite cause of the Greens, because "remedies" for it would require a scale of government intervention that strikes at the very heart of the free market system.

Today coal, oil, and other fossil fuels provide 90 percent of the world's energy. Yet environmentalists propose huge tax increases to discourage fossil fuels, in the name of reducing carbon dioxide emissions. An EPA report suggested that "the government could increase the price of fossil fuels by imposing charges or fees, at the same time reducing the price of desirable alternatives by providing subsidies."⁷⁰ The Worldwatch Institute suggests a hefty "carbon tax" on fossil fuels, to compel people to switch from coal, oil, and natural gas and toward "renewable energy sources," including solar, wind power, and the like.⁷¹ Senators Albert Gore, Timothy Wirth, and others have introduced bills to force major, expensive changes in fuel efficiency,⁷² to reduce carbon emissions, and to halt international deforestation.⁷³ Other proposals would discourage auto use, encourage public transportation, and foster drastic population control.

The most "green" thing about these proposals is the color of the money they would cost. Estimates from an array of economists range from \$800 billion to \$3.6 trillion.⁷⁴ EPA administrator William Reilly concedes that "To slow down the global heating process, the scale of economic and societal intervention will be enormous. It will involve far greater inconvenience, dislocation and cost."⁷⁵

This prospect—more primitive lifestyles and massive state planning—holds great appeal for many environmentalists. Their political problem, though, is how to build public sentiment for such massive taxing and spending, particularly at a time of considerable governmental red ink.

The answer is fear. Whether the issue is Alar, radon, ozone holes, or global warming, environmentalists use the same basic tactic. First, they proclaim some terrible doom right around the corner. When responsible critics demand evidence, the environmentalists reply: "Well, there seems to be disagreement and uncertainty here. But the consequences of this possible threat are so dangerous that, as an act of prudence, we can't afford to wait until all the facts are in. We have to act *as if the threat were real.*"

Jonathan Schell explains: "In the past, action usually awaited the confirmation of theory by hard evidence. Now, in a widening sphere of decisions, the costs of error are so exorbitant that we need to act on theory alone—which is to say on prediction alone." Scientists, he adds, must "disavow the certainty and precision that they normally insist on. . . . Scientists need to become connoisseurs and philosophers of uncertainty. . . . [T]he incurable uncertainty of our predicament, far from serving to reassure us, should fill us with unease and goad us to action."⁷⁶

In the face of this uncertainty, says Stephen Schneider, "A few tens of billions, or perhaps hundreds of billions of dollars, spent annually around the world for such planetary insurance . . . is an investment that is long overdue."⁷⁷

This "insurance policy" ruse neatly switches the burden of proof from those proposing a theory, onto those who are demanding evidence. By this nifty logical inversion, the theorist no longer has to prove his case; rather, the skeptic is somehow supposed to "refute" a case for which no evidence has been offered in the first place. The absence of evidence is now cleverly relabeled "uncertainty," against which we are exhorted to buy expensive "insurance policies." Precisely because we have no case, say the environmentalists, you'd better do what we say. This is nothing more than an extortion racket, relying on our own self-doubt as its enforcer.

Stephen Schneider does admit to an ethical dilemma about all this. He says that sometimes, to advance their views with the public, scientists "have to offer up scary scenarios, make simplified, dramatic statements, and make little mention of any doubts we might have." Each scientist, he cautions, must decide the "right balance [between] being effective and being honest. I hope that means being both."⁷⁸

But since when are scientists supposed to "balance" the truth with *anything*?

Cashing in on Eco-Hysteria

Clearly, the American people are never going to buy the Deep Ecology outlook of Earth First! or the Animal Liberation Front. But these groups make the more pragmatic, political left-wing groups look comparatively responsible—and they are cashing in. The Natural Resources Defense

Council, Worldwatch Institute, and the Environmental Defense Fund are manipulating scares over global warming and pesticides, not to destroy man, but to turn him into a harnessed beast of burden, with themselves holding the reins.⁷⁹

For example, Senator Timothy Wirth of Colorado said that "We've got to try to ride the global warming issue. Even if the theory of global warming is wrong, we will be doing the right thing anyway, in terms of economic policy and environmental policy."⁸⁰

And what kind of "economic policy" are we talking about? Stephen Schneider says that solving problems like global warming will require us to "redistribute our current resources . . . thus altering accustomed levels of expenses or incomes."⁸¹ *Time* magazine says: ". . . Americans . . . will have to . . . find alternative sources of energy and use all fuels more efficiently. What all this requires is self-discipline on the part of the world's haves and increased assistance to the have-nots. . . ."⁸² Botanist Peter Raven recently told a Pittsburgh conference that "The people at the top are consuming far, far more than a vast number of people at the bottom. It's much too unequal . . . in a way that affects the sustainable productivity of the world."⁸³

Don't assume the motive here is sympathy for the poor. The massive anticipated job losses in existing fossil fuel industries don't faze the environmentalist cadre. "I realize that such a switch would be a staggering blow to the coal mining industry," says Schneider. "But where is it written that anyone has an indefinite right to antisocial or antienvironmental employment?"⁸⁴ Paul Ehrlich, too, makes it clear that the environmentalist goal isn't to make poor people better off. Since rich people, by using more resources, cause many times more "ecological destruction" than poor people, Ehrlich concludes: "Actually, the problem in the world is that there are too many rich people."⁸⁵

So the basic division within the environmental movement is between the Greens, who want to rid the planet of rich people, and the Deep Ecologists, who want to rid the planet of people, period.

In Defense of Human Nature

Underlying it all is an antipathy for a complex, technical, and free society where survival is bought at the cost of ambition, learning, thinking, taking

risks, and working hard, all within a free, competitive marketplace. One sees the radical environmentalist motivation clearly captured in the book title, *Returning to Eden*—a woozy yearning for an egalitarian garden, where fruit drops from the tree into one's lap, where the struggle to survive ceases, where all animals lie down in peace and harmony. If you're a Deep Ecologist, the "ecosystem" will take care of you; if you're a Green, the social system will. But either way, environmentalism's Eden is a risk-free place where idle wishes will be the coin of the realm.

With the collapse of Communism—particularly of socialist economic theory—environmentalism has become freedom's foe for the '90s. Environmentalism represents a now-denuded Marxism, stripped of all its tenets, desperately clutching its last fig leaf of mindless egalitarianism. As such, it is a purely negative, contentless "ism." It is the final rallying point for nihilistic drifters and collectivist dreamers, who are united, not by ideas, but by a hostility toward human thought; not by values, but by an aversion for human aspirations; not by some utopian vision of society, but by a profound alienation from human society.

How are we to confront the radical challenge posed by environmentalism? It is useless merely to oppose it: environmentalism represents an intellectual and value vacuum, and one cannot negate negation. Therefore, our defense against it lies not in politicking, nor even in economic education, but in something far more basic, something upon which economics and everything else depends.

Our defense lies in accepting our own human nature, and the solemn responsibilities that flow from it. By fulfilling our nature and responsibilities as human beings, we bring meaning and value into the world.

Whatever they wish to call themselves, the contemporary children of Rousseau are at war with human nature—with *Homo sapiens* and the homocentric view of the world. Driven by fanatical hostility, they cannot be bought off by appeasement and compromises, which will only weaken our free society and its cultural institutions. However, they can be rendered harmless—if we reject their Procrustean moral premise, which reduces man to, or below, the status of mice, weeds, and soil.

Nature indeed provides beautiful settings for the work of man. But unseen and unappreciated, the environment is meaningless. It is but an empty

frame, in which we and our works are the picture. From that perspective, environmentalism means sacrificing the picture to spare the frame.

We shall protect ourselves, and our civilization, against their assaults on the day when we finally confront their charge of "speciesism" with buttons and bumper stickers proudly declaring our own right to exist as *our* nature demands, and unashamedly proclaiming our own form of "species solidarity."

Without apologies, then, let me be the first to come out of the closet, so to speak, and declare: I am a practicing homocentric. □

1. For a brief overview of these principles, see Richard L. Stroup and Jane S. Shaw, "The Free Market and the Environment," *The Public Interest*, Fall 1989, pp. 30-43. Also see Doug Bandow, ed., *Protecting the Environment: A Free Market Strategy* (Washington: Heritage Foundation, 1986). For detailed approaches to private environmental protection, contact the Political Economy Research Center, 502 S. 19th Avenue, Suite 211, Bozeman, MT 59715.

2. Alan Pell Crawford and Art Levine, "Planet Stricken," *Vogue*, September 1989, p. 710; Lindsay Van Gelder, "It's Not Nice to Mess With Mother Nature," *Ms.*, January-February 1989, p. 60.

3. "The Historical Roots of Our Ecologic Crisis," first printed in *Science*, March 10, 1967; reprinted in Garrett De Bell, ed., *The Environmental Handbook* (New York: Ballantine Books, 1970).

4. Alston Chase, "The Great, Green Deep-Ecology Revolution," *Rolling Stone*, April 23, 1987, p. 64; Peter Borrelli, "The Ecophilosophers," *The Amicus Journal*, Spring 1988, pp. 32-33.

5. Preface and Acknowledgment page of *Animal Liberation* (New York: The New York Review and Avon Books, 1975).

6. Ronald Bailey, "Non-Human Rights," *Commentary*, October 1985, p. 76.

7. From Fox's book, *Returning to Eden* (Viking, 1980), quoted in Robert James Bidinotto, "'Animal Rights': A New Species of Egalitarianism," *The Intellectual Activist*, September 14, 1983, p. 5.

8. John Harris, Stanley and Roslind Godlovitch, *Animals, Men and Morals* (Taplinger Publishing Co., 1972); quoted in Bidinotto, p. 2.

9. Associated Press dispatch, *Middlesex* (Mass.) *News*, June 8, 1983.

10. Steven Wise, letter to *The Boston Phoenix*, May 10, 1983.

11. Quoted from *Animals, Men and Morals* in Bidinotto, p. 5.

12. Alston Chase, "Welcome to World War III," *Lear's*, December 1989, p. 101.

13. Editorial, *Barron's*, March 5, 1990. For other examples and a good overview of this terrorism see John G. Hubbell, "The 'Animal Rights' War on Medicine," *Reader's Digest*, June 1990, pp. 70-76. Besides the author's article in the September 14, 1983, *Intellectual Activist*, other articles giving overviews of the movement and its philosophy include Charles Oliver's "Liberation Zoology" in *Reason*, June 1990; Ronald Bailey's review of Peter Singer's *In Defense of Animals* in *Commentary*, October 1985; and the resulting exchange of letters in *Commentary*, March 1986.

14. Corbett's "Postscript" in *Animals, Men and Morals*; quoted in Bidinotto, p. 4.

15. Also quoted in Bidinotto, p. 2.

16. Quoted in Joel Schwartz, "The Rights of Nature and the Death of God," *The Public Interest*, Fall 1989, pp. 3-4.

17. Schwartz, pp. 4-9.

18. *Insight*, April 23, 1990, pp. 56-58; *Oceans*, June 1987, p. 16; *New York Times Magazine*, October 2, 1988, p. 72; *The Amicus Journal*, Fall 1987, pp. 28-42.

19. *Newsweek*, February 5, 1990, pp. 24-25; *New Republic*, April 30, 1990, pp. 31-32; *The Progressive*, September 1989, p. 15; *Vogue*, September 1989, p. 801; *Omni*, August 1989, p. 25; *Nation*, July 17, 1989, and May 2, 1987, pp. 568-570; *Backpacker*, September 1988, pp. 20-23; *Rolling Stone*, April 23, 1987, p. 61; *Esquire*, February 1987,

pp. 98-106; *The Amicus Journal*, Fall 1987, pp. 28-42.

20. Virginia I. Postrel, "The Green Road to Serfdom," *Reason*, April 1990, p. 24.

21. M. John Fayhee, "Earth First! and Foremost," *Backpacker*, September 1988, p. 21.

22. *Newsweek*, February 5, 1990, p. 25.

23. Quoted in Evan Eisenberg, "The Call of the Wild," *New Republic*, April 30, 1990, pp. 31-32.

24. Daniel Grossman, "Neo-Luddites: Don't Just Say Yes to Technology," *Ume Reader*, March/April 1990, pp. 44-49.

25. Chellis Glendinning, "Notes Toward a Neo-Luddite Manifesto," *Ume Reader*, March/April 1990, pp. 50-53.

26. Eisenberg, p. 31. Elsewhere, Naess suggested a somewhat less drastic goal of one billion people—roughly the world population in 1800. See Peter Borrelli, "The Ecophilosophers," *The Amicus Journal*, Spring 1988, pp. 32-33.

27. Postrel, p. 28.

28. Fayhee, pp. 22-23.

29. Quoted in Gregg Easterbrook, "Everything You Know About the Environment Is Wrong," *The New Republic*, April 30, 1990, p. 18.

30. Richard Hill, "Ecology Wars," *Omni*, August 1989, p. 25.

31. Crawford and Levine, p. 801.

32. Easterbrook, p. 18. Program rebroadcast June 3, 1990.

33. "A Current Affair," broadcast April 20, 1990.

34. Postrel, p. 23.

35. Fayhee, p. 22.

36. Joe Kane, "Mother Nature's Army," *Esquire*, February 1987, p. 102.

37. Kane, p. 100; Chase in *Lear's*, December 1989, pp. 95-96; see also Dick Russell, "The Monkeywrenchers," *The Amicus Journal*, Fall 1987, pp. 28-42.

38. Postrel, pp. 23-24.

39. Paul Ehrlich, *The Population Bomb* (New York: Ballantine Books, 1968), Preface.

40. For a thorough demolition of the Malthusian notion that population growth must lead to resource destruction and eventual mass starvation, see the works of Julian Simon, particularly *The Ultimate Resource* (Princeton, N.J.: Princeton University Press, 1981).

41. For a summary see Howard Maccabee, "Nuclear Winter: How Much Do We Really Know?" *Reason*, May 1985, pp. 26-35.

42. See Patrick Marshall's syndicated column for Editorial Research Reports, in *Youngstown* (Ohio) *Vindicator*, April 1, 1990; also Gary Slutsker, "Paratoxicology," *Forbes*, January 8, 1990.

43. See, for example, "The Ozone Hole That Didn't Eat the World," *Forbes*, October 30, 1989.

44. See, for example, Warren Brookes, "On Gold-Plated Ponds," *Washington Times*, October 26, 1989.

45. For an excellent refutation of the writings of Deep Ecology activist Jeremy Rifkin on this subject, see Stephen Jay Gould, "On the Origin of Specious Critics," *Discover*, January 1985.

46. Dr. Petr Beckmann's excellent newsletter, *Access to Energy*, contains superb analyses of nuclear scares, as does his classic book, *The Health Hazards of NOT Going Nuclear*. Available from Beckmann at Box 2298, Boulder, CO 80306.

47. See, for example, Warren Brookes' column, March 8, 1990. See also Ben Bolch and Harold Lyons, "A Multibillion-dollar Radon Scare," *The Public Interest*, Spring 1990.

48. Robert James Bidinotto, "The Great Apple Scare," *Reader's Digest*, October 1990. See also Kenneth Smith, "Alar: One Year Later," report published by American Council on Science and Health (1995 Broadway, New York, NY 10023) March 1990. For the deliberately manipulative, organized campaign surrounding the scare see "How a PR Firm Executed the Alar Scare," *Wall Street Journal*, October 3, 1989. Two scientific analyses that thoroughly refute the Natural Resources Defense Council report, "Intolerable Risk," which touched off the scare: *Analysis of Natural Resources Defense Council's Report, "Intolerable Risk,"* by the California Department of Food and Agriculture, May 25, 1989; and *A Critical Review of the Natural Resources Defense Council's Report "Intolerable Risk,"* prepared for the National Agricultural Chemicals Association by consulting scientists.

49. Hearing before the Senate Committee on Energy and Natural Resources, June 23, 1988 (U.S. Government Printing Office, Washington: 1988), pp. 39-41.

50. For examples of the continuing controversy see *Science News*, July 2, 1988; *Time*, July 4, 1988; *Barron's*, February 7, 1989; *Science*,

June 2, 1989; *Newsweek*, May 22, 1989; and Hansen's letters in the *Washington Post* of February 11, 1989, and *The New York Times* of January 11, 1989.

51. Robert James Bidinotto, "What Is the Truth About Global Warming?" *Reader's Digest*, February 1990, is a brief primer on the greenhouse subject. For scientific discussion of the greenhouse effect and its causes, see: Steven Schneider, *Global Warming* (San Francisco: Sierra Club Books, 1989), pp. 13-17; *Policy Options for Stabilizing Global Climate*, Executive Summary of Draft Report to Congress (U.S. Environmental Protection Agency, February 1989), pp. 15-16; *Atmospheric Carbon Dioxide and the Greenhouse Effect* (U.S. Department of Energy, May 1989), p. 4; *Scientific Perspectives on the Greenhouse Problem* (Washington: George C. Marshall Institute, 1989), pp. 1-2; Daniel Hillel and Cynthia Rosenzweig, *The Greenhouse Effect and Its Implications Regarding Global Agriculture* (Amherst, Mass.: Massachusetts Agricultural Experiment Station, April 1989), p. 4.

52. Carbon dioxide constitutes a mere one-third of one-tenth of one percent of our atmosphere. Alarmist claims about a "25 percent increase in carbon dioxide" only refer to a fractional increase in that tiny amount, from an approximate atmospheric concentration of .000275 to .000350—an increase of .000075 in absolute terms. See: Christopher Flavin, *Slowing Global Warming: A Worldwide Strategy*, Worldwatch Paper 91 (Washington: Worldwatch Institute, October 1989), pp. 6, 10, 11, 13 (table), 14; Hearing before the Senate Committee on Energy and Natural Resources, November 9 and 10, 1987 (Washington: U.S. Government Printing Office, 1988), pp. 37-49; Schneider, pp. 41, 102; *Atmospheric Carbon Dioxide*, pp. 8-12; *Policy Options*, Executive Summary, pp. 3, 12, 15; *Scientific American*, September 1989, p. 62; *Chemical Engineering Progress*, August 1989, p. 32; *Policy Review*, Summer 1989, p. 70; *Consumers' Research*, November 1988, p. 28.

53. Schneider, pp. 84-86; *Atmospheric Carbon Dioxide*, pp. 18-19; Flavin, p. 6; Hillel and Rosenzweig, pp. 11-12; *Consumers' Research*, November 1988, p. 28 (chart); James Hansen and Sergej Lebedeff, "Global Trends of Measured Surface Air Temperature," *Journal of Geophysical Research*, November 20, 1987.

54. *New York Times* and *Los Angeles Times*, January 26, 1989; *Boston Globe*, January 25, 1989; *Technology Review*, November-December 1989, p. 80. For refutation of the claim that the past decade was the warmest on record, see *Science*, March 30, 1990, pp. 1529, 1558-1562.

55. Schneider, pp. 24, 92, 104. Hillel and Rosenzweig, p. 6; Flavin, pp. 6, 16-18; *Atmospheric Carbon Dioxide*, p. 14; Hearings, Senate Commission on Energy and Natural Resources, November 9-19, 1987, pp. 119-120, 122; *Policy Options*, Executive Summary, p. 4; *The Sciences*, September/October 1989, p. 18. See also the papers by James Hansen and associates in *Science* August 28, 1981, and May 20, 1983; in *Climate Processes and Climate Sensitivity*, Geophysical Monograph 29 (American Geophysical Union, 1984), pp. 130-131; and in *Preparing for Climate Change* (Washington: Government Institutes, Inc., 1987), pp. 35-37.

56. Dr. Stephen Schneider of the National Center for Atmospheric Research painted a "plausible scenario" of smoky forest fires in Canada, a killer heat wave, and a hurricane that devastates Long Island—all generated by the greenhouse effect. See Schneider, chapter 1.

57. A Woods Hole scientist's prediction in *Popular Science*, August 1989, p. 56. Paul Ehrlich warned that "we could expect to lose all of Florida, Washington, D.C., and the Los Angeles basin" on an NBC "Today" Show broadcast, May 3, 1989. Ehrlich also predicted that killer droughts could result in 50 million to 400 million deaths by starvation; cited in Flavin, p. 19.

58. For instance, nine new studies presented before the American Geophysical Society concluded that since a warmer atmosphere will mean increased snowfall, the polar ice caps will grow, not melt,

in the event of any global warming. The researchers cut earlier predictions of sharp sea-level rises to a foot or less. *Denver Post* and *Los Angeles Times*, December 8, 1989.

59. *Scientific Perspectives*, pp. 4-8; Hillel and Rosenzweig, pp. 4, 6; Schneider, p. 46; *Scientific American*, September 1989, p. 75; Dr. Richard Lindzen, quoted in *MIT Tech Talk*, September 27, 1989.

60. On clouds and their effects: *Christian Science Monitor*, September 5, 1989; *Washington Post*, September 14, 1989; *New York Times*, April 24, 1990; *Science News*, September 23, 1989, p. 196; *Scientific American*, September 1989, p. 75; Lindzen, *MIT Tech Talk*, September 27, 1989; *Scientific Perspectives*, pp. 6-8; Hillel and Rosenzweig, pp. 2, 8; Flavin, pp. 13-14; Schneider, pp. 14-16, 55, 66, 71-72.

61. *Scientific Perspectives*, pp. 13-14; *Newsweek*, July 24, 1989, p. 42; *Consumers' Research*, November 1988, p. 29; paper by Dr. Hugh Ellsaesser for Pacific Environment Conference, October 1989, pp. 10-12; Ellsaesser, "A Different View of the Climatic Effect of CO₂," prepublication paper, August 1989, pp. 13-17, 20-21; Ellsaesser, "The Climatic Effect of CO₂: A Different View," *Atmospheric Environment*, Vol. 18, No. 2, pp. 431-434 (1984).

62. *Scientific Perspectives*, pp. 5, 13-14; Hillel and Rosenzweig, pp. 8, 10, 13; Flavin, pp. 14-15; *Atmospheric Carbon Dioxide*, p. 17.

63. *Scientific Perspectives*, chapter IV.

64. *Science*, June 2, 1989, esp. p. 1042; *Scientific Perspectives*, pp. 10-12; *Atmospheric Carbon Dioxide*, pp. 15-16; Schneider, pp. 96-97; *Chemical Engineering Progress*, August 1989, p. 28; *Fortune*, July 4, 1988, p. 106.

65. Schneider, pp. 117, 253.

66. This is from the author's recorded interview with Hansen. This ice sample evidence of a gas-temperature correlation, he said, was the greenhouse theory's "most important [empirical] check."

67. "... in fact, the CO₂ changes do seem to follow the temperature changes, not precede them," Hansen told me.

68. Richard A. Kerr, "Hansen vs. the World on the Greenhouse Threat," *Science*, June 2, 1989, p. 1043.

69. Lindzen in *MIT Tech Talk*, September 27, 1989, p. 2.

70. *Policy Options*, Executive Summary, p. 66; also Vol. II, pp. VIII-8.

71. Flavin, pp. 43, 49-72 esp. 53, 54, 66-67, 70-72.

72. *National Journal*, August 13, 1988, p. 2098.

73. *Congressional Record*, July 12, 1989, esp. p. S-7738, column 1; and July 19, 1989, esp. p. S-8232.

74. *New York Times*, November 19, 1989.

75. Text of Reilly speech to World Affairs Council, June 27, 1989, p. 13.

76. Jonathan Schell, "Our Fragile Earth," *Discover*, October 1989, p. 50.

77. Schneider, p. 284.

78. Quoted by Schell in *Discover*, October 1989, p. 47.

79. For an invaluable new history and analysis of the political wing of the environmentalist movement and its organizations: Jo Kwong Echarid, *Protecting the Environment: Old Rhetoric, New Imperatives* (Washington: Capital Research Center, 1612 K Street, N.W., Suite 704, Washington, DC 20006; 1990).

80. *National Journal*, August 13, 1988, pp. 2095-2096.

81. Schneider, pp. 245-252, esp. 250; see also 259, 265-272, 279, 281-282 and 284 (summary quote).

82. *Time*, October 30, 1989, p. 60.

83. Associated Press dispatch in *Youngstown Vindicator*, April 6, 1990.

84. Schneider, p. 264.

85. Associated Press story, *Youngstown Vindicator*, April 6, 1990. Ehrlich elaborated on this theme in his new book, *The Population Explosion* (New York: Simon & Schuster, 1990), and in a syndicated column in the *Los Angeles Times* which ran in the *Youngstown Vindicator* on April 10, 1990.

Markets and Pseudo-Markets

by Donald J. Boudreaux

The 1980s will be remembered as the decade in which “the market” gained a degree of respect worldwide that it never had or that it had only many decades ago. Most obviously, the overthrow of Communist regimes throughout Eastern Europe during the final months of 1989 holds promise for significant economic reforms that will introduce market mechanisms into those economies. Recent election results in Nicaragua, and current political maneuverings in the Soviet Union, also suggest that a continuation down the path toward freer markets is likely. Obviously, classical liberals should be pleased by these developments.

More time-tested reforms have taken place in the English-speaking world. In Great Britain, Margaret Thatcher’s program is an attempt to restore the market in that nation. And, of course, the United States in the 1980s was the Reagan era—a period in which “the free market” lost its vulgar connotation in the popular mind.

Although Thatcher’s and Reagan’s efforts deserve praise (especially when compared with the possibility of a continuation in the 1980s of 1970s-type policies), that praise should be only mild. The changes brought about were neither as extensive as those promised in the late 1970s and early 1980s, nor as permanent. Of course, Thatcher and Reagan faced political realities that made it extremely difficult to do more than bruise government on its little toe; any attempt to cut off an arm or leg of government almost certainly would have resulted in the loss of Thatcher’s or Reagan’s political head. It is a common theme that opponents of government intervention seldom win in battles with politically

Dr. Boudreaux is studying law at the University of Virginia.

entrenched special-interest groups. It is also a common theme among classical liberals that ideas do matter and that long-run victory for the market is possible only with a fundamental change in the way people think about the role of government as compared with the role of the market.

I accept the claim that ideas matter. Therefore, I believe that the ideas marshalled in support of the market should be correct, promising neither too little nor too much. I argue here that a significant portion of the intellectual arguments undergirding the Thatcher-Reagan efforts were misguided. (Being a United States citizen, I confine my essay to the U.S. experience.) In brief, my thesis is that arguments in favor of “the market” are not necessarily arguments in support of classical liberal values. Restoration of “the market” is not an ultimate goal of classical liberalism. By focusing too much on “the market,” classical liberals and their friends can undermine the case for the ultimate classical liberal values of peace, prosperity, and liberty.

Arguments in support of these classical liberal values should focus, not on “the market,” but on the protection of private property and freedom of contract. It is these latter two institutions that are absolutely necessary for peace, prosperity, and liberty. Although private property and freedom of contract inevitably give rise to markets—defined as the interactions of buyers and sellers for the purpose of exchanging ownership titles—markets as such are secondary phenomena in a classical liberal society. That is, classical liberals should aim their arguments at supporting private property and freedom of contract rather than directly at supporting “the market.” By doing so, free mutually beneficial

exchange will be protected. More important, what I call “bastard markets” or pseudo-markets will be avoided. Pseudo-markets are markets that arise, not via the interplay of private property and contractual freedom, but via the *suppression* of these vital classical liberal institutions.

Pseudo-Markets versus Real Markets

An example of what I mean by pseudo-markets may be useful. Consider a manufacturing firm that has been purchasing its inputs from independently owned suppliers. Now suppose that a technological change occurs that allows this firm to increase the efficiency of its operation by merging with one of its suppliers. The institutions of private property and freedom of contract insure that this merger may take place. After the completion of the merger, no formal exchange occurs between the input-supply branch of the firm and the manufacturing branch. In a literal sense, a market relationship has been terminated. Suppose now that a court or an administrative government agency orders this merger dissolved. By forcing the manufacturing firm to sell its input-supply branch to an independent owner, a “market” relationship is (re)established: the manufacturing firm now engages in a greater number of formal exchanges than before because now it must purchase its supplies of this particular input from a separately owned firm.

But the market relationship created here by the court did not grow out of the institutions of private property and contractual freedom. Instead, it resulted from the attenuation of these institutions. This is a pseudo-market; it is illegitimate from the perspective of classical liberalism. Compare this pseudo-market relationship with the market relationship that exists when the manufacturer and its input supplier voluntarily choose not to merge. In the latter case, the market grows out of the institutions of private property and freedom of contract. For this reason I call such a market—in this case for inputs—a “real market.”

A danger arises when people fail to account for the fact that protection of private property and freedom of contract is not synonymous with protection of markets. The danger is that the protective walls around private property and contractual freedom begin to crumble. The path is

then opened for private property and contractual freedom to be violated by government. Few classical liberals will disagree with the claim that markets erected out of the material gathered from the dismantling of private property and contractual freedom promise neither lasting peace nor prosperity. And it can hardly be argued that these pseudo-markets are consistent with liberty.

When government has the power to use markets without respecting the private property and contractual freedom of its citizens, it can design and employ markets to achieve goals that have little to do with the individual goals of the people. As incongruous as it may seem, markets become a tool in the central planner’s kit of instruments for attempting to engineer society into some preconceived mold.

One problem with the use of pseudo-markets, of course, is that the central planner may desire a set of social outcomes that is different from that which contributes most to the welfare of the people. More fundamentally, political support for pseudo-markets can be purchased in democratic societies only when voters are promised specific benefits that the market supposedly will bring them. This support requires an explicit listing of what the pseudo-markets promise to do (e.g., reduce prices, increase employment opportunities, and so on). But such political support is tenuous because, by their nature, markets are simply a forum for exchange—markets can expedite the exchange only of that which already has been produced. Although the signals sent out by market exchanges are crucial in the determination of what goods are produced and how, these signals emerge only in the actual process of market exchange. Thus, specific accurate predictions about the benefits and costs of a system of market exchange can seldom, if ever, be made.

Market signals—which relate relative intensities of consumer wants and relative scarcities of alternative inputs—cannot be predicted independently of the process that generates them because markets synthesize a vast amalgam of information “bits.” The signals sent out on the basis of this synthesis result in specific outcomes, the details of which no one ever could have hoped to predict. Markets, therefore, are a poor tool to use in attempting to attain specific results. Thus, political support for markets based only on the promise of specific outcomes too often, if not invariably, leads

to disappointment among those who lent their support to the market. In the face of such disappointment over the specific performance of the market, the political coalition built up to support the market dissolves. Support for the market eventually evaporates, and this "experiment" with the market is abandoned because of the popular belief that the market failed.

Consider, for example, the Reagan tax cut in 1981. The promised result was that government revenue would increase because of the "Laffer Curve" effect. Although debate still goes on about the actual revenue effects of this tax cut, the consensus seems to be that government tax revenues did not increase as a result of the 1981 tax-rate cut. That is, the specific market outcome that was anticipated did not happen. Reagan's market experiment with lower tax rates was widely viewed as having failed, and the stage was set for 1982's tax hike.

In contrast, had the 1981 tax cut been based upon arguments in support of private property, the observed outcome of the tax cut would have occasioned far less criticism. No one could have argued that the tax cut didn't fulfill its goal. Under these circumstances, we very well might have avoided the 1982 tax increase.

Whenever pseudo-markets are created, they are usually intended to serve the interests of a politically well-organized group. But even when such markets fulfill their intended purpose, they seldom make a net positive contribution to the welfare of society.

An example of this recently occurred in the airline industry. United Airlines spent a great deal of resources developing its Apollo computerized reservation system. When United bought the rights to Pan Am's Pacific routes, the court refused to allow the purchase unless United agreed to make its reservation system available for use by its competitors on terms that did not discriminate against its competitors and in favor of United.

By requiring United to deal with its rivals on terms that it would not have otherwise agreed to, the court, strictly speaking, created a market. But notice that United's right to dispose of its property as it sees fit has been pushed aside by the court. Exchanges will be made that would not have taken place in the absence of the court's decision. Clearly, the airlines who now have the right to purchase use of the Apollo reservation system from

United are benefited by the court's ruling; the court's creation of this market helps these airlines.

However, consumers won't benefit. Because the incentive to invest in the development of such reservation systems is reduced by the precedent set in the United-Pan Am case, fewer such systems will be developed in the future. In its attempt to protect the market for United's rivals, the court found it necessary to modify United's freedom of contract and private property rights. The result will be that airlines, on the whole and in the future, will be less efficient than they otherwise would be, and consumers will ultimately bear the cost of the forgone improvements in efficiency.

The Role of Classical Liberalism

Classical liberals should focus on the explication and defense of private property and freedom of contract, pointing out how these institutions are indispensable for well-functioning markets and for free and prosperous societies. The role of classical liberal principles is to restore private property and contractual freedom to their place of primacy in Western civilization—and to continue to introduce these principles to non-Western nations.

Classical liberals have the responsibility of opposing those who seek to engineer society through selective introduction of market mechanisms. The classical liberal must work to persuade others that markets that emerge out of the interplay of private property and contractual freedom are the only markets that promise genuine net benefits to society. The classical liberal must further remind others that markets created by the suppression of these institutions are not the type or form of economic organization that classical liberalism champions.

As we begin the new decade, the risk of disenchantment with the market is high. By failing to recognize the distinction between pseudo-markets and real markets, voters may well decide that the market is not all that it was claimed to be at the beginning of the 1980s. What the classical liberal must do is, to be sure, defend markets, but defend them only insofar as they are a natural and healthy result of private property and freedom of contract. It is the intellectual and moral foundations of these latter institutions that must be supported by sound classical-liberal argument. If classical liberals meet this challenge, restoration of the market—the real, not pseudo, market—will follow. □

The Myth of Public/Private “Cooperative Enterprises”

by Barbara R. Hunter

A popular term today for schemes that transfer money from the taxpayer's pocket either to a private individual or to a private organization is “cooperation.” According to this notion, the government (which may be municipal, county, state, or federal) has the right to extract from the taxpayer any sum for any purpose, as long as those doing the extracting have determined that the taking is for a “good purpose.”

Strangely, once the money has been taken, it is no longer recognized as belonging to the taxpayer. Now it is instead “government funds,” and these funds are portrayed as a source of benevolence from that particular government to the recipient. A multiplicity of terminology may be used to mask the actual source of the alleged benevolence—“cooperative effort,” “synergy,” “assistance,” “aid,” “investment,” “joint effort,” “financial incentives,” “partnership,” to name a few. Not surprisingly, both the beneficiary and the local press are likely to portray this giving only in terms of the marvelous benefits the community will enjoy as a result of the influx of funds, without referring to the taking that made the giving possible.

Some of the fallacies of the notion of public/private cooperation may be seen in a recent example.

A Long Island, New York, company, long known for its high-technology contributions to the nation's defense, discovered it was no longer doing well in the competitive quest for contracts. A thorough examination of its operations revealed several problems: (1) its physical plant, originally conceived as necessary for a growing company (which it no longer was), was too large, and consolidation

was needed if it was ever to bring its costs into line with its competitors; (2) much of its equipment, and some of its major facilities, were obsolete and simply couldn't be used for today's more demanding technologies; and (3) a shortage of capital made it appear difficult, perhaps impossible, to remedy these problems. Interestingly, the company has a parent corporation, but the parent obviously didn't consider it worthwhile to plow the needed funds into the company; otherwise, it would have decided the investment was a good one, and the money would have been provided.

But even though one's own parent company determines that such an investment won't be beneficial, such technicalities don't stop those who hope the government (that is, the taxpayer) will take a different view of the merits of the case. In the absence of the necessary money, the company decided to look for what it called “an innovative approach to funding.” Just how innovative it was became evident following a meeting between company representatives and the New York State Department of Economic Development. The Department's rationale for supporting the company's funding plan was that the state wanted the company to “continue contributing its impact on the state and local economies.”

Ironically, the company never said it planned to stop contributing that impact, and it never hinted it might take some other approach, such as moving out of state or closing its doors. Nevertheless, over a six-month period, the company managed to get both the Department of Economic Development and Suffolk County officials to approve the plan and to commit money to the project. And this was no small sum: The state's share will be \$2.1 million

Barbara Hunter is an educational consultant in office automation living on Long Island.

in grants and loans, the county's \$2.5 million in "industrial development bonds," in addition to real estate tax abatements on the projects and sales tax abatements on the capital purchases associated with the projects (neither of which is available to the company's competitors).

Two factors need to be considered if the plaque presented by the county executive to the company president, inscribed "New York State—Suffolk County—(company name)—'A Partnership for Progress'" is to be identified for what it is.

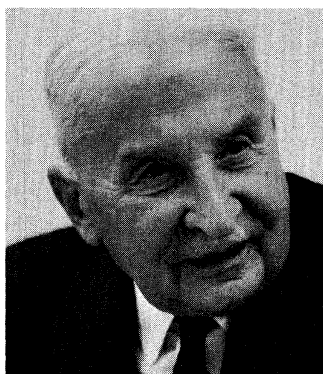
First, every dollar flowing from the state or county coffers to the company has to come from somewhere. In New York State, where both individual and corporate taxes are among the highest in the nation, these dollars can be traced back to numerous disadvantages that will accrue to those who are not the recipients of this largess: money out of the individual taxpayer's pocket, money that this company's competitors will not have for their own development or other purposes because they

have been forced to hand it over to the various levels of government to benefit the favored company. If one doesn't bother thinking through the *full* implications of a decision that takes money from one person or company and gives it to another, it might seem that some form of wealth or other value has been created in the process. The failure to look at the full picture is a likely reason why this action has been proudly announced by the company and hailed by the press.

Second, perhaps the ultimate irony of the scheme is that this is the year in which both New York State and Suffolk County are awash in red ink, the year in which Suffolk County taxpayers are facing real property tax increases of as much as 30 percent, and in which the governor has been searching for new ways to raise state taxes. One could easily ask just how many of the already beleaguered taxpayers would have agreed of their own volition to turn over as much as \$4.6 million of their already imperiled incomes. □

Back in print!

LIBERALISM: IN THE CLASSICAL TRADITION



Ludwig von Mises

LIBERALISM: In The Classical Tradition by Ludwig von Mises is a book-length essay that sums up the ideas and principles of classical liberalism as they apply to the twentieth century. First published in Germany in 1927, it was published in the United States under the title *The Free and Prosperous Commonwealth* in 1962 and reissued in the mid-seventies by The Institute for Humane Studies. It was republished by The Foundation for Economic Education in association with the Cobden Press in 1985, and has recently been reprinted.

230 pages • \$12.95 paperback

Order from: The Foundation for Economic Education

Sweden: No Model for Eastern Europe

by Eric Brodin

The Eastern and Central European countries that have abandoned (or at least renamed) their governments are scouting around for a new form of government. They want a system that will provide the relative freedom found in a market economy yet, at the same time, satisfy people accustomed to social welfare benefits. Delegations from East Germany, Poland, Czechoslovakia, Hungary, and the Soviet Union recently visited the Scandinavian countries to learn more about their apparently successful wedding of socialism and democracy.

Most of these delegations went to Sweden, which for decades has been touted as a model welfare state. The Social Democratic government of Prime Minister Ingvar Carlsson has shown its foreign visitors around and pointed out what a "social democracy" has brought. Would the "mixed" Swedish economy, which combines private ownership of the means of production with an elaborate welfare system, be appropriate for the formerly Communist countries? Let us take a closer look at the Swedish experiment in socialism.

Swedish socialism had its origins in the 1880s, when an egalitarian movement led by August Palm, a former tailor, gave birth to Swedish unionism and the Social Democratic Party. Socialist programs, particularly the "reformed Marxism" of Eduard Bernstein, were imported from Germany. By 1932 the Social Democrats had gained majorities in both houses of Parliament. (Sweden now has a unicameral parliament with 349 seats.)

With the Social Democrats in power, the pace of socialization accelerated. Most welfare measures were passed with the cooperation of the two centrist parties, the Liberals (*Folkpartiet*) and the Center (formerly Agrarians). Other measures could be passed only with the cooperation of the small Communist Party. Swedish industry was pretty much left alone so that it could pay the taxes needed to finance the welfare system. The Social Democrats have maintained political hegemony in Sweden since 1932, with the exception of a coalition government in World War II and an interregnum of the three non-socialist opposition parties (1976-1982), during which no important plank of the welfare state was removed.

Gunnar Myrdal and his wife Alva played leading roles in the development of Sweden's welfare state. Gunnar Myrdal won a Nobel Prize in Economics in 1974, and Alva Myrdal won a Nobel Peace Prize in 1982. Conveniently forgotten today is their admiration of the eugenics principles of Nazi Germany. The Myrdals believed that only such drastic measures would assure that the Swedish stock would be the best for the coming welfare collective.

During the next decades the Swedish welfare state expanded into more and more areas of social life in an attempt to eradicate the bourgeois nature of the traditional Swedish family. The government on all levels began to assume a *paterfamilias* role. Allan Carlson, writing in the May 1990 issue of *Chronicles*, quotes one Swedish official as saying, "I should like to abolish the family as a means of earning a livelihood, let adults be economically independent of each other and give society a large

Professor Brodin, a native of Sweden, is Director of The Foundation for International Studies, Buies Creek, North Carolina.

share of responsibility for its children." Carlson explores this development at length in *The Swedish Experiment in Family Politics: The Myrdals and the Interwar Population Crisis* (Transaction Books, 1990).

A "Bold Experiment" that Failed the Family

Socialist programs would have a grave impact on Swedish family life. Sweden now has the world's lowest first-marriage rate and one of the lowest birthrates. Half the children are born out of wedlock. Yet the authors of the Swedish welfare state always believed that their course was right. Alva Myrdal in her book *Nation and Family* (MIT Press, 1941, p. 11) said: "The Scandinavian countries, and particularly Sweden, by historical accident are given the most advantageous set of prerequisites for a bold experiment in social democracy. If it cannot successfully be developed in Scandinavia, given by historical chance exceptionally advantageous conditions, it would probably not work out anywhere else."

Among those "exceptionally advantageous conditions" were some that were specifically Swedish. The Swedish population is small; it just passed 8.5 million. It is remarkably homogeneous, having only the Lapps of the north as a minority, and in the 1970s and 1980s a foreign work force of several hundred thousand. Furthermore, Sweden escaped the horrors of war for more than 175 years and was able to convert its munitions plants into factories for producing housing materials after World War II. It has thus been able to grow wealthy in a Europe that, for the most part, had been adversely affected by the war. Sweden also escaped the social displacement and ills that often follow wartime defeats, and the resultant social disintegration.

With the Social Democratic Party in firm control from 1932 to 1976, and the acquiescence of the two centrist parties, Sweden erected a panoply of welfare measures unprecedented anywhere in the world. Contributing to the system's apparent stability was the cooperation between the central Labor Organization and the Swedish Central Employers' Organization. The welfare state seemed to be a viable system.

But in the 1970s, things began to fall apart. Restive labor unions who saw their members' salaries eaten up by inflation, and employers who

saw their share of social costs rise to 40 percent of workers' salaries, began to chafe at the tax burden. Unprecedented absenteeism by workers who collected 90 percent of their salaries from their first day off (without the need for medical certification) priced Swedish exports out of world markets.

High taxes, and the breakdown of many of the social services which these taxes were supposed to finance, have caused a tear in Sweden's body politic. Inflation rose, and the formerly harmonious collective bargaining sessions between the Labor Organization and the Swedish Central Employers' Organization have turned into hostile confrontations. When the self-employed author Astrid Lindgren received a tax bill of 102 percent, she wrote a stinging story, along the lines of *Alice in Wonderland*, that was one of the leading factors in bringing down the Social Democratic Party in 1976.

Swedish industry found itself with falling profit margins; many firms established subsidiaries outside of Sweden where workers were more productive and taxes were lower. The Meidner Funds, which had taken a portion of Swedish industries' profits and deposited them in funds run by unions, were the last straw. They will, in all likelihood, be terminated, but they have placed a huge burden on Swedish companies.

One of Sweden's most astute economists, Professor Assar Lindbeck, writing in Sweden's leading daily *Dagens Nyheter* (December 22, 1988), perceptively noted, "The high marginal taxes and the production of public services cause the family to more and more focus on the 'care' of objects, while public institutions, to an increasing extent, take over the care of people, an occupation earlier regarded as the specific duty of the family. In a welfare state of the Swedish type it is not the corporations that are socialized, but the family, or more correctly, many of the traditional functions of the family. One could probably say that while classic socialism meant socialization of industry, a welfare state of the Swedish type means socializing the households' traditional care and support for fellow citizens."

The Swedish welfare state has reached a crisis state outlined by the East German Marxist theoretician Jürgen Habermas in his *Legitimationsproblem in Spätkapitalismus*:

"The division of labor between the state and the private sector that forms the basis of the Swedish

model requires that a continually increasing share of the national product be transferred to the public sector. Technical and economic changes must be accompanied by an enormous public investment to assure the stability of society. There is a point where the dislocation in the social structure becomes so great that people are no longer willing to pay the price of the necessary remedies. The demand for security remains, but the desire of each person to contribute to the cost of this security diminishes. The welfare society then faces a crisis of confidence.”

A System that Doesn't Work

As the standard of living has fallen over the past ten years, it has become evident to almost all observers that the Swedish system no longer works. Håkan Gergils, a member of the Swedish Civil Rights Movement and an adviser to Swedish industry, noted in *Economic Affairs* (October/November 1989) that “This development has created a new class of poor people. The number of Swedes in this category increased to 600,000 last year, which means that around 10 percent of the adult population in Sweden cannot earn their living by working. They have to rely on public support for housing, food, clothing, etc. The most astonishing thing is that the new class includes a large number of well-educated people. A great number of full-time working men and women with, under normal circumstances, an acceptable income, have been trapped into dependency by the progressive tax system.”

Another eyewitness account came from Jacob Arfwedsson, who left Sweden to pursue a doctorate in political science at the Catholic University of Paris. While doing specialized studies under Professor Claes Ryn (another Swedish-born intellectual of rare ability) at the Catholic University of America, Arfwedsson pointed out to this writer in April 1990 that the whole complex of social ser-

vices in Sweden is falling apart. The Social Democratic government had to renege on its promise to provide care for all children by 1991; desperately ill people have to go abroad because the waiting lists for hospital care in Sweden are years long.

To this crisis-ridden welfare state many in Eastern and Central Europe now look for solutions to their own crises. Yet these nations have no real chance to replicate even the more successful aspects of Sweden's cradle-to-grave welfare provisions. A welfare state must be wealthy in order to provide for the creature comforts and exigencies of a population. And after decades of command economies, these nations are close to economic collapse.

The Wall Street Journal (February 22, 1990) editorializes: “The reality of today's Sweden is the lingering myth of a cradle-to-the-grave Welfare Paradise. The myth is based on an enormous system of subsidies—from food consumption to having children and even reaching old age. Savings are non-existent and investments are flowing abroad. That the gravy train is sputtering can be seen in the degradation of services, particularly medical care, and increasing poverty. Conditions in Sweden, of course, are still a far cry from those in Eastern Europe. But since the economic problems of both arise from the same socialist theory, countries trying to escape the grips of a statist nightmare have little reason to emulate Sweden's welfare system.”

As one whose life has been rather evenly divided between his native Sweden and his new homeland, the United States, it is sad to see the glitter flaking and the glamour fading from the nation that gave him birth. But socialism, whether of the Marxist, democratic, or nationalist kind, is bound to fail. It is, in its various forms, a system of institutionalized envy. If the failure of the Swedish experiment in cradle-to-grave welfarism serves as an eye-opener to those who would imitate it, then it will have served an important purpose. □

The Two-Edged Sword of Chaos

by Gary McGath

In any debate, it's a great temptation to refute the other person on his own terms. Sometimes this is the right approach; if you and your opponent agree on a basic premise and disagree only on how to implement it, then it makes sense to show that your proposals are better by his standards. But if the disagreement is one of basic principles, and if beating your opponent on his own ground entails adopting his frame of reference, your victory may well be Pyrrhic. Even if you adopt his premise just for the purpose of showing his inconsistency, you've allowed the debate to be conducted on his terms, and you can easily lose sight of what you should really be proving: that he's wrong not just in particulars, but in his basic approach.

For instance, an advocate of the free market and a socialist might agree that prosperity is desirable. If the socialist claims that his system will create prosperity, it's proper to answer the claim on its own terms, showing that socialism in fact wouldn't achieve the goal for which its advocate hopes. On the other hand, suppose the socialist claims that his system will provide a more just distribution of wealth. Anyone who knows a little history may see a chance for an easy comeback here and point to all the cases in which socialism has created its own privileged classes, thus showing that socialism fails to distribute wealth justly. But the person who follows this approach is granting a key element of the socialist's argument: that there is some ethically proper amount of wealth that each person should have. This line of argument may indeed force him

to admit that existing socialist societies haven't measured up to the ideal, but he can respond that the remedy lies in a more consistent application of economic justice. Moreover, he can now take the offensive, pointing out that socialism at least aims at a "just distribution," whereas capitalism leaves no room for the government to correct the alleged inequities created by the market.

The right way to approach a mistaken claim is to answer it at the most basic level at which it's mistaken, not to pick at its details. Neglecting this principle is sure to lead to fruitless debating of side issues and failure to recognize errors at their source.

A case in point is the implications that some advocates of the free market have seen in so-called "chaos theory." This area of study has captured the interest of the educated lay public in the past few years, particularly as a result of James Gleick's 1987 book, *Chaos: Making a New Science*. Aside from the mathematical fascination of the theory, it may have wide-ranging implications for deciding what kinds of problems are tractable. The theory suggests that certain types of systems, although they can be described mathematically, behave in such outrageous ways that predicting their future behavior mathematically is all but useless. However, it tells us that even such seemingly "chaotic" systems can be analyzed and described by applying new mathematical methods.

Traditionally, builders of mathematical models try to construct systems that are, so to speak, "well behaved." A falling rock, for example, can be modeled in a well-behaved way. A fairly simple equation, taking into account gravity and air resistance, will predict how the rock will fall. Minor air

currents or tiny errors will result in only slight deviations between the predicted and the actual result.

In contrast with well-behaved systems, some types of systems are “chaotic.” A tiny change in the system may result in large changes in its later behavior. The smoke rising from a cigarette is an example of a chaotic system. A little difference in the temperature of the smoke or the conditions of the air can result in a completely different pattern of smoke. A mistake in the ninth decimal place when calculating the behavior of a chaotic system may result in a 200 percent error in the outcome. Building a model that will accurately predict the behavior of this type of system is a virtually impossible task.

Long-range weather predictions also face the problems of chaotic systems. According to chaos theory, a sneeze in Minnesota may affect whether it will rain in Virginia three months later. Because of the practical impossibility of measuring the current situation with sufficient accuracy, and of carrying out the calculations to enough decimal places, accurate long-range weather forecasts may be beyond human reach.

Chaos and Economics

Do similar considerations apply to economics? Some advocates of the free market have suggested that they do. Chaos theory, they have suggested, rebuts those who want to model and centrally direct the economy on a mathematical basis. Tom G. Palmer, editor of the *Humane Studies Review*, says that chaos theory shows that “Technocratic prediction of the future—as would be necessary for a ‘planned’ society—is impossible *on mathematical grounds*. It turns out that certain systems are ‘initial condition sensitive,’ meaning that a tiny change in the initial conditions can produce enormous changes in the results.”¹

Noted libertarian economist Murray Rothbard writes in a similar vein: “The neo-classicals have for a long while employed their knowledge of math and their use of advanced mathematical techniques as a bludgeon to discredit Austrian [economists]; now come the most advanced mathematical theorists to replicate, unwittingly, some of the searching Austrian critiques of the unreality and distortions of orthodox neo-classical economics. In the current mathematical pecking order, fractals, non-linear thermodynamics, the

Feigenbaum number, and all the rest rank far higher than the old-fashioned techniques of the neo-classicals.”²

Much of the philosophy underlying chaos theory is attractive to anyone who distrusts the mathematization of economic systems. Gleick tells us that the theory may be “turning back a trend in science toward reductionism.” He echoes F. A. Hayek when he writes: “Yet order arises spontaneously out of these [chaotic] systems—chaos and order together. Only a new kind of science could begin to cross the great gulf between knowledge of what one thing does—one water molecule, one cell of heart tissue, one neuron—and what millions of them do.”³

Rhetoric such as this is attractive, and can add to the temptation to challenge mathematical economists on their own ground by throwing still more complex mathematical systems against them. However, this attempt to enlist chaos theory is mistaken and potentially harmful to a proper defense of the free market. To see why, it’s necessary to understand just what chaos theory says and doesn’t say.

The contribution of chaos theory isn’t that it tells us that there are unpredictable systems. We’ve always known that. Rather, the theory applies to a certain type of system: one that can be described by a set of equations or a computer program. Set up the starting conditions, run the program or solve the equations, and you can see the system unfold itself.

Chaos theory’s point is that for some systems, the results of running the program won’t even be close to the real-life behavior of the system. The equations are perfectly legitimate, but the system is extremely sensitive to tiny perturbations. Unless every tiny input to the system is measured with impossible accuracy, and unless the calculations are performed with outrageous precision, the results will be completely wrong. However—and this is crucial—such systems may still be susceptible to analysis by tools which belong neither to traditional deterministic mathematics nor to statistics.

As an example, consider the Japanese game called “pachinko.” In this game, a ball is launched with a spring, then falls through a field of pins. The player’s goal is to make it fall toward certain targets. Pachinko exhibits “sensitive dependence on initial conditions”; a tiny change in the force of

launching the ball will make it fall a completely different way. Using traditional modeling methods, pachinko would be just a game of chance. There are, however, patterns in the relationship between the launching and the course the ball follows, and expert players can direct it toward the high-scoring targets. These players might be considered intuitive chaos theorists. They are able to find order where there seems to be none.

The mathematical systems that Keynesians and their allies have used to describe the economy, on the other hand, aren't like a pachinko game. Their equations are completely well-behaved. Pump a nickel more or less into the economy, and nothing drastic will happen. If you decide not to go shopping on Tuesday, you don't throw world trade into turmoil. Displayed on a chart, the Keynesian equations show a nice smooth relationship between input and output. The chart of a genuine chaotic system looks like something from a psychedelic art museum.

The mathematical economists' equations should be challenged on a more basic level. The proper question to ask is whether they, or any set of equations, actually model the course of the economy. Before asking whether a mathematical model of the economy fails in its predictions because it is chaotic, we should ask whether any such model is valid in the first place.

An economic system is, in fact, the sum of a vast number of ongoing human choices. These choices aren't totally arbitrary, but reflect people's perceived needs and desires, so certain statistical generalizations can be made about them. Supply and demand curves can be drawn for particular commodities. These curves are, however, simply empirical generalizations reflecting the aggregate of people's choices at a given time. Nothing says that their preferences will be the same next year. People's desires may change, or new discoveries may lead to new options.

Ludwig von Mises wouldn't accept the premise of mathematical economic models, and didn't quibble over their accuracy. Rather, he challenged the premise at its root: "There is no such thing as quantitative economics. All economic quantities we know about are data of economic history. No reasonable man can contend that the relation between price and supply is in general, or in respect of certain commodities, constant. We know, on the contrary, that external phenomena

affect different people in different ways, that the reactions of the same people to the same external events vary, and that it is not possible to assign individuals to classes of men reacting in the same way."⁴

Human economic activity is "chaotic" in the sense that it is unpredictable and not subject to mathematical analysis, but this has nothing to do with chaos theory. Pachinko-like systems are completely determined by simple mechanical laws; their behavior depends entirely on the way they are set in motion, and chaos theory provides tools for analyzing them in spite of their apparent unpredictability. Human behavior, in contrast, is unpredictable not because its flow displays "sensitive dependence on initial conditions," but because it is not dependent on initial conditions at all. The future may change due to events that no amount of precise calculation can predict.

Chaos as a Planner's Tool

Rather than being an argument against centralized planning based on economic models, chaos theory may offer the planners new weapons. For instance, Gleick discusses scientist Benoit Mandelbrot's exploration in 1960 of cotton-price fluctuations. "Economists," Gleick states, "generally assumed that the price of a commodity like cotton danced to two different beats, one orderly and one random. Over the long term, prices would be driven steadily by real forces in the economy—the rise and fall of the New England textile industry, or the opening of international trade routes. Over the short term, prices would bounce around more or less randomly."

But Mandelbrot took a different view. "Instead of separating tiny changes from grand ones, his picture bound them together. He was looking for patterns not at one scale or another, but across every scale." He found that "Each particular price change was random and unpredictable. But the sequence of changes was independent of scale: curves for daily price changes and monthly price changes matched perfectly."⁵

Independence of scale is a key idea in chaos theory. By using "fractals," a kind of curve which contains miniature replicas of itself, which in turn contain yet smaller replicas of the same pattern, and so on, modelers can create pictures that are rich in detail out of relatively simple formulas. This per-

mits great depth of detail without information overload. Fractal economics could create the ultimate nightmare for opponents of central planning: a model that claims to unite both the macro-economic and micro-economic realms, that describes not only the broad course of the economy but the detailed activities of each individual. With such a model, planners could claim to know enough to delve into each person's life, without having to know anything about that particular individual. Gleick cites mathematician Ralph Abraham's dream of using mathematical models to "educate children to be better members of the board of directors of the planet."⁶

Advocates of government intervention have talked about "priming the pump" of the economy, only to be refuted by the impossibility of figuring out which pump should be primed and to what extent. But the ideas of chaos theory could encourage new variants on this model, replacing the old idea of priming the pump with one of flipping the handle of the pachinko machine. With these new tools, they might imagine, it will be possible to decide exactly how far to pull the handle, even though traditional analysis can't offer a clue. "Of all the possible pathways of disorder," Gleick tells us, "nature favors just a few."⁷ Economic planners, turning this idea into pop science, could easily conclude that the unpredictability of human activity is no obstacle to classifying and controlling human behavior.

Murray Rothbard regards the discovery of patterns in seemingly random events as a challenge to the idea that market expectations can accommodate "perfect knowledge" of the future apart from random, unpredictable fluctuations.⁸ Yet this seems odd. Chaos theory, far from challenging the predictability of future market behavior, claims to find patterns even in the variations that have previously been regarded as random. Whether these patterns really exist is a matter for study; if they do exist, then the investor who learns to predict them will have an advantage over people who use traditional analysis.

In any event, statistical patterns are meaningful only for large numbers of stocks (or other commodities) over long periods of time. The rise or fall of a particular commodity's price is the result of particular events and people's response to them, not of abstract mathematical forces. People who anticipate these events and responses will do

better than the average investor; those who follow statistical averages will simply obtain average results. Again, the key to refuting the claim that statistics provide perfect knowledge lies in recognizing that they are simply mathematical descriptions, not in trying to one-up existing descriptions with new ones.

In fact, though, chaos has no more to offer to the planners than it offers to the free market. In analyzing a particular phenomenon under steady conditions, Mandelbrot's methods may well produce a description that closely matches the observed phenomena. But these methods can provide no information about the phenomena of human action which affect an economy in vital ways. A new invention, the emergence of a new political movement, changing economic habits resulting from changing philosophies of life, and similar phenomena are not simply random fluctuations, or even new inputs to a mechanistic system; the analysis of unconscious systems has only limited applicability to the realm of human choice. The modeler can only devise formulas after the fact to fit the data, with no guarantees that these formulas will describe the future.

Chaos theory is a fascinating area to study, and it is very likely to have applications in the analysis of current trends. However, it offers neither support nor refutation to the idea that an economy can be mathematically planned. It doesn't refute classical methods of mathematical planning, because it simply doesn't apply to them. Nor does it provide new methods of plotting an economy's long-term course, because it is as helpless as any other mathematical method to anticipate the consequences of changing choices and emerging knowledge. The best strategy for advocates of the free market is to stick with the basic principles that have shown its moral and economic superiority, and to avoid trying to undercut the champions of mathematical planning on their ground. □

1. Tom G. Palmer, review of *Chaos: Making a New Science* in the August 1988 Laissez Faire Books catalogue.

2. Murray N. Rothbard, "Chaos Theory: Destroying Mathematical Economics from Within?" *The Free Market*, March 1988.

3. James Gleick, *Chaos: Making a New Science* (New York: Penguin Books, 1987), p. 8.

4. Ludwig von Mises, *Human Action*, Third Revised Edition (Chicago: Henry Regnery Company, 1966), p. 351.

5. Gleick, pp. 83-86.

6. *Ibid.*, p. 279.

7. *Ibid.*, p. 267.

8. Rothbard, *op. cit.*

Rising Prices: The Market's Way of Conserving Oil

by Jorge Amador

Sound familiar? Crude oil prices skyrocket hot on the heels of turmoil in the petroleum-rich regions of the Middle East. Almost instantly, it seems, retailers raise the prices of gasoline at the pump. Consumers begin to grumble.

Enter the politicians, who accuse the oil companies of "gouging" consumers during the crisis. "There is absolutely no reason consumers should already be paying more for oil and gas," declares one, Senator Joseph Lieberman of Connecticut. "In the last week, American consumers have been ripped off on a massive scale." Within a fortnight, two dozen state attorneys general are investigating the rise in gas prices, while Congress, though officially in summer recess, manages to hold three hearings on the issue.

Did the politicians lead the attack—or follow safely behind? In a Gallup survey, conducted for *Newsweek* magazine in the wake of the Iraqi army's invasion of Kuwait, 94 percent of those polled agreed that "American oil companies were using the Mideast crisis as a pretext" to raise prices. More ominously, 83 percent also believed that gasoline price increases should be limited by law.

Supply and Demand: Not So Simple

New Jersey Governor James Florio aptly summarized the reason why consumers were upset. "The information we have is that there is no prob-

lem with regard to supplies," he said. "Inventories are in surplus, in fact. And yet we see these forces at work with no understandable explanation being offered to consumers."

Florio's view is not implausible. Indeed it is true, as far as it goes. The trouble is, it doesn't go very far. Worldwide stocks of oil were at near-record highs, yes, but the law of supply and demand is more complex than a straightforward accounting of current inventory and consumption. The market rewards those who correctly anticipate the future and prepare for it, and punishes those who do not.

What drove the price of petroleum and, ultimately, of gasoline so high so fast, despite the existing surplus, was simply the concern that armed conflict soon might severely curtail the flow of Middle Eastern oil. As Iraqi tanks rolled into Kuwait, which holds 10 percent of the world's known oil reserves, and massed on the border with Saudi Arabia, which holds 25 percent, such fears were not unfounded.

"It's not profiteering, it's prudence," one energy analyst told *Newsweek*. In times of uncertainty, wholesale purchasers of crude oil and refined gasoline try both to buy more and to withhold some of what they have from the market so they can tide over a shortfall should it arise. Consumers engage in a similar practice when, during periods of actual or potential shortage, they try to keep their gas tanks full at all times. "Tank topping" was one of the major causes of the long gas lines of the 1970s.

But why doesn't competition keep the price

Jorge Amador is a free-lance columnist and editor of The Pragmatist, a current-affairs commentary.

down? After all, the oil is still flowing and there are plenty of sellers out there. There are two answers.

One is that competition did in fact soften the blow to consumers. According to petroleum industry analysts, a \$1 increase in the price of a 42-gallon barrel of crude oil amounts approximately to a 2.5 cent increase in the price of a gallon of gas. Crude oil prices, which had hovered in the \$19- to \$22-per-barrel range for most of 1990, fell as low as \$15.60 in June and were at \$17.30 as late as July 9. They began to rise as OPEC states met that month to discuss Iraq's demands that strict production quotas be imposed and the price set at \$25. Prices remained around \$20, however, as Kuwait and others continued to produce above their OPEC quotas, undercutting the \$21 compromise cartel fix.

What the dynamics of marketplace competition broke down, Iraqi president Saddam Hussein decided to prop back up by naked force, and so the tanks rolled into Kuwait. The price of crude jumped to \$23.11 on August 2, the day of the invasion, and to \$28.31 by August 7 as the governments of oil-consuming nations joined an embargo of Iraqi-controlled oil and Iraqi troops approached the Saudi Arabian border.

The \$11 surge in the price of a barrel from July 9 to August 7 would normally translate to a retail price increase of some 27 cents per gallon. Yet the average gas price rise in the period was about 21 cents. The national average price of self-service regular unleaded gasoline actually fell by approximately 7 cents per gallon in mid-July, according to the American Automobile Association. From a low of about \$1.05 on July 24, it rose to \$1.26 on August 9, then moderated to \$1.22 by August 13.

An Ounce of Prevention

Another answer is that an entrepreneur who bucked the trend, keeping his prices low and all his supplies for sale in spite of the threat, would run the risk of finding himself out of stock, and out of business, just as the real shortage developed. Some refiners, such as the Sun Company, stopped selling to non-contract buyers in order to ensure the flow of supplies to their regular customers.

"If the difference between our gasoline and our competitors' is five to 15 cents, we'd have a run on our supply," said an Atlantic Richfield spokesman to *The Wall Street Journal* on the weekend of the

invasion. Indeed, after going along with the initial price hikes, ARCO froze pump prices for two weeks in an attempt to garner new customers and fend off the negative publicity that befell most other oil companies. A gallon of ARCO gasoline sold for 13 cents less than the competition's. It worked for a while, as sales volume increased by 15 percent. But the company suspended the policy August 23 when many of its service stations found themselves out of gasoline to sell.

Selling low to all comers may pay off if the stream of crude never in fact slows down, but it may not be the wisest course while tanks and attack jets are closing in on the oil fields. The price will remain at the higher level, regardless of actual inventories, so long as the threat of a supply crunch persists.

Rising prices are an early warning signal, the market's way of encouraging conservation in times of prospective shortage. Should the crisis blow over and the shortage never materialize, prices will fall back as the urge to act prudently recedes. Price controls, which so many Americans seem casually to endorse, would precipitate precisely the kind of energy crisis that price rises serve to warn us against. They would enable us to indulge our appetite for fuel at the same rate as if nothing out of the ordinary were going on. Meanwhile, as the price of crude continued to soar, wholesalers and retailers would find it increasingly difficult to cover the cost of buying new stocks to sell. Few of us would enjoy the consequences of price controls if and when an actual shortage came to pass.

Doesn't this justify raising taxes on fuel, then, in order to encourage conservation? As early as 1980, Presidential candidate John Anderson urged a 50-cent Federal tax on gasoline. Deliberately high gas taxes in Europe, it is said, have helped to shield those economies from oil price shocks.

If taxes have protected against the momentary jolt of skyrocketing fuel prices, it has been at the cost of a constant heavy drain on European economies. Taxes represent well over half the price of gas in Germany, France, and Italy, where in the first quarter of 1990 a gallon sold for \$2.74, \$3.44, and \$4.33, respectively. Even if their governments absorbed the August price hikes by lowering gas taxes, European consumers would still be paying two and three times as much as we. Had the U.S. followed the same policy, Americans would have spent a decade paying that much more for



gas—and that much less on other things we'd prefer—with little appreciable benefit.

For Americans, only when a shortage became a real possibility—ten years later—did the price go up. The market raises prices when conditions warrant it, not before, and as much as is needed, not more so.

Why an Immediate Price Hike?

There is another persistent question. Since oil tankers take several weeks to carry newly pumped crude to the refinery, why did the price of gasoline shoot up right away? After all, the gas at the pump had been extracted, delivered, and refined at the old prices, hadn't it?

As a matter of fact, much of it had not. As oil analyst Trilby Lundberg explained to *The Philadelphia Inquirer*, the U.S. "lacks the refinery capacity to meet demand for gasoline during the peak summer driving period. . . . As a result, oil companies have to buy large quantities of gasoline on the spot market and pay the prevailing price." (On the "spot market," refiners with excess inventory offer their surpluses for immediate delivery.)

Service station tanks hold only a few days' worth of gasoline sales; hence on any given day a large proportion of them are getting new deliveries. Because the new gasoline is priced at the current market rate, changes in the wholesale price of gasoline are quickly translated to changes at the pump.

In any event, as we have seen, prudence demands—in light of the prospect of shrinking supplies—that sellers conserve what they do have by withholding it or raising their prices.

The facts may be unpleasant, but the free market does us a service in transmitting them to us so we can prepare for the worst. "Jawboning" the oil companies to limit gas price increases would encourage consumption in the face of impending shortages and render us helpless should the flow actually be cut. At the same time, the market hedges against the threat of shortages to mitigate them when they do arise. Increasing fuel taxes to "protect" us from price shocks would enforce conservation prematurely, hurting us all to avert a transitory trauma. Fortunately, in the free market we have an alternative to the governmental extremes of heedless feast and needless famine. □

The Nature of Government

by Fred Dekkers

In the fable “Ali Baba and the Forty Thieves,” the magic words “Open Sesame!” give access to fabulous wealth. Many former Communist countries seem to assign the same magical power to the word “democracy.” Democracy, of course, is a fair-sized step in the right direction, but some very important considerations must be taken into account.

No democratic majority can create wealth just by making laws because none of the things that form wealth are found freely in nature. Nature offers only potentials: raw materials that have to be mined, transported, transformed, packed, distributed, and so on. Wealth is created by individuals—by their ambition, motivation, labor, thrift, investments, organizational talents, and, most of all, by their thinking and ideas. As Ludwig von Mises wrote: “Production is not something physical, material, and external; it is a spiritual and intellectual phenomenon. Its essential requisites are not human labor and external forces and things, but the decision of the mind to use these factors as means for the attainment of ends. What produces the product are not toil and trouble in themselves, but the fact that the toiling is guided by reason.” (*Human Action* [Chicago: Henry Regnery Company, third edition, 1966], pp. 141-42)

Politicians can’t create wealth, but they can destroy it because that is the nature of political power. As Mises wrote: “State or government is the social apparatus of compulsion and coercion. It has the monopoly of violent action. No individ-

ual is free to use violence or the threat of violence if the government has not accorded this right to him. The state is essentially an institution for the preservation of peaceful interhuman relations. However, for the preservation of peace it must be prepared to crush the onslaughts of peace-breakers.” (*Human Action*, p. 149)

Government reserves for itself the legal faculty to use physical force. All laws are backed by that legal monopoly, the threat to impose fines and/or imprisonment on those who don’t comply or obey.

Power can be misused or abused. I may have a gun to defend myself and my property against thieves, but if I use it to steal someone else’s property, I am misusing the gun and abusing the power it confers on me. In the same way politicians can misuse or abuse the power of the state.

The more the power of the state is concentrated in fewer hands, the greater the danger of abuse. A one-man dictatorship will be more dangerous than a triumvirate, which will be more dangerous than rule by a party leadership. The majority rule of democracy is a further improvement, and it has the advantage that it can be changed or revoked by elections. Nevertheless no majority, be it democratically elected or not, offers in itself the guarantee that it won’t abuse the power at its disposal.

It is clear that the use of governmental power must somehow be limited. One way to restrict government power is by a “super-law”—a law that can’t be changed by a political majority vote, a law to which government itself must comply. In most countries such a “super-law” is called the constitution. The function of the constitution is, or should be, to protect the individual against the abuse of government power by politicians.

*Mr. Dekkers, who lives in Belgium, is the founder of the European Libertarian Center. This article is excerpted from his foreword to the forthcoming Hungarian-language edition of *Planned Chaos* by Ludwig von Mises.*

But can we determine objectively the function of government? Can we state precisely the limits to which government should go in exercising its power?

This comes down to the question: "Can we delimit properly and objectively the legitimate, the just, the appropriate use of governmental violence?" Mises addressed this question in a speech before The Foundation for Economic Education in 1969: "The main problem of the market, the main problem of human cooperation, is the fact that there are people who resort to violent action, who do not comply with the rules that are necessary for the preservation and operation of the market. In order to prevent this violent action, in order to make possible the workings of the market, of human cooperation, of human society, it is necessary to have an institution that protects the market against violence, against people who lack the knowledge or the will to comply with the rules of peaceful exchange of commodities and services. This is the function of government."

Violence is the opposite of voluntary coopera-

tion. Violence means coercion, oppression, injustice, and ultimately war. The only way, however, to oppose violence is with violence. Violence thus has two aspects. It can be used aggressively: an aggressor initiates violence and uses it against otherwise peaceful fellowmen. Or violence can be used defensively: it is then used only in reaction against aggressors.

The conclusion is that government, the embodiment of all legal violence, can act in a positive way for the inhabitants of a country only if it uses its power to protect them against foreign invaders and domestic predators.

Government can create the most appropriate conditions for voluntary and creative cooperation between individuals by protecting them against violence. In that way, government can be the individual's best ally. But when government abuses its entrusted power, it can become the most dangerous of enemies. The legally disarmed individual is powerless against the exclusive legal wielder of physical force. History is filled with examples of both. □

IDEAS
ON
LIBERTY



The Necessity of Private Property

If history could prove and teach us anything, it would be that private ownership of the means of production is a necessary requisite of civilization and material well-being. All civilizations have up to now been based on private property. Only nations committed to the principle of private property have risen above penury and produced science, art and literature. There is no experience to show that any other social system could provide mankind with any of the achievements of civilization. Nevertheless, only a few people consider this as a sufficient and incontestable refutation of the socialist program.

—LUDWIG VON MISES, *Planned Chaos*

The Politics of Plunder

by John Chamberlain

Doug Bandow, who has collected his columns and articles in *The Politics of Plunder: Misgovernment in Washington* (Transaction Publishers, New Brunswick, N.J., 507 pages, \$34.95 cloth) is about as total an anti-Statist as one could find. He positively resents politicians, or anyone else for that matter, who use other people's money for their own ends. This makes him an enemy of thousands who live inside the Washington Beltway. He does not spare his language: politicians to him are simply thieves. They practice legalized larceny.

The trouble, from a reviewer's standpoint, is that a book about the thieves becomes many books. The thieves abound and multiply. Where, indeed, to cut in on the parade?

Bandow offers his own cut-in point when he says 30 percent of the American farmers are part of America's "permanent dependent class." Their subsidies increased in the 1980s at a faster rate than any other government programs. Direct payments to farmers ran \$25.8 billion in 1986, a 545 percent jump over 1981.

"Nor," says Bandow, "is that all the money received by rural America. In 1986, the federal government spent another \$3.8 billion on crop research, soil conservation, and similar programs. Sugar quotas, peanut quotas, and citrus marketing orders provide billions more dollars to producers through higher prices instead of higher taxes. At the same time, Uncle Sam has proved to be an incredible bungler as Farmer-In-Chief. . . . Despite several billion in export subsidies . . . the American farmers' share of international food markets continues to shrink."

Bandow knows that the traditional "family

farm" is not lightly to be derided. But there is no reason, he insists, to force Americans to keep farms afloat "any more than to save any other uneconomic family business, whether dry cleaners or corner drug stores. Just 8 percent of America's full-time farmers produce two-thirds of the nation's food; there is no public interest in subsidizing the many small operations which contribute virtually nothing to the nation's food supply. . . ."

With sugar quotas being what they are, there is no danger that cane and beet growers will fail to satisfy America's sweet tooth at a price. So Bandow proceeds to remark upon the "sleazy" action of Congress's elimination of the \$250,000 limit on loans to beekeepers.

The beekeepers got on the Federal dole in 1949 and, like so many of their farming counterparts, have demonstrated an "uncanny knack" for looting the Treasury. As a result, the government became the world's largest beekeeper.

Having had some testy fun with the beekeepers, Bandow passes on to the sunflower "crisis." He doesn't mind eating sunflower seeds, but sees no reason to send the bill for them to taxpayers just to please North Dakota. Moving on to the subject of marketing orders for citrus fruit, Bandow gets really serious. Just once in recent decades has a freeze in Florida resulted in a situation that made it possible for Californians to market navel oranges freely without "orders." The success of the brief free market in oranges has encouraged free-market organizations to press for the permanent elimination of all controls. Bandow would cheer, but he is afraid that reform will not come easy. "Until conservative free-market enthusiasts and liberal champions of the consumer place their

professed principles before the votes of agribusiness," he says, "food will continue to rot in the fields."

Bandow is not only implacable about the farm situation, he is implacable about dealing with any protective theory or practice. Amtrak must go; the Postal Service must yield its monopoly of first-class mail. Uncle Sam's extensive land holdings—"six times the size of France"—must be made available to users by lease or sale. Airline deregulation must be preserved. OPEC is no long-term menace if we proceed to "lease the oceans" off the coasts of Alaska and California.

Bandow wants to make our judges "answerable" not only to people but to the Constitution. He would limit their terms of office.

Bandow says it is time to repeal the Davis-Bacon Act which stipulates that workers on Federal projects shall get "prevailing" (meaning union scale) wages. One wishes him luck. He has already had some luck in pushing the movement to allow knitters to work at home. The Reagan Administration finally decided to lift constraints from home workers as long as the employer filed with the Labor Department and paid the minimum wage.

As for the minimum wage itself, Bandow thinks it is a job killer. But that is another story. □

**FREE MARKET MORALITY:
THE POLITICAL ECONOMY
OF THE AUSTRIAN SCHOOL**

by Alexander Shand

Routledge, Chapman & Hall, 29 W. 35th Street, New York, NY
10001-2291 • 1990 • 228 pages • \$55.00 cloth, \$16.95 paper

Reviewed by Nick Elliott

In the past, Austrian economics has often been regarded as an obscure and arcane offshoot of the discipline, which has had little practical effect. More recently, the Austrian school—particularly Friedrich Hayek—has become an acknowledged influence on the government of Margaret Thatcher. A leading Labour Member of Parliament advised Mrs. Thatcher to stop listening to the "mad professor who is constantly whispering in her ear."

Alexander Shand's first book was *The Capitalist Alternative*, a compact guide to the economics of the Austrian school. He follows it up in *Free Market Morality* with an introduction to what the

Austrians have to say on political economy. After all, the Austrians have always referred to their discipline as "praxeology"—the science of human action—so it is perhaps inappropriate to pigeon-hole their work as "economics."

In fact, the book dips into much more than Austrian economics—it distills volumes of political economy into a digestible 228 pages, covering writers from Descartes to Dostoyevsky, from Locke to Lenin.

The Austrian economists have also been classical liberals, and they have deduced their libertarian political economy from the same principles that guide their economics. Methodological individualism—the idea that the individual should be the starting point of analysis—also leads to political individualism. Austrians have always argued that holism—treating groups and aggregates as real—is bad economics. It is a short step to argue that holism can be despotic, because it teaches that the individual counts for nothing.

Being "political" in no way compromises their scholarship, because their work displays every evidence of rigorous social science. One striking example is Hayek's view that the market cannot be claimed to be "moral," because it doesn't conform to anyone's desired ends. This view obviously comes from an honest scholar in the pursuit of truth, rather than an ideologue willing to enlist any argument in his cause.

The most stimulating sections of the book are those on altruism and on equality. The Austrian argument that the discovery process of the market is the best means for improving the position of the worst off is one that isn't widely understood. This lack of understanding is especially evident in the political opinions of religious leaders. The case is put very crisply by Hayek, when he says of the capitalist that "He is led by the invisible hand to bring the succor of modern conveniences to the poorest homes he does not even know."

There is one point of Shand's here with which I would take issue. This is where he describes the view that businessmen shouldn't be altruistic because this would divert them from the pursuit of profits. If we follow the subjectivism of the Austrians, we must allow for altruism to enter into the preferences of individuals, and who is then to say that the outcome is "worse" than if profit were the only concern?

Murray Rothbard cleverly argues that a society

will become more charitable as it prospers. As people become richer, and acquire more exchangeable goods (cars, televisions, and so on), the marginal utility of those goods falls. Concurrently, the marginal value of nonexchangeable goods—those things that “money can’t buy,” like the pleasure of helping others—goes up. Therefore, a growing economy encourages charity and good works.

To an economist the book reiterates the distinctions between Austrian and neoclassical economics. The Austrians view society as highly complex, such that it cannot usefully be reduced to demand and supply curves. In parts, though by necessity for such a book, it is tantalizingly brief on such points of distinction and debate. Shand combines well the roles of chronologist and critic, with survey followed by comment.

The author credits the Austrians with little influence, and indeed includes a section on “The Limited Acceptance of Austrian Ideas.” He is too cautious, perhaps looking with the academic’s eye for a complete transfusion of ideas into policies.

Several of the collectivist theories and paradigms described in *Free Market Morality* have been thoroughly discredited, and this must in part be due to the robust and relentless challenges made by the Austrians. They have surely helped to bury the idea that there is a simple relationship between unemployment and inflation, and they must also have helped to drive unreformed Keynesian economics into the fringes that it now occupies. Both of these changes have had very definite results in actual policy.

And, while far from popular, the Austrians have made considerable inroads into academic and political discourse. Shand reports that a

prominent academic once scoffed at the these free-marketeers “preaching to the converted” in the Mont Pelerin Society, a charge that no one could fairly make today.

Shand does credit the Austrians with some influence on British policy toward inflation and toward trade unions. One should add the caveat that Hayek’s precise recommendation on inflation wasn’t followed, but he did provide a new understanding of the problem.

More important, in my view, is the new appreciation of the market economy that the Austrians have given to the Thatcher government. Some of the ideas explained in the book have frequently popped up in ministerial speeches over the last few years. Mrs. Thatcher caused a storm when she said that there is no such thing as “society,” only individuals, but this is a prominent theme for the Austrian school. Shand explains that the Austrians believe the welfare state to be based on the synoptic delusion—the idea that the relevant facts can be known to one mind. This idea has appeared in the recent fervid debates about the future of the National Health Service. And the Austrians disparage macro-economics, arguing that attention should focus on the micro-foundations of the economy. This argument has often been invoked by Thatcherite Chancellors of the Exchequer.

The book is a good introduction to Austrian political economy, and is particularly useful because it points out the relevance of the ideas to present-day politics. □

Nick Elliott is a financial journalist with the London bureau of Dow Jones & Company, Inc., and an associate scholar of the Adam Smith Institute.

Get Organized!

Attractive blue binders for twelve issues of *The Freeman* will keep your 1990 issues in order. Price: \$12.00 postpaid.

Order from: The Foundation for Economic Education
30 South Broadway
Irvington-on-Hudson, New York 10533

VISA and MasterCard orders accepted. Please give us your name, address, card number, expiration date and signature.