THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
OCTOBER
1993
VOL. 43
NO. 10

THE FREEMAN
IDEAS ON LIBERTY

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

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $25.00 or more receive a subscription to *The Freeman*. Student subscriptions are $10.00 for the nine-month academic year; $5.00 per semester. Additional copies of single issues of *The Freeman* are $2.00. For foreign delivery, a donation of $40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for $10.00; specify either 3½″ or 5¼″ format.

Phone (914) 591-7230
FAX (914) 591-8910

PERSPECTIVE

Prison Costs

Prison operating costs in New York State have risen by 148 percent since 1983, while the number of inmates has increased only 93 percent. It is estimated that the state's prison population will grow from the current 54,900 to 74,400 by the year 2000.

Annual operating costs in New York are $24,173 per inmate.

—EXECUTIVE ALERT

The Importance of Self-Government

I asked my family one evening when we were all gathered in the living room, "What is the first thing that comes into your mind when I say the word *government*?"

The responses? "The United States of America and its people." "Bill Clinton." "The White House." "A group of men."

Most of us, I think, would have answered in a similar way. The first thing that comes into our minds is civil government. But our minds are different from the minds of earlier Americans. In the first chapter of his book *God and Government*, Gary Demar does an excellent job of pointing out how. In 1828, Noah Webster defined *government* in terms of personal self-control: "Direction, regulation. 'These precepts will serve for the government of our conduct.' Control, restraint. 'Men are apt to neglect the government of their temper and passions.'"

Prior to World War I, textbooks dealing with national government were qualified with the title "civics," indicating their awareness that there were personal, family, church, school, and civil governments, each with its own legitimate sphere of authority. Webster's 1828 definition went on to include family government before he dealt with government on the state or national level. The fact that modern dictionaries list civil government first indicates how much our thinking has changed.

—MARTY MATTOCKS

A Political Harvest

Another effect of public instability is the unreasonable advantage it gives to the sagacious, the enterprising, and the moneyed few over the industrious and uninformed mass of the people. Every new regulation concerning commerce or revenue, or in any manner affecting the value of the different species of property, presents a new harvest to those who watch the change, and can trace its consequences; a harvest, reared not by themselves, but by the toils and cares of the great body of their fellow citizens. This is a state of things in which it may be said with some truth that laws are made for the few, not for the many.

—*The Federalist*

The Sins of the Intellectuals

The intellectual leaders of the peoples have produced and propagated the fallacies which are on the point of destroying liberty and Western civilization. The intellectuals alone are responsible for the mass slaughters which are the characteristic mark of our century. They alone can reverse the trend and pave the way for a resurrection of freedom.

—LUDWIG VON MISES

Capitalism

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of nature's forces to man, machinery, application of chemistry to industry and agriculture, steam cultivation, canalization of rivers, whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labor?

—KARL MARX

Economic Control

Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends.

—F. A. HAYEK

The Wisdom of Henry Hazlitt

The socialists and communists propose to cure poverty by seizing private property, particularly property in the means of production, and turning it over to be operated by the government.

What the advocates of all expropriation schemes fail to realize is that property in private hands used for the production of goods and services for the market is already for all practical purposes public wealth. It is serving the public just as much as—in fact, far more effectively than—if it were owned and operated by the government.

—HENRY HAZLITT (1894-1993)
"Private Property, Public Purpose"

A memorial service for Mr. Hazlitt was held at The Foundation for Economic Education on August 4, 1993. Edmund A. Opitz, Bettina Bien Greaves, Hans F. Sennholz, George F. McKendry, and Andrea Rich shared reflections on Mr. Hazlitt's character, intelligence, and dedication to the cause of liberty.

THE FREEMAN
IDEAS ON LIBERTY

The Economic Way of Thinking

Part 1

by Ronald Nash

This is the first of an eight-part series designed to introduce the general reader to economics. None of these essays will contain a single graph or make any use of complex equations or higher mathematics. These essays will explain fundamental economic principles in plain language that anyone will be able to understand. This first essay in the series will introduce the reader to economic thinking through the following steps: (1) I will offer a definition of the term *economics*; (2) I will explain two fundamental economic concepts, *scarcity* and *choice*; (3) I will relate scarcity and choice to the way in which every human being unavoidably ranks his options; and (4) I will discuss the difference between free goods and economic goods.

What Is Economics?

It is a mistake to think that economics deals only with the making, spending, saving, and investing of money or with the creation, development, and management of wealth. Economics covers a much larger territory. Economics is best understood as the study or systematic investigation of the principles of *human action*.

To understand the meaning of the term *human action*, it is helpful to contrast different types of things humans do. All of us know what it is to sneeze, yawn, or hiccup. These are *not* instances of human action. When someone sneezes, yawns, or hiccups, what he does is not a result of some decision or act of will. Sneezes, yawns, and hiccups are spontaneous, unwilled, and unplanned acts. "Human action" refers to actions resulting from an intention or choice.

Consider what happens when someone—an actor in a play—*pretends* to sneeze, yawn, or hiccup. In every such instance, the person decides to sneeze or makes a decision to act as though he is yawning. In such cases, his act *is* a human action, because it is the result of his intention or choice. While economics is not typically concerned with unwilled acts like blinking one's eyes, it is interested in all conscious, human behavior that results from thought, planning, intention, and decision. If I decide to have dinner in an Italian restaurant, that is an example of a human action. What my digestive system does with

Dr. Nash is a Contributing Editor of The Freeman *and Professor of Philosophy and Theology at Reformed Theological Seminary in Orlando. He is the author or editor of 25 books including* Poverty and Wealth *(Probe Books) and* Beyond Liberation Theology *(Baker Books).*

that food after I swallow it is not. That is not specifically a human action.

Scarcity and Choice

To get more specific, economics studies the choices human beings make with regard to scarce resources. If there is any such thing as bedrock in economics, it rests in these two fundamental concepts: scarcity and choice.

Scarcity is an unavoidable feature of human existence. Since human wants and desires are always greater than the resources available, we can never have everything we want. Therefore, human beings have to rank their alternatives to satisfy those wants—first choice, second choice, and so forth, and make choices among their available options. The human actions that are the subject of economics are conscious human choices with regard to individual goals.

Each Individual's Personal Scale of Values

One of the first mistakes many people make when thinking about economics is assuming that it is only the scarcity of *money* that counts in economics. Economic decisions may have little to do with money. Imagine a very busy person faced with many demands on his time. Suppose further that this person is given the opportunity to do several new things that he regards as more important than some of his other tasks. Since this person can only do so much in the time available to him, he begins to rank his options. He then uses his scarce time to pursue those goals that he has ranked highest. In this example, the person is engaged in a typically economical activity, even though his primary focus has little to do with money. Because of scarcity (in this case, scarcity of time), he has been forced to make conscious choices.

Sometimes choices between competing alternatives involve a trade-off between time and money. Suppose I want to buy tickets to an important baseball game that 50,000 people want to attend. I have two choices: I can either spend hours in a long line waiting to buy the tickets myself for $15 each; or I could pay someone else to stand in line for me, in which case the tickets would cost $25 each. If I value my time more than the extra $10, I would select option two. If I value the $10 more than the time required to wait in line, I'll choose the first option.

The attainment of any goal involves some cost. But it is a mistake to think of cost exclusively in terms of money. The cost of achieving some goal might include physical pain or a sacrifice of time and effort that might have brought me other goods. The cost I incur to attain any good is the next most valuable good that my money, time, and effort might have secured.

Economic Goods

The word *good* is used in a number of different ways. In economics, the word refers to anything that some human being desires or values. If some person prefers having more of some thing to a situation in which he has less, that thing for him is a good. The term *good* is not used in a moral sense in economics. Some people fail to distinguish the fact that some person desires something from the quite different question of whether that thing is desirable. When we say that *something is desired*, we are reporting what is the case. When we say that *something is desirable*, we are prescribing what ought to be the case. Statements about whether or not something is desirable are normative claims, not descriptive statements.

Failure to note that the word *good* is sometimes used with reference to what people do as a matter of fact desire—even when that thing perhaps ought not to be desired—can produce some confusion. Sometimes economists describe the fact that someone desires or wants something or regards that thing as a good by saying that for such a person, the item has *utility*. It should be remembered that when an economist says that something is a good or has utility (in this economic sense), all he means is that someone wants it, desires it, or values it. To say that something is a good (in this economic sense) does not imply that it is the sort of thing that the person ought to want.

Economists contrast *economic goods* with what they call *free goods*. A free good is something which can be obtained without any sacrifice. In more technical language, a free good is one that humans can obtain in quantities sufficient to satisfy their wants at a zero price. A free good is so readily available by nature that its quantity supplied exceeds quantity demanded. There is more than enough to go around, to satisfy the quantity demanded. An example of a free good might be fresh air in the country.

It is important to distinguish between *demand* and *quantity demanded*. The word *demand* refers to a relationship that economic texts indicate by a curve showing the different quantities of some good or service that buyers will freely purchase at different prices, other things being equal. *Quantity demanded* is a specific point on that curve; it is a specific quantity that buyers will demand at a specific price. A similar distinction must be made between *supply* (another relationship indicated by a curve) and *quantity supplied*, a specific point or value on the curve. *Demand* and *supply* always refer to a schedule, not to a single quantity.

In contrast to free goods, economic goods are characterized by scarcity. Something is scarce if people want more of it than they can freely have. An economic good is one that humans cannot obtain in quantities sufficient to satisfy their wants at a zero price. Because quantity demanded exceeds quantity supplied, an economic good always costs something. In order to obtain a quantity of any economic good, something else must be sacrificed. For people who live next to an unpolluted lake, water might be a free good. But for someone traveling through a hot desert, water (because of its scarcity) is an economic good. In fact, it is not difficult to imagine circumstances in which water might become so desired that a thirsty person faced with the prospect of dying might be willing to sacrifice almost anything to secure some. In most cases, air is a free good. But for people living in an area where the air is polluted, clean air might become an economic good for which they would be willing to make some sacrifice or pay some price.

Economists point out that both free goods and economic goods possess utility. People place a value on air; it just happens that in most cases, the quantity of breathable air supplied exceeds the quantity demanded. But things may be valued in two different ways. Some things like air and water are very valuable *in use*, but usually have no value *in trade*. Diamonds have a great deal of value in trade, but less value in use. Economic value is always in the eye of the beholder.

Conclusion

In this first of a series of essays on the economic way of thinking, I have defined economics as the basic study of human action, that is, of conscious, purposeful human behavior. I have identified the two main elements in any economic study as scarcity and choice. The unavoidable presence of scarcity in human life forces human beings to rank their available options and make conscious choices among those alternatives. I have also explained the important difference between free goods and economic goods. Because they are available in such abundance, free goods involve no costs and require no choices. But every economic good that has standing in our personal scales of values will necessarily be an object of valuation and choice. The conscious pursuit of goals leads humans to exchange things they desire less (such as time or money or some possession) for things they desire more. □

THE FREEMAN
IDEAS ON LIBERTY

Banking Without Regulation

by Lawrence H. White

How well would the banking system work if there were no government regulation? One way to begin answering this question is to examine the historical record. In the nineteenth century many countries had relatively unregulated banking systems with few or none of the restrictions that face American banks today: legal barriers to new entry, deposit insurance, geographic and activity restrictions, reserve requirements, and protection of favored banks from failure. Because these systems were so different from today's, they throw valuable light on the possible consequences of completely deregulating banking in the future.

A useful source of historical information is the recently published volume entitled *The Experience of Free Banking*, edited by Kevin Dowd (London: Routledge, 1992). The book's contributors (of which I am one) investigate relatively unregulated banking systems in nine different countries during the nineteenth century: Australia, Canada, Colombia, China, France, Ireland, Scotland, Switzerland, and the United States. An overview chapter by Kurt Schuler shows that there were another fifty episodes that might also be investigated in detail. Fresh historical evidence, of the sort provided in this book, usefully complements the several other studies of free-market money and banking that have been published in recent years.[1]

Dr. White, Associate Professor of Economics at the University of Georgia, is a Contributing Editor of The Freeman.

Three Lessons from History

What can we learn from historical episodes of relatively unregulated banking? I will try to summarize three main lessons concisely, without all the details, footnotes, and minor qualifications that might be mentioned. I hope my fellow academics will forgive me for breaching our professional etiquette in this way.

First lesson: Unregulated banking does not cause inflation of the money supply or of prices.

Because reserve requirements constrain banks today, economists have sometimes feared that banks without reserve requirements will face no constraint against oversupplying checking deposits or banknotes. But the fear is historically groundless. A competitive market compels unregulated banks to fix the value of their deposit and note liabilities in terms of the economy's basic money, by offering redeemability at par (full face value) in basic money. In the past, the basic money was gold or silver coins. The "dollar" was originally a silver coin. To avoid embarrassment, in the absence of government protection, a bank could not issue too many liabilities in relation to its reserves of metallic money.

Under redeemability, the value of money

falls (price inflation occurs) only when the supply of the economy's basic money grows faster than the real demand for basic money. Under the gold and silver standards of the nineteenth century, inflation of prices in any single year was minimal by modern standards. Over the long run of generations, price inflation was virtually zero.

Second lesson: Unregulated competition among banks does not destabilize the banking system.

Instability is often the fear of those who think that "free banking" laws in some parts of the antebellum United States led to irresponsible or "wildcat" banking. It turns out that "wildcat" banking is largely a myth. Although stories about crooked banking practices are entertaining—and for that reason have been repeated endlessly by textbooks—modern economic historians have found that there were in fact very few banks that fit any reasonable definition of "wildcat bank." For example, of 141 banks formed under the "free banking" law in Illinois between 1851 and 1861, *only one* meets the criteria of lasting less than a year, being set up specifically to profit from note issue, and operating from a remote location.[2]

The so-called "free banking" systems in a number of antebellum American states were actually among the most regulated of all the nineteenth-century systems of competitive note-issue. Instability was experienced in a few states, not due to wildcat banking, but due to state regulations that inadvertently promoted instability. "Free banking" regulations in some states made it easier to commit fraud; in other states the regulations discouraged or prevented banks from properly diversifying their assets. Banking was more stable in the less regulated systems of Canada, Scotland, and New England.

How was stability possible in banking systems with neither deposit guarantees (nothing like FDIC insurance) nor a government lender of last resort (nothing like the Federal Reserve)? Depositors were more careful in choosing banks, and banks correspondingly, in order to attract cautious customers, had to be more careful in choosing their asset portfolios than banks are today in the presence of deposit guarantees and a lender of last resort. Banks did sometimes fail. But bank failures were almost never contagious, or prone to spread to sound banks, for several reasons. Each bank tried to maintain an identity distinct from its rivals, and was able to do so when it was not compelled by any regulation to hold a similar asset portfolio. Depositors then had no reason to infer from troubles at one bank that the next bank was in trouble. Banks were generally well capitalized, so that fear of insolvency was remote. In some cases banks had extra capital "off the balance sheet" in the sense that shareholders contractually bound themselves to dig into their own personal assets to repay depositors and noteholders in the event that the bank's assets were insufficient. Banks diversified their assets and liabilities well, being free of line-of-business and activity restrictions.

Banks were careful to avoid excessive exposure to other banks, which means that they minimized the risk of being stuck with uncollectible claims on other banks. Some degree of exposure is unavoidable in any system in which a bank accepts deposits from its customers in the form of checks written on, or notes issued by, certain other banks. A bank has exposure until it clears and settles those claims through the clearinghouse. Private clearinghouses, particularly in the late nineteenth-century United States, lowered the risks of interbank exposure by making banks meet strict solvency and liquidity standards for clearinghouse membership. Clearinghouses were a vehicle by which reputable banks as a group voluntary regulated themselves. Clearinghouse associations pioneered techniques for monitoring and enforcing solvency and liquidity, such as balance sheet reports and bank examinations. Clearinghouse associations also did some "last resort" lending to solvent member banks that were experiencing temporary liquidity problems. The Federal Reserve System did not introduce but simply nationalized bank regulation and the lender-of-last-resort role.

Third lesson: Banking is not a natural monopoly.

Historical experience shows that there are some tendencies for larger banks to be more efficient, but not beyond a certain size. Nationally branched banks do tend to outcompete smaller banks in many areas of the banking business, but not in all areas. Banks must be large enough to diversify their assets and liabilities adequately, but this does not require being large relative to the entire banking market. Recent developments in the financial technologies of loan syndication and securitization may have reduced the size at which a bank becomes large enough in this respect. In the absence of government regulations that currently favor the largest banks, particularly the pursuit of the "too big to fail" doctrine by the Federal Reserve and the Federal Deposit Insurance Corporation, a stable and deregulated financial structure would result that would likely include both large and small banks. □

1. Hans Sennholz, *Money and Freedom* (Spring Mills, Pa.: Libertarian Press, 1985); Kevin Dowd, *Private Money: The Path to Monetary Stability* (London: Institute of Economic Affairs, 1988); George A. Selgin, *The Theory of Free Banking* (Totowa, N.J.: Rowman and Littlefield, 1988); Kevin Dowd, *The State and the Monetary System* (New York: Philip Allan, 1989); David Glasner, *Free Banking and Monetary Reform* (Cambridge: Cambridge University Press, 1989); Lawrence H. White, *Competition and Currency* (New York: New York University Press, 1989); Richard Salsman, *Breaking the Banks: Central Banking Problems and Free Banking Solutions* (Great Barrington, Mass.: American Institute for Economic Research, 1990); Steven Horwitz, *Monetary Evolution, Free Banking, and Economic Order* (Boulder, Colo.: Westview Press, 1992).

2. This statistic, from a study by Andrew J. Economopoulos, is cited by Kevin Dowd, "U. S. Banking in the 'Free Banking' Period," in Dowd, ed., *The Experience of Free Banking* (London: Routledge, 1992), p. 218. Pioneering modern work on the U. S. experience with "free banking" laws, which is the source for the information in the next paragraph of the text, has been done by Hugh Rockoff and by Arthur J. Rolnick and Warren E. Weber.

TOWARD A CASHLESS SOCIETY

by Elizabeth Kolar

The financial system of today's world is the product of centuries of innovation. What began as a barter economy moved through various incarnations in response to the limitations inherent in the evolving systems. Changes will undoubtedly continue to occur in response to social and technological progress. Contemporary discussion of likely changes has focused increasingly on the possibility of a cashless society. The technology for such a society exists. However, the benefits of cashlessness are not yet perceived to outweigh the supposed disadvantages.

This article will discuss the progress toward cashlessness and its relevance to free banking. Free banking historically involved the issuance of bank notes that were redeemable for a "base" money such as gold or silver. Modern proponents of free banking such as Lawrence White have continued to think of it in these terms. White's colleague at the University of Georgia, George

The author is an operations analyst for Diebold, Inc., a banking equipment manufacturer.

Selgin, has, on the other hand, envisioned a regime under which the existing (U.S. dollar) monetary base would be frozen, and banks could then issue notes that would be exchangeable for base dollars. Both writers apparently envision a society that will continue to use currency and coin as pervasive media of exchange.

A cashless society would mean, of course, the absence of currency and coin. Therefore, a cashless society could mean a barter society in which commodities were traded for commodities. However, barter would represent a major step backward. The cashless society envisioned and discussed herewith refers instead to the widespread application of computer technology in the financial system. Increasingly, funds are being transferred via an "Electronic Funds Transfer System" (EFTS).

The EFTS

As it became apparent that electronic banking was here to stay, Congress in 1974 established the National Commission on Electronic Fund Transfers. The commission studied the infant EFTS, and published its recommendations in 1977. The commission concluded that an EFTS developed in an "orderly" manner would be beneficial to consumers of financial services and suggested that such a system operate outside the public sector. The commission went on to state that "a national EFTS could be supported by as few as 225,000 on-line terminals installed in general merchandise stores."

As the commission completed its research, the Federal Reserve established "Fed Wire." Fed Wire is a nationwide electronic communications network that links the 12 Federal Reserve District Banks, all member commercial banks, and the U.S. Treasury. It represents a considerable investment on the part of the Federal Reserve, and has been interpreted by the member banks as Federal Reserve endorsement of a nationwide EFTS.

Transition to an EFTS involves overcoming structural barriers such as high start-up costs as well as the establishment of cooperation and communication among competing banks and retailers. In a sense, by the creation of Fed Wire, the Federal Reserve has provided not only an endorsement of EFTS, but a subsidy as well. Large institutions have capitalized on the Fed's investment, and smaller organizations must now subscribe to the changes in order to remain competitive.

An EFTS is made up of many components, the most widely known and accepted being Automated Teller Machines (ATMs). Additional integral elements are Automated Clearing Houses (ACHs) and Point of Sale terminals (POSs). As we shall see, the ACHs and POSs, not ATMs, are probably the keys to further progress toward a cashless society.

Federal Reserve economist Michael Keeley has argued that "trends in cash usage and holdings suggest that cold, hard cash is becoming an even *more* popular means of payment." He goes on to say that, "Since most ATMs use $20 bills, it is interesting to note that the growth in volume of $20 bills has been greater than that of other denominations since 1977—about the same time that the number of ATMs installed started to grow nationwide."

Federal Reserve reports on currency have shown a significant increase in the number of bills in circulation, and an increase in the average denomination being used; for example, the number of $20 bills has increased faster than the number of $10 bills. The number of checks being written and the average size of each check have also increased, but at much slower rates.

ATMs

Keeley uses such facts to support his view that a cashless society is "far from reality." However, a provocative argument can be made that the transition to a cashless society involves an *increase* in cash usage prior to its disappearance for all but low-dollar and "discrete" transactions. Before the spread of ATMs, a greater percentage of retail transactions involved payment by check.

Because of processing delays, checks present opportunities for buyers to make purchases prior to the receipt of the requisite funds in their accounts—i.e., there is a so-called "float." However, checks also involve a certain amount of time and inconvenience for the parties to a transaction. Before the spread of ATMs the most common method of obtaining cash was from tellers at bank branches. With the limited banking hours of the day and the associated long lines, it was far more common for consumers to endure the inconveniences associated with check writing than to visit a bank branch to obtain cash. ATMs made cash easier to obtain, however, and it increasingly became the preferred method of payment.

POSs

The use of POSs may displace the use of cash obtained from ATMs just as the use of ATM cash has displaced checks. POS use reduces many of the liabilities of cash. For example, crimes such as mugging and purse-snatching would decrease in the absence of cash, and the opportunity costs of cash would be eliminated insofar as a consumer's funds would always be in interest-bearing accounts.

The shift away from cash and toward POSs may be obscured for a time by the use of currency to engage in tax evasion or illegal activities such as drug dealing. Progress toward cashlessness may also be obscured by the use of U.S. dollar bills in the former Soviet Union and elsewhere. But as such areas stabilize and adopt more sophisticated technology, their payments practices will probably start to resemble those in the United States.

Transition Problems

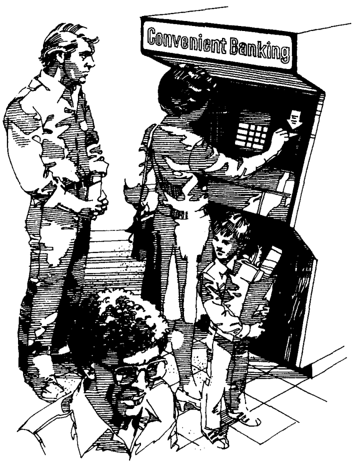
The transition to a fully electronic transfer of funds system will not be impeded by households; through the use of debit cards they are already in the process of becoming comfortable with the advantages of EFTS. Rather, some of the parties engaging in high dollar transactions will provide resistance until the issue of float costs and benefits is resolved. Insofar as there are delays in processing checks, there is a float cost to the businesses getting paid. This cost is equivalent to a working capital expense for receivables. There is a corresponding benefit to payees who can continue earning interest until their checking accounts are finally debited. Elimination of this float would result in a significant redistribution of income among businesses, and this may explain some of the present resistance to EFTS conversion. The amount of interest earned via check float is now estimated to be between 40 and 50 billion dollars annually. Understandably, the recipients of this interest will resist its disappearance.

Canada has addressed the float issue by way of a banking industry and central bank accord that provides for same-day accounting of checks presented for payment. The float has been significantly reduced by the implementation of a retroactive interbank settlement process. This innovation has removed the float associated with the check clearing process, but not that which occurs when a payee holds a check for a period of time before processing it.

In order for the U.S. to overcome the barriers to an EFTS created by the float, it appears that voluntary conversion on the part of businesses, rather than regulation, is the answer. The U.S. Treasury has already reduced check use and shifted many government payments to electronic transfer. Among these are Social Security, federal payroll, and even large federal contract payments. It can be expected that the spread of electronic transfer practices will continue in the private sector as well, with the loss of float costs and benefits being considered in the terms on which parties are willing to do business with another.

Free Banking

The progress toward an EFTS could further complicate the Federal Reserve's attempts to manage the U.S. money supply. As economists are well aware, the public's



"Cash may continue to be useful for some time, especially for discrete transactions, but even these may become increasingly automated. Given the rapid growth in technology, it is not difficult to imagine devices whereby even the most informal purchases could be automatically debited from the buyer's bank account."

demand for cash influences the quantity of money in circulation. Perhaps more serious is the internationalization of money flows and the proliferation of new types of accounts. With electronic systems shifting funds from one type of account to another, and from one country to another, it has become difficult or perhaps impossible to say what "the" money supply is.

Part of the appeal of free banking is that it makes such issues moot. Financial institutions and customers could pursue their interests independently with their actions being coordinated by the invisible hand of the market. A cashless society would pose no special problems in this context. The 12 Federal Reserve District Banks could be privatized in the form of Automated Clearing Houses; the district bank stock to which member banks subscribe upon joining the Federal Reserve System could be converted into transferable shares in the ACHs. The newly privatized ACHs would presumably play a major role in interbank lending and reserve settlements.

In the case of either a gold-based or paper-dollar-based free banking system, base money could be kept at the ACHs, but it need not be. As long as all claims and settlements were continuously recorded, base money would only have to be available at ACHs or member banks to meet occasional customer requests.

In conclusion, the movement toward a cashless society is proceeding incrementally. Cash may continue to be useful for some time, especially for discrete transactions, but even these may become increasingly automated. Given the rapid growth in technology (e.g., pocket-sized cellular telephones), it is not difficult to imagine devices whereby even the most informal purchases could be automatically debited from the buyer's bank account.

EFTS is likely to have a profound and visible impact on everyday decision-making. Some of the more obvious benefits are reductions in financial transaction time and cost, and a reduced need for cash which would, in turn, decrease the amount of interest forgone. The opposition to a cashless society is likely to become increasingly silent as it is defeated by subtle economic pressures exerted by the federal government and financial industry giants; they continue to realize the benefits of the transition to an EFT system. As this transition continues, the issue of float is likely to fade as well.

While we may not see a completely cashless society in the immediate future, the foundation has been laid, and the available evidence indicates that we are indeed moving in that direction. The fate of the Federal Reserve depends, of course, on political considerations, but the progress toward EFTS could ultimately prove to be a key factor leading to its replacement by free banking. □

THE FREEMAN
IDEAS ON LIBERTY

Why Free Markets Are Difficult to Defend

by D. Eric Schansberg

When posed as a general question, most people are inclined to support free markets and capitalism rather than government control and socialism. They have seen the fruits of "free market" economies and the failures of socialism. They support freedom as a principle and generally dislike the intrusions and bureaucracy of government.

Yet when it comes to specific government programs, the public is frequently enthusiastic about them. And whenever the economy is not running smoothly, the public demands action from the President and the Congress to "do something." By giving explicit or tacit approval to such programs, people reveal that they think government can solve problems better than the market. Thus, people support free markets in general, but support government intervention on particular issues. The free market is difficult to defend against calls for government activism.

The Visible and Invisible Hands

Many people would agree that socialism is a less productive system than capitalism. But socialism has one advantage. To the extent it does work, one can see exactly how its success was achieved. As a pure economic system, every step between the inputs into production and the final product is controlled by a central planner—the "visible hand" at work. In other words, one can precisely point to how the loaf of bread got to the consumer's table.

Under a free market system, the "invisible hand" is just that—invisible. People pursuing their own interests are guided by the invisible hand of relative prices and inadvertently promote the well-being of society. Few people, if any, are able to enumerate exactly how the market is able to provide consumers with any particular good.

One of the contributions of public choice economics has been to note that costs and benefits are perceived in a similar manner in microeconomic settings. The benefits of individual government programs are as visible as the (albeit limited) successes of socialism as a macroeconomic system. When government creates new jobs through increased spending or preserves existing jobs through some form of protectionism, the additional employment is easy to see and is quickly attributed to government.

In addition, the costs of government activism are difficult to see. With programs that entail additional spending, government may choose to pay for the program with higher taxes now, higher taxes later (deficit

D. Eric Schansberg is Assistant Professor of Economics at Indiana University-Southeast.

financing), an inflation tax or some combination of the above. The visibility of these "payment plans" differs but all are more obscure than the benefits they bring. The costs of higher current taxes are the easiest to see (and thus the least politically popular)—but even they are subtle. Note that a one-billion-dollar program costs only four dollars per capita; for a family of four with a single wage-earner, taxes increase by only $1.33 per month. Who would notice another dollar being taken out of his paycheck each month? Further, who will hold government accountable for the jobs that are lost as a result of taxpayers having less disposable income? The one billion dollar loss to consumers will destroy a few jobs in many industries since that money will no longer be spent on dry cleaning and appliances, or invested in new businesses. (See Henry Hazlitt's *Economics in One Lesson* [1946]. In Mr. Hazlitt's words, "the art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists of looking at the consequences of that policy not merely for one group but for all groups.")

Another way for the costs of a program to be hidden is for government to mandate that firms be responsible for providing it. A government program that subsidizes parents or firms to encourage or allow the parents to stay home with newborns would involve some direct expense. But if parental leave were to become a "worker's legal right," the benefits would still be easy to see and the costs would be nearly invisible. Who would attribute the subsequent long-term impact—some combination of greater unemployment, lower compensation for workers (in terms of other fringe benefits and wages), and higher product prices—to government's activism? These costs are extremely subtle.

The benefits of government programs are easy to see and their costs are difficult to see. In contrast, the benefits of less government involvement—a move toward freer markets—are subtle and its costs are quite visible. Thus it is not surprising that governmental activism is relatively popular.

How Incentives Differ

Economics provides another important explanation for the paradox of why government activism often "wins the day." It turns out that those who receive the relatively large and easy-to-see benefits have incentives different from those who bear the relatively small and difficult-to-see costs.

Suppose that the benefits of the one billion dollar program cited above are split equally by 1,000 people; each will receive one million dollars. Remember that this will cost every citizen four dollars. It is unlikely that they will notice. But even if they did, it is improbable that they would want to devote significant resources either to obtaining information or to fighting the proposal. On the other hand, those receiving a million dollars will go to great lengths to obtain their favor from government. At the very least, they will have an incentive to present eloquently and forcefully the merits of the program (but not its costs). At the other extreme, they might provide disinformation to "rationally ignorant" voters or (at least implicitly) bribe legislators.

Further, the bureaucrats who administer the programs passed by the legislative and executive branches have an incentive to see their programs' scopes and budgets enlarged. They have the same incentive structure as the other "winners."

In sum, there are at least two plausible explanations for the paradox of why people support free markets in general and government activism in specific areas. The visible benefits of government activism are easier to explain than the more abundant but more diffuse benefits of free markets. And due to the different incentives that winners and losers face for any given proposal, the benefits of government programs are more forcefully argued since their proponents will (out of ignorance or deceit) discuss the program only in its most favorable light.

Government programs may be bad economics, but why they are bad economics may be difficult to explain. That is why an effective defense of the free market must be based on moral principle. □

THE FREEMAN
IDEAS ON LIBERTY

YOUR MONEY—YOUR CHOICE

by E. C. Pasour, Jr.

The segment "Your Money—Your Choice" is a recurring feature on ABC's nightly world news program hosted by Peter Jennings. It focuses on "pork barrel" spending such as the honey price-support program or military purchases that even the Pentagon doesn't want.

This feature of the news has a laudable objective—to focus public attention on wasteful government spending. Unfortunately, "Your Money—Your Choice" is marred by two flaws in contributing to the debate over public policy issues. First, it fails to acknowledge problems inherent in the political process or why the public's desire for political reform is likely to be thwarted. Second, the approach taken by ABC News, which considers only alternative government spending, is implicitly statist.

Is It Really Our Choice?

Ideas have consequences in economic policy, and public awareness of an existing problem is a necessary first step in bringing about improvements. However, mere public awareness and desire for political action often are not translated into effective political reform. This is no less the case for piecemeal than for comprehensive planning. Indeed, the idea that smart planners in Washington can coercively structure social arrangements to optimize our well-being was characterized by Nobel Laureate economist F.A. Hayek as the "fatal conceit." Such attempts are doomed to failure because of information and incentive problems that cannot be overcome in the political process.

E. C. Pasour, Jr., is Professor of Agricultural and Resource Economics at North Carolina State University.

Information Problems

Information was the focus of the "economic calculation debate" that occurred more than fifty years ago. This debate pitted Hayek and fellow Austrian economist Ludwig von Mises against Oskar Lange and other economic theorists who advocated socialism and central planning. Mises and Hayek demonstrated that the structure of production cannot adapt efficiently to consumer demand in the absence of competitive markets and the information and incentives conveyed through market prices. They emphasized that there is no effective substitute for market prices in discovering, coordinating, and transmitting information throughout the production and marketing system. Much of the relevant information is specialized to time and place and cannot be obtained by government officials. This finding, long denied by mainstream economists, is now widely conceded following the breakup of Communism in Eastern Europe and the former Soviet Union.

Incentive Problems

Even if appointed and elected political decision-makers were omniscient, however, they would be unlikely to act to promote the public weal because they face perverse incentives. Government officials do not have the incentives to economize that profit-seeking private entrepreneurs do. Instead, they tend to act to protect their jobs and to expand their power, which is heavily influenced by budget size. As a result, public budgets tend to be treated as "common pool" resources in which there is a disincentive to economize. A "Golden Rule" for the bureaucrat is to have no money left in the budget at the end of the fiscal year!

The incentive problem confronting elected government officials is even more perverse. Government programs may not represent the broad interests of the electorate because of a short-run bias in the political process. The long run for elected officials is the next election. Consequently, they prefer government programs in which the benefits occur in the short run and the costs come due in the long run—after the next election. Thus, it is common to find incumbent politicians voting to increase farm subsidies, Social Security payments, and other government-financed "goodies" before an upcoming election.

There is also slack in the political process because those who benefit from government programs have incentives to be better represented in Washington. Most government programs are such that a small group benefits at the expense of the public at large. Consider the sugar price-support program, which raises prices of sugar (and sugar substitutes) to consumers by limiting sugar imports. The program confers huge benefits, averaging more than $200,000 per year, on each of the 10,000 or so producers of sugar and sugar substitutes. However, a doubling of retail sugar prices amounts to no more than $100 per year to the typical family. Thus, when Congress debates sugar policy, it isn't surprising that sugar interests carry the day.

Sugar policy fundamentally is no different from that affecting other farm products, textiles, steel, and automobiles—or public education. While each special interest might recognize that these programs that "rob Peter to pay Paul" are unwise, there is a "you first" problem. Each group has an incentive to desist in such efforts *only* if other groups also agree to do so. In reality, each group benefiting by a special dispensation from the state may favor a reduction in such efforts by others while fighting to retain its own special advantage.

What Can Be Done?

The preceding analysis suggests that the problem is rooted in the incentives people confront within the current political system. Hayek and fellow Nobel Laureate James Buchanan have shown that the public bidding may fail in an unlimited or majoritarian democracy in which the ability of groups to benefit through state power is not constrained by constitutional rules.

In short, the public's desire for political reform may be thwarted because of the information and incentive problems described above that are endemic in the political process. There is no way to avoid these problems, but the magnitude of the waste resulting from efforts by individuals and groups to use the state to increase wealth can be reduced. The challenge is to develop an institutional framework that will channel the self-serving behavior of political participants toward the common good in a manner similar to that described by Adam Smith with respect to the economic arena.

The problem of "faction," emphasized by James Madison, is rooted in the incentives that ordinary people confront within the prevailing rules of an unconstrained majoritarian democracy. The best hope lies in the Founding Fathers' attempt to develop institutions that, to the extent possible, bring personal self-interest into harmony with political liberty and economic prosperity.

Moreover, the importance of the ideological climate should be recognized. Indeed, it is unlikely that the framework necessary to restrain leviathan can be devised and instituted in the absence of a change in attitude of voters concerning the proper role of government in a free society.

In short, the exposé by ABC News about a particular government boondoggle implies that we the listeners have a choice to make in terms of the activity in question. However, no emphasis is given to the problems of the political process that must be overcome to effect change. That is, the program focuses on an undesirable *result* of the political process, with no attention given to the fact that *the process itself* may be a major part of the problem. In public policy analysis, ignoring problems that are inherent in the political process is tantamount to a pro-government bias.

"It's Your Money"

ABC's uncritical view of the political process also is reflected in the program's suggested alternatives to the government activity under scrutiny. "Your Money—Your Choice" properly emphasizes the amount of taxpayer money spent on the activity in question and gives examples of various sacrificed alternatives. However, there is yet another statist bias in the approach taken by ABC News.

The sacrificed alternatives always are shown in terms of numbers of other *government* activities—number of public schools, number of schoolteachers, number of government loans to college students, number of tanks for the Pentagon, and so on. It is noteworthy that the sacrificed activities are always assumed to be other *government* goods and services. There is no awareness that citizens may prefer to *reduce* government spending by the indicated amount rather than merely increase spending on some other government project.

The implication of "Your Money—Your Choice" is that there is no problem concerning the overall level of government spending—the only problem is with *how* the public money is spent. That is, this ABC News approach implicitly defends the present level of government.

What is the proper approach? In considering the opportunity cost of a current government program, private sector alternatives also must be taken into account. Consider, for example, the $10 billion annual expenditure by the federal government on farm price supports. A valid opportunity-cost approach in evaluating farm price supports would consider not just other public programs but the number of private autos, number of private houses, number of college tuitions, and so on, that are sacrificed. An analysis of any government program which omits consideration of the forgone private sector alternatives has implicitly assumed without justification that public sector goods and services, at the margin, are more valuable.

Conclusions

Many people today contend that government institutions are unresponsive. Indeed, public opinion polls show that people feel that they are overtaxed and that they do not agree with the spending priorities of government, especially at the federal level. The "Your Money—Your Choice" ABC News approach fails on two counts to adequately enlighten the public about government spending.

On the one hand, no attention is given to the problems that are inherent in the political process—or to the implications for restraining the power of special interests. There is a total lack of constitutional perspective in considering economic issues with little or no consideration given as to *why* the system is unresponsive.

Second, it focuses only on how the pattern of government spending should be reallocated, implicitly assuming that the size of the public sector is beyond the pale. In failing to consider the sacrificed *private* opportunities when evaluating government boondoggles, ABC ignores the most important public policy problem in a free society—the appropriate role of government. □

THE FREEMAN
IDEAS ON LIBERTY

The Trouble with Keynes

by Roger W. Garrison

The economics of John Maynard Keynes as taught to university sophomores for the last several decades is now nearly defunct in theory but not in practice. Keynes' 1936 book *The General Theory of Employment, Interest, and Money* portrayed the market as fundamentally unstable and touted government as the stabilizer. The stability that allegedly lay beyond the market's reach was to be supplied by the federal government's macroeconomic policymakers—the President (with guidance from his Council of Economic Advisers), the Congress, and the Federal Reserve.

The acceptance in the economics profession of fundamentalist Keynesianism peaked in the 1960s. In recent decades, enthusiasm for Keynes has waxed and waned as proponents have tried to get new ideas from the *General Theory* or to read their own ideas into it. And although the federal government has long since become a net supplier of macroeconomic *in*stability, the institutions and policy tools that were fashioned to conform with the Keynesian vision have become an integral part of our economic and political environment.

A national income accounting system, devised with an eye to Keynesian theory, allowed statisticians to chart the changes in the macroeconomy. Dealing in terms of an economy-wide total, or aggregate, policy advisers tracked the production of goods and services bought by consumers, investors, and the government. Fiscal and monetary authorities were to spring into action whenever the economy's actual, or measured, total output, which was taken to reflect the demand side of markets, fell short of its potential output, which was estimated on the basis of the supply side. Cutting taxes would allow consumers and investors to spend more; government spending would add directly to the total; printing money—or borrowing it—would facilitate the opposing movements in the government's revenues and its expenditures.

A chronic insufficiency of aggregate demand, which implies that prices and wages are somehow stuck above their market-clearing levels, was believed to be the normal state of affairs. Why might there be such pricing problems on an economy-wide scale? What legislation and government institutions might be standing in the way of needed market adjustments? These questions were eclipsed by the more politically pressing question of how to augment demand so as to clear markets at existing prices. The New Economics of Keynes shifted the focus of attention from the market to the government, from the economically justified changes in market pricing to the politically justified changes in government spending.

Politicians still appeal to basic Keynesian notions to justify their interventionist

Dr. Garrison teaches economics at Auburn University in Alabama and is a Contributing Editor of The Freeman.

schemes. The continued use of demand-management policies aimed at stimulating economic activity— spending newly printed or borrowed money during recessions and before elections—requires that we understand what Keynesian economics is all about and how it is flawed. Also, identifying the flaws at the sophomore level helps students to evaluate in their upper-level and graduate courses such modern modifications as Post, Neo, and New Keynesianism as well as some strands of Monetarism.

The extreme level of aggregation in Keynesian economics leaves the full range of choices and actions of individual buyers and sellers hopelessly obscured. Keynesian economics simply does not deal with supply and demand in the conventional sense of those terms. Instead, the entire private sector is analyzed in terms of only two categories of goods: consumption goods and investment goods. The patterns of prices within these two mammoth categories are simply dropped out of the picture. To make matters worse, the one relative price that is retained in this formulation—the relative value of consumer goods to investment goods as expressed by the interest rate—is assumed either not to function at all or to function perversely.

The Importance of Scarcity

Pre-Keynesian economics, such as that of John Stuart Mill, as well as most contemporaneous theorizing, such as that by Ludwig von Mises and F. A. Hayek, emphasized the notion of scarcity, which implies a fundamental trade-off between producing consumption goods and producing investment goods. We can have more of one but only at the expense of the other. The construction of additional plant and equipment must be facilitated by increased savings, that is, by a decrease in *current* consumption. Such investment, of course, makes it possible for *future* consumption to increase. Identifying the market mechanisms that allocate resources over time is fundamental to our understanding of the market process in its capacity to tailor production decisions to consumption preferences. But as Hayek noted early on, the Keynesian aggregates serve to conceal these very mechanisms so essential to the intertemporal allocation of resources and hence to macroeconomic stability.

In Keynesian theory the long established notion of a trade-off between consuming and investing is simply swept aside. Consistent with the assumed perversity of the price mechanism, the levels of consumption and investment activities are believed always to move in the *same* direction. More investment generates more income, which finances more consumption; more consumption stimulates more investment. This feature of Keynesian theory implies an inherent instability in market economies. Thus, the theory cannot possibly explain how a healthy market economy functions—how the market process allows one kind of activity to be traded off against the other.

The "Multiplier-Accelerator" Theory

The inherent instability makes its textbook appearance as the interaction between the "multiplier," through which investment affects consumption, and the "accelerator," through which consumption affects investment. The multiplier effect is derived from the simple fact that one person's spending becomes another person's earnings, which, in turn, allows for further spending. Any increase in spending, then, whether originating from the private or public sector, gets multiplied through successive rounds of income earning and consumption spending.

The accelerator mechanism is a consequence of the durability of capital goods, such as plant and equipment. For instance, a stock of ten machines each of which lasts ten years can be maintained by purchasing one new machine each year. A slight but permanent increase in consumer demand for the output of the machines of, say, ten percent, will justify maintaining a capital stock of eleven machines. The immediate result, then, will be an acceleration of current demand for new machines from one to two, an increase of one hundred percent.

The multiplier-accelerator theory explains why consumption is increasing, given that investment is increasing, and why investment is increasing, given that consumption is increasing. But it is incapable of explaining what determines the actual levels of consumption and investment (except in terms of one another), why either should be increasing or decreasing, or how both can increase at the same time. Students are left with the general notion that the two magnitudes, investment and consumption, can feed on one another, in which case the economy is experiencing an economic expansion, or they can starve one another, in which case the economy is experiencing an economic contraction. That is, Keynesian theory explains how the multiplier-accelerator mechanism makes a good situation better or a bad situation worse, but it never explains why the situation should be good or bad in the first place.

Only at the two extremities in the level of economic activity is a change in direction of both consumption and investment sure to occur. After a long contraction, unemployment is pervasive and capital depreciation reaches critical levels. As production essential for capital replacement stimulates further economic activity, the macroeconomy begins to spiral upward. After a long expansion, the economy is bulging at the seams. Markets are glutted with both consumers' and producers' goods. As unsold inventories trigger production cutbacks and worker layoffs, the macroeconomy begins to spiral downward. Keynes held that the economy normally fluctuates well within these two extremes experiencing a general insufficiency—and an occasional supersufficiency—of aggregate demand.

Textbook Keynesianism

In the simplistic formulations of macroeconomic textbooks, investment is simply "given"; in Keynes' own formulation, the inclination of the business community to invest is governed by psychological factors as summarized by the colorful term "animal spirits." Keynes recognized that there are some "external factors" at work, such as foreign affairs, population growth, and technological discoveries. The market is envisioned, in effect, to be some sort of economic amplifier which converts relatively small changes in these external factors into wide swings of employment and output. This is the basic Keynesian vision.

Wage rates and prices are assumed either to be inflexible or to change in direct proportion to one another. In either case the real wage (W/P) is forever constant. The actual level of wages and prices is believed to be determined (again) by external factors—this time, trade unions and large corporations. If the real wage is too high, there will be unemployment on an economy-wide basis. There will be idle labor and idle resources of every kind. The opportunity cost of putting these resources back to work is nothing but forgone idleness, which is no cost at all. The assumed normalcy of massive resource idleness assures that the perennial problem of scarcity never comes into play. William H. Hutt and F. A. Hayek were justified in referring to Keynesian economics as the "theory of idle resources" and the "economics of abundance."

Textbook Keynesianism has a certain internal consistency or mathematical integrity about it. Given the assumptions that prices and wages do not properly adjust to market conditions—that is, the assumption that the price system does not work—then the Keynesian relationships among the macroeconomic aggregates come into play. Even the policy prescriptions seem to follow: If wages and prices do not adjust to the existing market conditions, then market conditions must be adjusted (by the fiscal and monetary authorities) to the externally determined prices and wages.

In the final analysis, however, Keynesian theory is a set of mutually reinforcing but jointly unsupportable propositions about how certain macroeconomic aggregates are related to one another. Keynesian policy is a set of self-justifying policy prescriptions. For instance, if the government is convinced that wages will not fall and is prepared to hire the unemployed, then unemployed workers will not be willing to accept a lower market wage, ensuring that wages, in fact, will not fall. Thus, while the intention of Keynesian policy is to stabilize the economy, the actual effect is to "Keynesianize" the economy. It causes the economy to behave in exactly the same perverse manner that is implied by the Keynesian assumptions. This convoluted interrelationship between theory and policy has long obscured the fundamental flaws in the theory itself.

Students often ask the obvious question: Why is government policy grounded in such a flawed theory? From a political point of view, advocating and implementing Keynesian policy is the surest way to election and re-election. The gains from printing and spending money are immediate, highly visible, and can be concentrated on individuals who make up powerful voting blocs. The costs of this policy are incurred at a later date and can be spread thinly across the entire population, making the link between policy and long-run consequences difficult for the voting public to perceive.

The fading in recent years of old-line Keynesianism in academic circles provides little comfort. Even as the number of demand-managers continues to decline, it is from this shrinking group of economists that government officials seek advice and reconciliation. And opportunities to lecture to the seats of power rather than in the halls of learning have a way of changing some economists' minds about the advisability (political if not economic) of managing aggregate demand. Printing and spending money in pursuit of both short-run stimulation if not long-run stability remain the order of the day.

There is good reason, then, to study Keynesian theory: It helps us understand what the policymakers in government are likely to do in any given circumstance. But to understand the actual effects of their demand-management policies in the long run as well as the short, we need a more enlightening theory—one that recognizes what market forces can do on their own to maintain macroeconomic stability and how those forces are foiled by government-supplied stabilization. □

Why Government Can't Create Jobs

by Mark Ahlseen

Any nation needs a certain number of government employees in order to function. But ever since the Employment Act of 1946 a different view of government employment has emerged: that government can alleviate downturns in economic activity by spending—or "investing"—funds on projects that will stimulate employment. The government may be either a direct employer (as when it increases the numbers in our armed forces) or an indirect employer (as when it increases spending on highways, which increases employment in construc-

Mark Ahlseen is Associate Professor of Economics at King College in Bristol, Tennessee.

tion companies). As a nation we may need larger armies or more and better highways, but that is not germane to the discussion at hand.

The insidious notion persists that government job creation actually generates an increase in employment. According to this view, if construction companies increase employment by 100,000 jobs due to a $3 billion government spending program to finance highway construction, then employment is 100,000 jobs ahead of what it might be in the absence of the program.

Rarely does the public debate focus on how employment in other sectors is affected when the government seeks the $3 billion necessary to finance its program. These effects are important but, unfortunately, less visible because they are spread among hundreds, if not thousands, of employers.

Government spending, including spending designed to stimulate employment, may be derived from three sources. The first is taxes. If individual income taxes are raised by $3 billion to fund our highway project, disposable income is reduced by $3 billion. Consequently, individuals will demand less clothing, fewer appliances, and so on. Private sector employers will notice and respond by laying off workers. Since most of us will agree that we can spend our income more efficiently than can the government—if only for the fact we do not have to pay a bureaucratic overhead charge—layoffs in the affected companies will exceed the employment added by companies constructing the new highways.

If corporate taxes are raised instead of individual income taxes, they will eventually result in higher prices for consumers, lower real wages for workers, and lower returns for investors. All of these result in a decreased ability to buy clothing and appliances with the net result that unemployment increases, not decreases.

A second source of funds is government borrowing, but this borrowing increases the price of lendable funds, which reduces the amount of investment in the private sector. Consequently, fewer new factories, machines, and homes will be built. Not only does this decrease in private investment slow economic growth, it results in additional unemployment in these industries.

A final source of funds is the government's central bank, which can create new money. However, this monetary inflation results in price inflation by eroding the purchasing power of the dollar. This decrease in purchasing power will eventually increase unemployment as well.

Unfortunately, the political appeal of government spending stems from the fact that the jobs created are noticeable to the average voter, while the handful of jobs lost here and there are not attributed to the government spending program. Interestingly, from 1960 to 1988 there has been a positive, and statistically significant, correlation between public aid (as a percentage of GNP) and the unemployment rate. Conventional wisdom would have the public believe that as government "invests" in people the unemployment rate decreases. Yet the opposite is the case. For the same years there has been a positive, though statistically insignificant, correlation between government employment (as a percentage of total employment) and the unemployment rate. This suggests that as government work is created more jobs are lost elsewhere resulting in a rising unemployment rate.

As a nation, we undoubtedly need government employees for such things as national defense, police protection, and administering our court system (though I do question our founders' wisdom in relegating the delivery of first-class mail to government employees). But it is a fallacy of the Keynesian legacy that government can reduce unemployment by priming the pump with spending programs. Government needs to reduce spending and taxes in order to leave income in the hands of individuals who earned it and who can spend it much more efficiently than the government can. □

THE FREEMAN
IDEAS ON LIBERTY

A Life-Saving Lesson from Operation Desert Storm

by Donald J. Boudreaux

Operation Desert Storm is considered to be one of the American military's greatest victories. The goal given by the United Nations was to drive Saddam Hussein's troops out of Kuwait. Regardless of one's opinion of the scope of this goal or of the propriety of United States military involvement in foreign nations, the fact is that American armed forces accomplished their task. They did so completely, unambiguously, quickly, and with very little loss of life. Americans should be especially grateful for this last fact.

Only 378—or .075 percent—of the 500,000 Americans serving in the Persian Gulf war lost their lives. This means that not even one in every one thousand Americans fighting in Operation Desert Storm was killed. Operation Desert Storm stands in sharp contrast to the war in Vietnam. The U.S. military in that Southeast Asian war did not achieve its goal of keeping the Communist totalitarians of North Vietnam from conquering South Vietnam. And, sadly, this military loss claimed the lives of more than 58,000 of the nearly 8.75 million Americans who fought in the jungles of Vietnam and Laos. The casualty rate in the Vietnam War was just under .7 percent—a rate nearly ten times greater than the Gulf War. If U.S. servicemen had died in Vietnam at the rate at which they died in the Persian Gulf, we would have suffered only about 6,000 casualties. Can it be that 52,000 Americans lost their lives unnecessarily in Vietnam?[1] Alternatively, if Americans had perished in the Persian Gulf at the same rate at which they perished in Vietnam, more than 3,000 Americans would have been killed in Operation Desert Storm. The homecoming parades of 1991 would surely have been less joyous, and America's sense of accomplishment more tempered.

Conscription Is Hazardous to a Soldier's Health

There are, no doubt, many potential explanations for this great difference in U.S. military performance in the two wars. One crucial part of any valid explanation is that the U.S. military in Operation Desert Storm was an all-volunteer force. In Vietnam (and Korea), U.S. armed forces were composed largely of conscripts. This single fact plausibly explains much, perhaps most, of the success enjoyed by American troops serving in Operation Desert Storm.

To see why this is so, it is useful to recall the great policy debate of the 1960s which focused on the military draft. In addition to showing that an all-volunteer military would

Dr. Boudreaux is Associate Professor of Law and Economics at Clemson University.

actually be less costly to society than a conscripted military, economists Milton Friedman, Walter Oi, and others argued that conscription reduces the efficiency of military operations. Friedman nicely summarized this part of the argument against conscription:

> A volunteer army would be manned by people who had chosen a military career rather than, at least partly, by reluctant conscripts anxious only to serve out their term. Aside from the effect on fighting spirit, this would produce a lower turnover in the armed services, saving precious man-hours that are now wasted in training or being trained. Also it would permit intensive training and a higher average level of skill for the men in service; and it would encourage the use of more and better equipment. A smaller, but more highly skilled, technically competent, and better armed force could provide the same or greater military strength.[2]

It is easy enough to see why a military manned by people freely choosing to join the armed forces enjoys lower turnover and, hence, greater average levels of experience and *esprit de corps* when compared with a conscripted force. But why does an all-volunteer force "encourage the use of more and better equipment"? The reason is simple. Conscription gives military decision-makers the power to acquire labor at wage rates below those that the military would have to pay in the absence of conscription. That is, decision-makers for a conscripted military get labor on the cheap. Because labor and capital (for example, tanks, better guns and ammunition, more high-tech airplanes) are substitutes for one another, when the price of labor is kept artificially low, military decision-makers use too much labor and too little capital to produce the desired amount of military power.

Consider a simple example. Suppose the top brass of the military agree that there are two ways of ensuring victory in a particular battle. One way is to have 200,000 troops, each armed with rifles, storm an enemy's stronghold. Another way is to have five troops use five highly sophisticated fighter planes with smart bombs to attack the enemy's stronghold. It is not implausible to suggest that the method chosen is the one that will be least costly to military decision-makers (who do, after all, face a finite budget from Congress). Let's say that each fully equipped fighter plane costs $1 billion, and that each pilot costs $100,000 to employ. Thus, the total cost of achieving victory by use of fighter planes is $5,000,500,000. This method will be selected only if it costs military decision-makers less than the cost of achieving victory with the massive-manpower method.

The cost to military decision-makers of the massive-manpower method depends on whether or not conscription is used. Suppose that with conscription the military pays each soldier $5,000 annually, and that rifles and uniforms cost a total of $200 per soldier. At this wage rate, it will cost the military $1,040,000,000 in wages and equipment to achieve victory with the massive-manpower method.[3] Military decision-makers are likely to use the massive-manpower method in battle because it is significantly less expensive to them than using the fighter planes.

But suppose, in the alternative, that conscription is prohibited. Without conscription the military must pay market wages to its soldiers, and market wages will be higher than the wages of conscripts. Suppose that market wages are $30,000 per soldier. The total bill of achieving victory using the massive-manpower method in the absence of conscription would then be $6,040,000,000—approximately $1 billion more than the cost of achieving victory by use of the five fighter planes. Clearly, when military leaders are forced to pay market wages they have a strong incentive to economize on the use of labor by using greater amounts of capital equipment in producing military outcomes.

We can now see why "the use of more and better equipment" is encouraged by an all-volunteer force. Conscription artificially suppresses the price of labor relative to capital and, therefore, military decision-makers will use too little equipment and too many men. The all-volunteer force reverses this unfortunate effect by giving military decision-makers the incentive to "use more and better equipment" along with fewer men and women.

Because conscription causes a greater number of military personnel to be used on the battlefield, and because too many of these people are not sufficiently dedicated to their tasks, conscription results in unnecessary battlefield casualties. It is important to emphasize that these unnecessary deaths and injuries result both from the military's use of excessive amounts of labor and from the fact that a conscripted military is less experienced and less dedicated than is an all-volunteer force.

Conscription Never Again

Operation Desert Storm showed just how efficient, effective, and relatively safe an all-volunteer military can be. Instead of sending large numbers of American men and women directly into harm's way, U.S. military leaders relied mainly on high-tech machines to do battle with enemy forces. In addition to the effectiveness of this military hardware, a successful enemy hit against one of these machines—unlike a successful enemy hit against a flesh-and-blood soldier—does not cause tears of grief back home from a parent, a child, or other loved ones. Better a machine be destroyed than the life of a young man or woman.

Whatever the merits of Operation Desert Storm on the diplomatic and political fronts, its merit on the economic front is clear: Operation Desert Storm is powerful evidence that the all-volunteer military is far superior—and far less dangerous to its soldiers—than is a conscripted force. Let us hope that this is a lesson we never forget. □

1. The figures for the Korean conflict are even more gruesome. Of the nearly 5.8 million Americans who fought in Korea, more than 54,000 lost their lives. This is a casualty rate of just over .9 percent. If Americans had died in Korea at the same rate at which they died in the Persian Gulf, only about 4,000 Americans would have been killed in Korea; 50,000 who actually lost their lives would have lived.

2. Milton Friedman, "Why Not a Volunteer Army?" *New Individualist Review*, Vol. 4 (Spring 1967), pp. 3–9; this quotation is found on page 4. See also Walter Y. Oi, "The Real Costs of a Volunteer Military," *New Individualist Review*, Vol. 4 (Spring 1967, pp. 13–16); and "The Economic Cost of the Draft," *American Economic Review*, Vol. 57 (May 1967), pp. 39–62.

3. This figure is calculated by multiplying 200,000 by $5,200.

THE CAUSE OF FREEDOM BEGINS WITH ME

by Roger Koopman

"These are the times that try men's souls"—immortal words scribbled by Thomas Paine on a scrap of paper by the dim light of a Revolutionary Army campfire. Those were indeed times of great despair, and many of the revolution's "summer soldiers" had already deserted for home, convinced that their cause was lost. Yet in those darkest of days, men of great vision and faith stayed on, prompting Paine to continue, "it would be strange indeed if so celestial an article as freedom should not be highly rated."

Roger Koopman owns a small business in Bozeman, Montana.

Freedom, to the men of 1776, was more than highly rated—it was second only to salvation itself, as God's greatest gift. It was worth more than all the riches of earth, worth fighting for—and dying for. Thus they pledged their lives, their fortunes, their sacred honor. Most lost their fortunes, many lost their lives; but unlike the politicians of our modern day, none of them would lose his honor. We are a free nation today only because the people of *that* day were rooted in biblical faith and viewed liberty far more in spiritual than physical terms. They were willing to lose all their wealth and standing, but they would not compromise their freedom.

These, too, are times that try men's souls, but the challenge is from within, not from without. We do not face a redcoated enemy with fixed bayonets; we do not face physical starvation or the elements of winter. Yet our souls are starving. Daniel Webster once wrote, "the Divine knowledge has ebbed out of us, and we do not know enough to be free." Webster's words are sadly more appropriate to our age than to his own. So removed are we from the ideals of liberty that we scarcely talk about them anymore.

In today's world of politics and public policy, freedom is not looked upon as an end in itself. Instead, we define the "value" of freedom in physical terms, that is, in relation to the material benefits we derive from its presence—or its absence. Freedom has become little more than a means to a materialistic end. We cherish physical benefits where our Founding Fathers cherished freedom itself. One can only guess how long this trend will continue before we have lost both our benefits *and* our freedom. We are enslaving ourselves to our own appetites.

This "slavery" manifests itself in two fundamental ways: (1) We look upon government not as a protector but as a provider, as an instrument by which we can get something for nothing through "legal plunder" of our fellow man; and (2) we view government as the means by which we can exercise control over the activities of our fellow man for our own gratification or advancement.

Examples of the first of these two mindsets are seen in almost every political speech and legislative action on the state and federal level. Attend a committee hearing in your state capital sometime; the spectacle is often revolting. Everyone, it seems, is demanding something from government that he has not earned, courtesy of our taxes. The only thing people typically *don't* demand is the freedom to produce these things for themselves, and the opportunity for self-reliance unencumbered by government.

A good example of the second phenomenon—the urge to dictate and control the lives of others—can be seen much closer to home, through the actions of interventionist local government. Almost overnight, city or county commissioners can transform a peaceful community into a place of hostile, warring factions. Zoning ordinances turn neighborhoods into battlegrounds and good will into bitterness. While it can be argued that local politicians often overstep the bounds of voter intent, it cannot be denied that many who vote for these professional meddlers do so because they find their "control" message appealing—they *want* local government to harass local citizens. They *want* to interfere with other people's lives. Thus, the appearance of a businessman's sign or a neighbor's picket fence becomes "all important" in the minds of many voters; their fellow man's personal freedom is not important.

It is time to rekindle within each of us, in the words of George Washington, "that little spark of celestial fire called conscience." For the sake of conscience, we must resolve to honor and defend our neighbor's freedom as our own—and to do so even if we don't agree with the choices he makes. For the sake of conscience, we must resist every temptation to go to government for a subsidy or "freebie," even if everyone else is doing it—*especially* if everyone else is doing it. We must, each one of us, individually strike that match of conscience in the darkness until our collective light makes America once again the beacon of freedom to all the world. □

THE FREEMAN
IDEAS ON LIBERTY

IMMIGRATION—FRIEND OR FOE?

by James E. McClure and T. Norman Van Cott

Give me your tired, your poor,
Your huddled masses yearning to breathe free,
The wretched refuse of your teeming shore.
Send these, the homeless, tempest-tossed to me,
I lift my lamp beside the golden door!
—EMMA LAZARUS
"The New Colossus"

Do immigrants slice themselves a piece of the U.S. economic pie at the expense of Americans? Judging from the xenophobic backlash against immigrants in much of the media, many Americans apparently accept this assessment. As a result, immigration now connotes U.S. international charity. Public debate focuses on whether the United States can "afford" immigrants.

Casting immigration as a test of American compassion obscures a rational appraisal of its costs and benefits. *Working* immigrants do *not* slice the economic pie against Americans. Quite the contrary, Americans obtain *bigger* helpings of pie when immigrants work. Such immigrants may be likened to labor-saving technical innovations.

Only welfare state handouts enable immigrants to slice the pie against Americans. Prior to the welfare state, immigrants had to work to survive. U.S. history is replete with examples demonstrating that working immigrants benefited not only themselves, but also the Americans who employed them and the Americans who purchased what immigrants produced. Today, handouts have eliminated the necessity of immigrants benefiting Americans in order to survive.

More Pie for Americans

To see the value of working immigrants, look at what happens if low-wage Mexican immigrants replace high-wage American tomato pickers. Such a replacement can occur only to the extent Mexicans underbid Americans for the picking jobs. For example, if American pickers are earning $12 million, and if the most they can earn in other jobs is $10 million, Mexicans must be willing to pick the tomatoes for *less* than $10 million—say, $7 million.

Regardless of who picks the tomatoes, U.S. citizens cannot have tomatoes without forgoing other goods and services. There are no free tomatoes! Because American pickers can earn $10 million in other jobs, U.S. citizens sacrifice $10 million of other things when Americans pick. On the other hand, paying Mexicans $7 million for picking means they can lay claim to $7 million of U.S. products. Thus, U.S. citizens sacrifice only $7 million of other things when Mexicans pick. Opting for Mexican pickers enables U.S. citizens to have the tomatoes *plus* an extra $3 million of other things.

T. Norman Van Cott and James McClure are Professors of Economics at Ball State University in Muncie, Indiana.

Does Anyone Lose?

Not all U.S. citizens are better off when Mexicans pick the tomatoes. American pickers lose $2 million—they formerly earned $12 million, now they earn $10 million. Many people think this $2 million is part of the $7 million paid to the Mexicans—that is, Mexicans capture what the American pickers lose. Nothing could be further from the truth.

The loss to American pickers goes to *other Americans*. It is part of the $5 million reduction in wages paid to pickers due to the influx of Mexicans ($7 million versus $12 million). Lower wage costs obviously help American owners of tomato farms. In turn, market forces translate lower wages into lower tomato prices for American consumers. Not a penny of this goes to the Mexicans.

Beyond reshuffling $2 million among American pickers, farmers, and consumers, remember that the Mexicans generate $3 million *additional* pie for U.S. citizens. This is also the other part of the $5 million reduction in wage costs. Just as happened with the $2 million reshuffling, market forces apportion this extra pie among American tomato farmers and consumers.

Lower tomato prices also give Americans the opportunity of using tomatoes in ways that were uneconomical at higher prices. It follows that the benefits tomato consumers reap from these new uses make the increase in the economic pie even larger than $3 million.

If someone invents a machine that can underbid American tomato pickers, the consequences for American pickers, farmers, and consumers are identical to those brought about by low-wage Mexican pickers. That is, the reduced harvesting costs: (1) recut the pie into different pieces for pickers, farmers, and consumers; and (2) enlarge the pie to the benefit of the same farmers and consumers.

Given the similarity between working immigrants and innovation, it is curious that immigrants are seen as parasites. American heroes such as Thomas Alva Edison and Alexander Graham Bell testify to the value that historians assign innovation. Admittedly, seeing people work for lower wages does not pack the same excitement as seeing new machines roll across the fields. Nevertheless, both pack the power to increase Americans' living standards.

Non-Working Immigrants

Instead of picking tomatoes for $7 million, suppose the Mexican immigrants end up on the unemployment or welfare rolls, collecting $7 million in handouts. The economic pie available to Americans would be $10 million smaller compared to the case in which the Mexicans worked. In addition to a $7 million tax bill for the handouts, Americans would forsake $3 million of *extra* pie that working Mexicans would have generated.

The only Americans who would favor non-working immigrants (or no immigrants at all) would be Americans who compete with immigrants for jobs. American tomato pickers in our example would earn $2 million more if shielded from working Mexicans, but don't forget that this comes at the expense of American tomato farmers and consumers. In addition, remember that without working Mexicans, these same farmers and consumers will also be eating from an economic pie that is $3 million smaller.

The Statue of Liberty describes immigrants as "tired . . . poor . . . homeless . . . huddled masses yearning to breathe free." Prior to the welfare state, however, Lady Liberty's "golden door" did not open to a golden gravy train. Immigrants worked, and in the process proved a blessing to their American hosts. Immigration is a win-win proposition when people are responsible for their own economic destiny.

The rise of the welfare state is turning immigrants from friends to foes in America. The xenophobic backlash against immigrants, while understandable, misses the mark. Americans must look beyond the immigrants and see that their own government's misguided welfare programs are the source of the problem. □

THE FREEMAN
IDEAS ON LIBERTY

The Common Good and the Free Rider

by Mack Tanner

If you have ever argued for freedom and individual liberty, someone has probably argued back that the commanding hand of government must be present to provide for the common good and to promote the general welfare. They will tell you that we cannot trust humans to sacrifice voluntarily for the common good, and that any community effort that depends on voluntary contribution is doomed to failure because of the *free-rider dilemma*. Too many people will take the benefit without contributing anything to the cooperative effort.

But how does one determine what is the common good and the general welfare?

Let's look at a simple situation that tells us something about how and why humans cooperate and how we determine the common good.

Al and Bart

Two men are fishing. Both fishermen are reasonably competent and each can expect to catch three fish by fishing alone. An economist will tell us the expected Gross Group Income is six fish, but neither fisherman will think about that. Each individual is only interested in the three fish he expects to catch.

Suppose that each man knows that if the two of them cooperate (share knowledge about where the best fishing spots are, watch each other's lines, help net the fish when one is caught, and so on), they can expect to catch four fish apiece. That results in a Gross Group Income of eight fish, a net gain of two fish.

The expected group gain is not the number that will guarantee that the two men cooperate. They cooperate because of the expected individual gain—the bonus of one fish each will catch because of their cooperation. They cooperate not for the common good, but for their own selfish benefit.

But suppose fisherman Al is a very good fisherman, and fisherman Bart doesn't have the foggiest idea about how to catch fish. Fishing by himself, Al can expect to catch four fish while Bart will catch no fish. However, if Al helps Bart, then Bart will catch two fish, but Al will catch only three fish. (Al will reduce his own catch because of the time he spends teaching Bart how to hook a worm, cast a line, and play a hooked fish.)

The Gross Group Income jumps from four to five fish as a result of the cooperation. If you are one who judges success by what the group does rather than what the individual receives, and if you insist that each individual must serve the interests of the group rather than his own selfish interest, then Al must help Bart because that will increase the Gross Group Income even though it reduces the personal income of Al by one. Al must serve the common good even though that requires him to sacrifice a part of his own good.

Mr. Tanner, who lives in Moscow, Idaho, is a retired American diplomat and free-lance writer.

This is socialism reduced to the level of just two people. The advocates of socialism will tell us that Al should happily join in with the cooperative effort because all humans have a moral obligation to serve the common good rather than their own selfish wants.

If you try to build a peaceful society on that principle, you are doomed to failure. If Al is a self-interested individual, and everyone is, he could care less what the Gross Group Income is. If Al gains no reward for helping Bart but pays a price for doing so, and if given a free choice, Al will catch four fish working for himself, while Bart catches none.

Other Rewards

But a day of fishing may offer more in the way of rewards than just the number of fish caught. Al may be a vain and proud man who will enjoy the praise and thanks he will receive from Bart for his help; Al could be lonely and want the company and good fellowship he gets from helping Bart; or Bart might be a great hunter and Al will need some help in that line come fall. Al could also believe in a religion that teaches him he will receive a heavenly reward for helping Bart learn how to fish.

It's also possible that Bart looks mean, ugly, and hungry, and Al is afraid that if he doesn't help Bart, Bart will steal the four fish Al expects to catch. So Al appeases his own fears by teaching Bart to fish.

In each of these situations, Al gets a reward for his cooperation that he believes is worth more than the fish he loses by cooperating with Bart. If fisherman Al were an economist he might put the situation into a formula: Four fish minus one fish (cost of cooperation) plus pleasure (reward of cooperation) is greater than four fish. The Gross Group Income doesn't increase just by two fish but by two fish plus Al's pleasure (or more probably by two fish plus Al's pleasure plus Bart's pleasure because Bart also gets a kick out of learning how to fish and the extra good fellowship).

Neither individual will worry about whether the Gross Group Income increases or decreases, nor for that matter, whether the other person gets more out of the cooperation than they do. Each person makes his decision based strictly on his own wants and his own perception of what he gains from cooperation. The two fishermen will only cooperate if *both* men believe they are going to get more out of the cooperation than they would earn by acting alone. On the other hand, no matter how much one party could benefit from the cooperation, the cooperation will not take place if the second party doesn't get some kind of reward that makes the cooperation worth his time and effort.

While it is easy to count fish, it's impossible to put quantitative values on the rewards of friendship, hope of heaven, family love, loss of fear, and self-pride. Each personal decision to cooperate or not will be a highly subjective one with a dozen or more variables at play. Because each individual only will cooperate when he believes the total profit of his cooperation exceeds the price of cooperation, a voluntary cooperative effort will always result in an increase of the Gross Group Income—provided one includes both material and intangible benefits in figuring income.

It's impossible to determine mathematically which of the group members is getting a *fair* share of the Gross Group Income or who is putting more than a *fair* share into the group effort and taking less than a *fair* share out because it's impossible to determine how any single individual subjectively measures the non-material income he earns by participating in a cooperative effort.

Any measurement of Gross Group Income that includes only the material gains or losses will be a false measure. For example, several fishermen in a party might catch fewer total fish than each of them could have caught by fishing alone, but they will all consider the day highly successful because of the fun and fellowship they harvested. (This is a situation that gives the central economic planners nightmares. Their statistics will show declining profits and no doubt the politicians will campaign on a promise of how they will increase the profits from fishing if they are elected. Yet, each of the individual fisherman in the group will resist every effort that increases the catch at the cost of reducing the fun.)

The Common Good

The only way to judge whether or not the common good is served by a cooperative effort is to observe whether or not every single individual in the group continues to cooperate voluntarily to achieve the targeted goal. If even a single individual refuses to cooperate, then the goal cannot be proclaimed to be in the common good of everyone but only in the common good of those who want to participate voluntarily.

If fisherman Al doesn't want to cooperate with fisherman Bart, Bart may get Al to change his mind by upping the rewards that Al will get out of the cooperation. Bart can offer Al a greater share of the catch or offer to pay Al with some other commodity for his help. He might also remind Al of the rewards of heaven for good behavior. Other than that, Bart's only choices are either to forgo the cooperation or to force Al to cooperate.

Bart may be in such dire straits because of his lack of fishing skills that he decides he has no choice but to force Al to help him fish. The forced cooperation may result in a situation where the two men together catch more fish than they would have caught with each fishing alone. But Bart cannot claim that he used force in behalf of the common good. He used force in his own self-interest, and he exploited Al in doing so.

How much cooperation can Bart really expect to get out of Al by forcing Al to cooperate? At best, Al will only give the minimum amount of cooperation he can get by with. Rather than teaching Bart what he knows about catching fish, Al will catch the minimum amount of fish necessary to satisfy Bart.

The most damaging thing that happens may be the loss to both men of the pleasure rewards of voluntary cooperation. Fishing will no longer be a fun activity but a drudgery that one is forced to work at while the other must stand guard to make sure the work gets done. Al will look for a chance to escape or take his revenge on Bart, and Bart will wait in fear for that to happen. While the central planner's figures that measure only the number of fish caught may well show a greater Gross Group Income because of the forced cooperative effort, the emotional profit of cooperation which cannot be measured will disappear.

The Lesson Applied

This same basic formula controls the decision-making process if there are three people, four people, forty people, or forty million people. No matter how large the group, voluntary cooperation will always occur if every single member of the group perceives that he is getting more benefit out of the cooperation than the cost of cooperating. If every member of the group doesn't get more benefit out of cooperation than what he puts in, the only way to achieve cooperation is to force the unwilling to cooperate.

Should a few selfish people be permitted to prevent a large group from achieving a common goal by their refusal to participate? It seldom happens that way. What happens in real-life voluntary cooperation is that the group excludes the defector from the rewards while the rest of the members continue to cooperate. Each remaining member will continue his cooperation for as long as he makes the subjective judgment that cooperation serves his needs and desires better than going it alone.

The voluntary cooperative community is always a self-policing community. Each participant will be constantly re-evaluating his own position in terms of deciding whether or not he or she should continue to cooperate. The free-rider dilemma will be self-correcting. Free riders will either be shamed into making a fair contribution or will be ejected from the group so that they can no longer participate in the rewards.

If too many people start to free ride, then the producing members will stop producing and the group will dissolve. The work either will not get done, which means it was not in the common good, or new, smaller voluntary groups will form and make a new try at the endeavor.

The Free Riders

What about those who don't participate but who continue to benefit from the work of the group—say someone who refuses to contribute money and volunteer service to a volunteer fire department because he knows the fire department will have to put out a fire at his house in order to save the surrounding houses? Shouldn't such free riders be required to pay their fair share in such cases?

The answer can be found in another question. Why do the firemen put out the fire at the house of the free rider? Is it because they care about the free rider?

Of course not. Indeed, the free rider could want his house to burn down so he can collect the insurance. All the volunteer firemen care about is protecting their own homes. They put out the fire for the same reason they would put out a grass or forest fire that threatened the town. Every member of the volunteer group still achieves the common goal of the group, the protection of their own homes.

In the real-life situation, the members of the community who are cooperating may do every peaceful thing possible to encourage the free rider to do his fair share, but giving a few free rides in such situations like fire fighting, crime prevention, or defense from enemy attack is part of the price we must be willing to pay to keep the voluntary group effort going.

Majorities and Minorities

What if the majority of the people in a community agree that they must cooperate to achieve some common good, but they cannot achieve the good unless they also have the help of those who refuse to cooperate? Doesn't the majority have the right to force the minority to go along?

That's exactly the argument that the socialist and the welfare statist make. They tell us that just as we must use force to prevent the criminal from destroying the goals of the cooperating community, the community may also have to use force or threat of force in order to ensure that everyone does his fair share of the work in achieving the common good. That's what socialism and state welfarism are all about.

Their argument is based on logical fallacies that are demonstrated with the tale of two fishermen. What a majority wants and even insists it needs cannot be described as the common good if it can be achieved only by forcing a minority to put more into the endeavor than it will collect in profit. It may indeed be for the common good of the majority, but not for the whole community. No matter how noble, productive, or necessary for survival the goal of the majority might be, if the majority forces the minority to contribute involuntarily, the majority is exploiting the minority.

In an imperfect world, there will be rare times when members of a community confront a threat so dangerous to survival that they find they have no choice but to force an objecting minority to do the will of the majority. However, given the price of violence, such action should be reserved for only the most extreme cases. In most situations that confront any community, the majority is better advised to cooperate on a voluntary basis in resolving all the community's problems.

While the free-rider dilemma is self-correcting in a voluntary cooperative effort, it magnifies itself in an involuntary effort. If all must cooperate, no one will have any good reason to contribute anything more than the absolute minimum; everyone will be trying to take out as much of the profit as he possibly can.

The shrewdest members of the group will find it more productive to wield control through the political process rather than working to increase economic production. Rather than choosing to be entrepreneurs who figure out ways to increase production, they will seek to become the central planners so they can cut themselves a bigger piece of a shrinking pie.

Those working in a system in which

cooperation is forced rather than voluntary are neither more nor less inherently selfish than those working in a voluntary system. But those depending on the voluntary contribution of others quickly learn that they must satisfy the demands of others in order to satisfy their own demands. Those working within an involuntary system learn that what counts is who controls the force.

A voluntary cooperative group which fails to provide the rewards that each of its members wants either self-corrects or disbands. If the leaders fail the group, they are quickly defrocked and cast aside as a certain television evangelist and the director of a national charity recently learned.

But those trapped in an involuntary effort have no choice but to continue to participate no matter how much their leaders fail them nor how many of the other members of the group decide the smart money is on the free ride.

The collapse of the socialist powers of Eastern Europe has proved with great human tragedy how forced "cooperation" is never in the common good. But those who think the West's kinder, gentler form of forced cooperation via taxation has been declared the winner need to look at what is really happening in the welfare state democracies.

With the politicians and bureaucrats controlling growing amounts of money that have been forcibly collected in taxes, every citizen does everything possible to reduce the taxes he pays and to increase the benefits derived from the treasury. It's a lot easier in America these days to join the free riders and pile onto the entitlements bandwagon than it is to engage in productive activity and then see forty percent or more of one's income taken in taxes and given to other people. The central planners never serve the common good; they always serve the good of those who are clever enough to work the system to their own advantage. The winners are always the politicians, the bureaucrats, and those who learn to manipulate the system by spending money in the right places.

Even the most committed supporters of the democratic welfare state are beginning to recognize that something has gone wrong, that the money that was supposed to take care of the poor, the sick, the unemployed, and the helpless is instead being sopped up by politicians, government employees, the most successful farmers, the rich businessmen who are protected by subsidies and tariffs, much of the legal profession, and the well-fixed retired.

Once the decision is made to take money from some voters and give it to other voters, the worst and the brightest will manipulate the election system to ensure that they get a cut of the Gross Group Income that is greater than the amount they are forced to contribute. The interventionist society is a political war of all against all. □

THE FREEMAN
IDEAS ON LIBERTY

Why Adam Smith Burned His Clothes

by Edwin G. West

Never before, it seems, have candidates for high office in government been subjected to so much scrutiny. And this is not just the result of a new-found zeal in the joint party committees that review appointments. The press sometimes goes to unprecedented lengths in its role of watchdog/inquisitor. The recent story about women candidates for the post of Attorney General under the Clinton administration is one of many striking examples. These candidates employed illegal aliens as domestics. Such acts by seekers of public office certainly place them well outside the pale these days, however trifling they may seem to the layman. And once appointed the officeholder will find all sorts of problems in the game of keeping his job secure. Have we gone wrong somewhere? Have we succumbed passively to media-induced hysteria? And are there any unintended effects of this new level of harrying?

I am reminded of an event in the life of Adam Smith. He is, of course, known as the man who wrote the classic work *The Wealth of Nations* in 1776 that argued for market freedom and minimum government. Less well known is the fact that in 1778 he earnestly sought a high level government appointment. Smith succeeded in obtaining the position, that of Commissioner of Scottish Customs, without having to face anything like the same degree of difficulty confronting today's officeholders. But he was certainly aware that, once appointed, bureaucrats in important positions still have to be very wary in their personal behavior and to avoid so-called conflict-of-interest behavior.

Once in office Smith soon acquainted himself with the full details of custom law, and was promptly alarmed to discover that for some time he had been personally violating it. Almost as if to clear his conscience, let alone his record, he wrote to William Eden (Lord Auckland):

> About a week after I was made a Commissioner of the Customs, upon looking over the list of prohibited goods (which is hung up in every Customhouse and which is well worth your considering), and upon examining my own wearing apparel, I found, to my great astonishment, that I had scarce a stock [neck cloth], a cravat, a pair of ruffles, or a pocket handkerchief which was not prohibited to be worn or used in Great Britain. I wished to set an example and burnt them all.[1]

If political conditions had been similar, and if the press had been as active and vigilant in the Scotland of 1778 as they are in the U.S.A. in 1993, Smith might never

Dr. West is Professor Emeritus, Carleton University in Ottawa, Canada.

have been appointed! Moreover his "setting an example" by burning his clothes would not have rescued him either, for he would have advertised thereby that the crime had already been done, and this would have been enough to brand him forever, just as the confession of having once employed illegal aliens seems enough to invite eternal disqualification.

The irony is that if Smith *had* failed to obtain his government appointment because of a more hostile political and media environment, this would have provided an unintended social service. Smith's alternative employment—university teaching and taking advantage of many more writing opportunities—would undoubtedly have bestowed significant net benefit on posterity. As his colleague Dugald Stewart observed about Smith's last 12 years, all of which were spent in the customs office: "It is impossible to reflect on the time consumed, without lamenting, that it had not been employed in labours more profitable to the world, and more equal to his mind."[2]

The one most important part of his literary plans that Smith left unfulfilled was his intended presentation of an account of the general principles of law and government and their evolution through time. It was this neglect, in particular, that most disappointed the later classical economist J. R. McCulloch: "Thousands of persons could have performed the duties of Commissioner of the Customs quite as well as Smith, or perhaps better; but there was not one, besides himself, who could have given that account of the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society."[3]

But who was McCulloch to talk? He went from a university professorship to fill the mundane office of comptroller of Her Majesty's Stationery Office. And he held this post for the last 26 years of *his* life (from 1838 to 1864)!

Such, curiously, was the lure of government office to both these fervent advocates of the free market. But then neither of them argued for *zero* government. And because *somebody* had to be employed in it, Smith could have insisted, why shouldn't he be allowed to apply? All the same, the burning of his clothes seems like extremism in defense of moral rectitude; or was it just job security? □

1. Letter to William Eden, Edinburgh, 3 January 1780, in *Correspondence of Adam Smith* edited by E. C. Mossner and I. S. Ross (Oxford: Oxford University, 1977), pp. 244–246. In the letter Smith argues for complete abolition of all import prohibitions because they encouraged monopoly and no revenues arose from them except in consequence of fines and forfeitures. Smith advised substituting moderate and reasonable duties. In this way competition would be kept alive while government would enjoy increased revenues. The best account of Smith's sojourn at the Customs Office is Gary M. Anderson, William F. Shughart, and Robert D. Tollison, "Adam Smith on the Customhouse," *Journal of Political Economy*, Vol. 93, No. 4, August 1985.

2. Dugald Stewart, "Account of the Life and Writings of Adam Smith," in *Adam Smith: Essays on Philosophical Subjects*, edited by W. P. D. Wightman and J. C. Bryce (Oxford: Clarendon, 1980).

3. Mark Blaug and Paul Sturges, eds., *Who's Who In Economics: A Biographical Dictionary of Major Economists, 1770–1981* (Cambridge, Mass.: MIT Press, 1983), p. 257.

THE FREEMAN
IDEAS ON LIBERTY

A Tribute to Edmund A. Opitz

by Robert Sirico

It is customary on occasions such as this to begin by stating what an honor it is to have been asked to speak. And the challenge with which I find myself confronted is how to express to you my deep sense of privilege without it sounding in any way perfunctory.

The best way in which I can do that is, perhaps, indulgent, but being a Catholic, I tend to believe in indulgences, within the requisite boundaries—and I consider this occasion to meet that standard.

I was born not more than fifty miles due south of this compound, at the Brooklyn Jewish Hospital, into a hard-working, blue-collar Italian family. I went to school in a multicultural and ecumenical context, long before the words *multicultural* or *ecumenical* were employed in common parlance.

I will relate only one of the images etched in my mind which formed the initial soil that would harbor and nourish the seeds which would come to fruition at a somewhat later date—seeds which this institution, in general, and Edmund Opitz, in particular, had something to do with scattering and planting.

The image to which I refer is of an elderly Jewish lady who lived across from my family's railroad flat above Coney Island Avenue. Mrs. Snyder had, what seemed to a child of six, the magic ability to cause the most luscious, aromatic, and sweet smells imaginable to emanate from her old Wedgewood stove.

I recall sitting at our kitchen window as she would gather and pour all her ingredients into a large mixing bowl, creating a doughy substance, which she would then pluck from the bowl, piece by piece, and place on a cookie sheet. This she would then place into the oven which, in a short time, would result in an aroma that was so rich that you could almost see it wafting between our two windows.

A few minutes later, which seemed like an eternity, Mrs. Snyder would remove that tray, replacing it with another, and place the now finished product on her windowsill to cool.

I watched this ritual intently, and when the temperature of the cookies had dropped, but not so much that they weren't still warm, Mrs. Snyder would beckon me in her thick Central European accent: "You'll come and I'll give you some." I hopped out my window and walked—floated is perhaps a more apt word to describe the sensation—the few feet to her window.

One summer day when Mrs. Snyder, in a short-sleeved calico dress, filled my hands with a napkin overflowing with her treasures, I noticed something on her forearm.

I didn't say anything to her, but when I climbed back into my kitchen, I asked my mother why Mrs. Snyder had numbers on her arm.

Mr. Robert Sirico, President of the Acton Institute, made these remarks on the occasion of the retirement dinner of Mr. Edmund Opitz at the Foundation for Economic Education in Irvington, New York, on December 13, 1992.

My mother explained, as best she could to one so young, that because of their religion Mr. and Mrs. Snyder had been treated like animals and branded.

That remembrance of the attempt to use force over the human conscience stays with me to this day. But, at the time, and for many years after it, I found myself confused when I tried to make sense of the interrelationship of liberty and religion.

It was when I was in my mid-twenties, still not having made a coherent connection between these ideas, that a friend visited. (It was my birthday.) We had had numerous conversations, indeed arguments, about philosophy, economics, politics, and religion.

I was, at the time, I confess, ensnared in the fog of socialist rhetoric, there being little else intellectually about socialism to ensnare one. The birthday present my friend arrived with that day was a small library of books and magazines. Among them were titles with which this gathering will be familiar: *Socialism*, by Ludwig von Mises, *Capitalism and the Historians* and *The Road to Serfdom*, by F. A. Hayek, *The Law*, by Frederic Bastiat, *The Freeman*, and, of course, *Religion and Capitalism: Allies, Not Enemies*, by Edmund Opitz.

In a short period of time the fog cleared, proving once again the truth of the old saying: "You may be a socialist when you're young because you have a heart, but you won't be a socialist when you're older if you have any brains."

Thus, I began to read *The Freeman* and have been assisted in ways too countless to enumerate by the wise, prudent, temperate, and erudite contributions of Ed Opitz.

Not only his scholarship, but his very example as a Christian gentleman assured me of the possibility of integrating virtue and liberty in one's life and society.

It came to pass that I recovered my earlier faith, and thanks in significant part to the existence of The Foundation for Economic Education and the cogitations of Ed over the years, I was duly inoculated against the specious claims of the left by the time I entered seminary to study for the priesthood.

But you, of all people, have heard this kind of story many times over. And this is because The Foundation for Economic Education, and Ed Opitz, have simply become a part of the landscape of liberty in this century.

In the days when central planning was the unquestioned course of public policy, and when religious leaders taught variations on the theme that socialism was the practice of which Christianity was the religion—there was Ed Opitz, in a plethora of articles, boldly, yet calmly, adamantly, yet with respect, indicating with the most gentle and genteel of manners, that, in point of fact, the Emperor had no clothes. Before there was such a thing as liberation theology, Mr. Opitz provided the antidote to that theological and economic heresy.

Not more than four years ago, Europe was in the literal death grip of history's most brutal institutionalization of collectivism. With great prescience Ludwig von Mises, of esteemed memory, and no stranger to these very corridors, demonstrated in the 1920s that socialism would fail because it interfered with the coordination of information as expressed in the free market's pricing system. In the late 1980s, that economic insight was combined with the spiritual nudge which caused the colossal wreck of Communism to cave in on itself.

This was the very integration made flesh—whether the Pentecostals in Russia, the Soviet Jews, the Evangelicals in Hungary, or the Catholics in Poland—this was the incarnation of the theory of the alliance of religion and freedom which formed the *leitmotif* of Ed Opitz's work over the years.

If this venerable institution on the Hudson is the mother of all free-market think tanks, then Ed Opitz is one of the patriarchs of liberty-promoting clergy.

I am, in a sense, an heir to his legacy, and it is with an overwhelming sense of gratitude to Almighty God that I am aware of being merely one of Ed's intellectual descendants, though luckier than the others, because it is I who have the honor of giving voice to what I feel sure each of them would say.

Ed, in my person, your children rise up to call you blessed. In their name, I thank you. □

A REVIEWER'S NOTEBOOK

THE FREEMAN CLASSICS SERIES

by John Chamberlain

FEE, under the new dispensation of Hans Sennholz, has decided to refine the gold it has scattered about in its publications, particularly *The Freeman* magazine. By the beginning of 1993 it had published three collections: one, called *The Morality of Capitalism*; another, *Private Property and Political Control*; and the third, *Prices and Price Controls*. In addition, it has published a collection of many of the *Freeman* essays written by Henry Hazlitt, who died in July at age 98.

The authors of the books are well aware that capitalism is not perfect. They are also aware of the fact that capitalism is, to quote editor Mark Hendrickson, "morally as well as economically superior to every known alternative, such as socialism or the welfare state." Hans Sennholz does an informative introduction to *The Morality of Capitalism*. He notes that the critics of private property never tire of berating the profit motive. The critics "rail at successful merchants and shopkeepers, at wealthy bankers, stockbrokers, and capitalists." The critics "rave at advertising, marketing, and other business practices designed to inform and influence people in making economic decisions." But capitalism has its defenders: Orval Watts, Leonard Read, Ludwig von Mises, F. A. Hayek, Garet Garrett, Israel Kirzner. Their essays on the moral issues of our times have been taken from Paul Poirot's special editing of *The Freeman* over a thirty-year period.

Poirot sets the tone of the books with an essay entitled "He Gains Most Who Serves Best." A businessman's profits measure his efficiency in the use of scarce and valuable resources to satisfy the most urgent wants of consumers. Ludwig von Mises notes that the consumer calls the turn. But under freedom there must be access to physical property. If the government owns all the printing presses, the possibility of printing opposing arguments becomes practically non-existent.

In his essay, "Think Twice Before You Disparage Capitalism," Perry Gresham says, "Capitalism is the one system of political economy which works, has worked, and will continue to work." The alternative system is socialism which tends toward tyranny and serfdom. Gresham has three pages of lyrical acclamation of capitalism. "It is no relic of Colonial America. It has the genius to change with the times and to meet the challenges of big industries, big unions, and big government if it can free itself from interest-group intervention, which eventuates in needless government spending." Capitalism, an economic system which believes with Locke and Jefferson in life, liberty, and property, and the inalienable rights of man, denies the "banal dichotomy between property values and human values. Property values *are* human values" (italics are Gresham's).

A reason for beginning with the selections in *The Morality of Capitalism* becomes apparent if you turn the whole business around. Immoral capitalism is theft. It is an easy way to get capital, but it can't last. The Golden Rule and The Ten Commandments must be obeyed, lest people kill each other off.

Capitalism, so Gresham says, is belief in man. It recognizes the potential tyranny of any government. To quote, "The government is made for man, not man for the government. Therefore, government should be limited in size and function, lest free individuals lose their identity and become wards of the State. Frederic Bastiat has called the state a 'great fiction wherein everybody tries to live at the expense of everybody else.'"

Capitalism denies faith in the state to control wages and prices (see the third book in the FEE series, *Prices and Price Controls*). A fair price "is the amount agreed upon by the buyer and seller. Competition in a free market is far more trustworthy than any government administrator."

Capitalism gives a poor person the chance to become rich. It does not lock people into the condition of poverty. Capitalism offers full employment to those who wish to work. A worker is free to accept a job at any wage he can get. He can join with his fellow-workers in voluntary association to improve his salary and working conditions. He can start his own business. "Capitalism," says Gresham, "is a belief that nobody is wise enough and knows enough to control the lives of other people. . . . Capitalism respects the market as the only effective and fair means of allocating scarce goods. A free market responds to shortages and spurs production by rising prices . . . . Capitalism is a natural ally of religion. The Judeo-Christian doctrines of stewardship are reflected in a free market economy. . . . Capitalism depends on the family for much of its social and moral strength. When the family disintegrates, the capitalist order falls into confusion . . . . Dividends paid to those who invest capital in an enterprise are as worthy as interest paid to a depositor in a savings bank. The idea abroad that risk capital is unproductive is patently false."

"The consumer," says Gresham, "is sovereign under capitalism. No bureaucrat, marketing expert, advertiser, politician, or self-appointed protector can tell him what to buy, sell, or make."

Property is necessary to capitalism. Individual rights are extensions of property rights. All rights depend upon property, according to the second book, *Private Property and Political Control*, which clarifies the inadequacies of the socialist concept of rights. □

Bankruptcy 1995: The Coming Collapse of America and How to Stop It

by Harry E. Figgie, Jr., with Gerald J. Swanson

Little, Brown & Co. • 221 pages • $19.95

Reviewed by William H. Peterson

Something for nothing. A free lunch. Government as Santa Claus. How alluring! Hence nowadays a widespread defiance of the law of opportunity cost—the idea that every choice, public or private, involves a denial of the highest valued alternative benefit. In the public sector the denial may be political but isn't such defiance at the heart of modern government's penchant for central planning and deficit finance and its appalling record of mismanagement and wasted resources—of what Ludwig von Mises called "planned chaos"?

Author Harry E. Figgie, Jr., the head of the Cleveland-based $1.3 billion conglomerate Figgie International Inc., seems to agree with the thesis that government interventionism and central planning spell trouble, that it is at best a zero-sum game and more likely a negative-sum game, that government has nothing to give save what it first takes away, that lunch is anything and anywhere but free. His book arrives as a new administration takes hold in Washington.

Bankruptcy 1995, with dozens of tables and graphs, with a foreword by former Senator Warren B. Rudman of New Hampshire and written with the assistance of University of Arizona economist Gerald Swanson, constitutes a call to arms, a denunciation of America's growing $4 trillion national debt, a forecast that interest on the national debt, now exceeding $200 billion annually, is likely to soon become the biggest item in the federal budget, topping the outlays for the Pentagon or Social Security. Declares Senator Rudman, stunned at the planned chaos: "We are at war economically. Our nation's wealth is being drained drop by drop, because our government continues to mount record deficits and, in order to finance its obligations, puts us at the mercy of foreign lenders. The security of our country depends on the fiscal integrity of our government, and we're throwing it away. We're doing nothing to protect it; instead, it's politics as usual."

For his part Mr. Figgie decries the politics of interventionism, of free lunchism, and tells how America got into this mess. The telling adds up to a valuable lesson on why government is the problem and not the solution, on why government planning is an oxymoron. He notes how, for example, the Balanced Budget and Emergency Deficit Control Act of 1985, otherwise known as the Gramm-Rudman-Hollings Act, a carefully planned program of reining in budgetary excesses year by year, amounted to no more than a "waltz," to "public posturing." The revealing timetable of federal deficit reduction and actual deficits follows:

Year	*Target Deficits*	*Actual Deficits*
1987	$144 billion	$150 billion
1988	108 billion	155 billion
1989	72 billion	154 billion
1990	36 billion	221 billion
1991	0	269 billion

Mr. Figgie further decries what he calls "debtspeak" or "budget chicanery," a kind of Washingtonese or Orwellian language in which "yes" means "no" and a budget "reduction" turns out to be a budget increase. In late 1990, for example, Congress reported that its famous Capitol Hill-White House compromise budget, the one in which President Bush broke his "no-new-taxes-read-my-lips" pledge, would produce savings of 2.4 percent in 1991 and 4.8 percent in 1992. Savings? No way. Actual outlays climbed by 11.1 percent in 1991 and 16.2 percent in 1992. No wonder public opinion rates Congress in lower esteem than any other major group in society.

Still, how do we extricate ourselves from this trap? Counsels the author: Don't raise taxes—that would only blunt economic growth and encourage the spenders. And don't monetize debt—that would only mean more money chasing fewer goods, accelerating the inflationary cycle of boom and bust.

Instead, says Mr. Figgie, do cut spending, especially entitlements, and privatize, privatize, privatize. In sum, do declare war on fiscal irresponsibility and create a new private-public task force to wage it along the lines of the earlier Grace and Hoover Commissions.

The Figgie counsel makes sense but look at it from the viewpoint of politics: Would it reverse decades of successful shenanigans at budget manipulation that have driven down the U.S. dollar in real terms from 100 cents in 1941 to 10 cents in 1991? And doesn't it take two to tango—the politician *and* the citizen—the voter mesmerized by "free" government goodies, anxious to get his cut of the loot?

So the biggest value of the valuable Figgie book, it seems to me, may be its long-term role in helping to educate the citizen and his representatives in Washington and in other halls of government that political corruption is a function of interventionism, that privatization is the way to go, that nothing is for nothing, that political planning is for the birds, that the only way to get more and better lunches is to earn them. □

Dr. Peterson is an adjunct scholar at the Heritage Foundation and a Contributing Editor of The Freeman.