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THE FREEMAN

IDEAS ON LIBERTY

FEATURES

COLUMNS

DEPARTMENTS

THE FREEMAN
IDEAS ON LIBERTY

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PERSPECTIVE

Destructive Achievement

Twenty-five years ago I met a nineteen-year-old man who liked to brag that he had "torn up" seven cars. Apparently that was the only noteworthy thing that he had ever done. Today he would be forty-four years old, assuming he is still alive. Recently I wondered what had happened to him and what he is now doing.

Is he still tearing down the achievements of others? If so, how does he justify it? How does he "get away" with it?

Might he be a member of the political establishment that limits the amount of land that farmers may cultivate? Might he be blocking the work of loggers, or of coal miners, or any of uncounted other productive individuals?

At least the young man was honest about what he did. He said that he "tore up cars." His specialty was overwhelming transmissions but anything that would disable a car satisfied him. He knew that what he did was destructive, was counterproductive, and he made no bones about it.

Unfortunately, the advocates of various causes and the elected officials and bureaucrats who assist the advocates claim to be guided by nobler motives. But their counterproductive actions are often far more harmful to the economy, and particularly to others, than was the warped young man who tore up cars as a way of satisfying his need to achieve.

Unless the car wrecker caused an accident that involved someone else—and, fortunately, he had not at the time I met him—the damage which he caused affected primarily his own property and economic well-being.

Those who seek to limit the productive actions of others may appear to be less deserving of our condemnation but, in reality, they actually do far more total damage than did the car wrecker.

This is not to excuse the young man. It is simply to point out that seemingly respectable people who claim that they are acting with good motives, even sacrificing for the benefit of others, are often either hypocritical or else are fooling themselves when they act in ways that destroy far more than did the young man who "tore up cars."

—Roger Clites

Professor Clites teaches at Tusculum College in Tennessee.

The Role of the West

Americans do not share a common ancestry and a common blood. They and their forebears come from every corner of the earth. What they have in common and what brings them together is a system of laws and beliefs that shaped the establishment of the country, a system developed within the context of Western Civilization. It should be obvious, then, that all Americans need to learn about that civilization if we are to understand our country's origins, and share in its heritage, purposes, and character. . . .

The assault on the character of Western Civilization badly distorts history. Its flaws are real enough, but they are common to almost all the civilizations known on any continent at any time in human history. What is remarkable about the Western heritage and what makes it essential is the important ways in which it has departed from the common experience. More than any other it has asserted the claims of the individual against those of the state, limiting its power and creating a realm of privacy into which it cannot penetrate. . . .

It has produced the theory and practice of the separation of church from state, thereby protecting each from the other and creating a free and safe place for the individual conscience. At its core is a tolerance and respect for diversity unknown in most cultures. One of its most telling characteristics is its encouragement of criticism of itself and its ways. Only in the West can one imagine a movement to neglect the culture's own heritage in favor of some others.

—Donald Kagan

(Excerpts from an address to Yale University freshman class, September 1, 1990)

The Blessings of Earthquakes?

A January *New York Times* article cited experts who claimed that the Kobe earthquake could give a boost to a Japanese economy struggling to recover from a long recession. Henry Hazlitt has passed on, but I imagine he would have said, "There you go again using the 'broken-window fallacy.'"

"The broken-window fallacy, under a hundred disguises, is the most persistent in the history of economics," Hazlitt observed in *Economics in One Lesson*. The fallacy is "solemnly reaffirmed" daily by editorial writers and "professors of economics in our best universities" who see "almost endless benefits in enormous acts of destruction" with its consequent stimulation of production.

Of course, what makes the fallacy so initially tempting is that the "experts" are at least right in the first conclusion that there will be more business for the construction industry. But this new activity arises at the opportunity cost of lost business elsewhere, which will not occur because money is redirected toward reconstruction. As Hazlitt put it, the experts "see only what is immediately visible to the eye" while neglecting the invisible costs to the rest of the economy.

Hazlitt was right. Resist the temptation of the broken-window fallacy! If the fallacy is accepted, we should then be prepared to accept bombing campaigns as part of the next fiscal stimulus package!

—Thomas L. Martin

Dr. Martin is an Associate Professor of Economics at the University of Central Florida in Orlando.

This item is an adaptation of his letter to the editor, the New York Times, *published January 25, 1995.*

For more on Henry Hazlitt's enduring influence, see page 276.

THE FREEMAN
IDEAS ON LIBERTY

Henry Hazlitt: Journalist of the Century

by Llewellyn H. Rockwell, Jr.

Henry Stuart Hazlitt wrote brilliantly and presciently for more than eight decades on culture, government, economics, and political affairs. He warned against deconstructionism, against Freudianism, and against the attack on reason. He censured the income tax, central banking, the New Deal, Keynesianism, socialism, *war* socialism, price controls, unionism, the welfare state, and deficits.

Like one of the great Romans he admired, he had more than knowledge and talent. He had a vigorous will, strong moral conviction, and supreme courage. He was never discouraged, and never slackened in the fight.

His lifetime bibliography—recently compiled by Jeff Tucker*—includes a novel, a trialogue on literary criticism, two large treatises on economics and moral philosophy, several edited volumes, some sixteen other books, and countless chapters, articles, commentaries, reviews—more than 6,000 entries in all—and even so, this figure cannot include everything, because so many of his earliest works were unsigned and uncollected. Hazlitt himself once estimated that he had written 10 million words, and that his collected works would run to 150 volumes.

Yet he lost every prominent job he ever held—literary editor at *The Nation*, top editorialist at the *New York Times*, weekly columnist at *Newsweek*—because he refused to bend or compromise.

Family circumstances prevented him from getting a complete formal education, so he read all the classics of ancient and modern literature on his own initiative, while working in jobs that offered very low pay.

Harry Hazlitt was born on this day, one hundred years ago, in Philadelphia. His father died when Henry was a baby, and when he was six, his mother enrolled him in Girard College, a home for "fatherless white boys" set up by a local philanthropist. His mother remarried and they moved to Brooklyn when Henry was nine, where he attended public schools. His earliest ambition was to become a psychologist "like William James," but his family's financial situation forced him to give up that idea. After a year and a half at City College, he had to look for a way to earn money.

Late in life, he told the story of his job search to an interviewer, not passing up the opportunity to explain something about labor economics:

Mr. Rockwell is president of the Ludwig von Mises Institute in Auburn, Alabama. This speech was delivered at a Mises Institute Conference commemorating Henry Hazlitt, held on November 28, 1994, in New York City.

**Henry Hazlitt: A Giant of Liberty* (Auburn, Ala.: Ludwig von Mises Institute, 1994), 158 pages.

> I had no skills whatever. So I would get a job, and I would last two or three days and be fired. It never surprised me or upset me, because I read the *Times* early in the morning, went through the ads, and I'd practically have a job that day. This shows what happens when you have a free market. There was no such thing as a minimum wage. . . . There was no such thing as relief, except maybe . . . a soup handout. . . . [T]here was no systematic welfare. You had a free market. And so I usually found myself at a job the next day, and I'd get fired about three or four days after that. . . . I didn't have the skills. But each time I kept learning something, and finally I was getting about $3 or $4 a week.

This was at the same time that he was systematically reading the ancient and modern classics. "At some point I decided that I wanted to be a newspaperman," he explained, "because it was the only way I could see to get into writing." At the age of 20, when he finally got a job at the *Wall Street Journal* as a stenographer, he had already finished his first book, *Thinking as a Science*, which was published in 1915.

His first book, like everything he ever wrote, made a strong argument and made it well. "I don't think it's worthwhile," he told an interviewer late in life, "if you haven't made up your mind, to write a piece saying, 'Well, on one hand, but on the other hand.' "

The "Essential Qualities"

Whatever Hazlitt wrote, it was always in clear and virile English. He adhered to the rule he set out for himself: "aim first at the essential qualities—coherence, clarity, precision, simplicity, and brevity. Euphony and rhythm are of course also desirable, but they are like the final rubbing on a fine piece of furniture—finishing touches justified only if the piece has been soundly made."

In 1916, he left the *Wall Street Journal* to write editorials for the *New York Evening Post*, then wrote the monthly newsletter of the Mechanics and Metals National Bank, and later worked for the *New York Evening Mail*. While at the *Mail* in 1922, his second book appeared. *The Way to Will Power* was a defense of individual initiative against the deterministic claims of Freudian psychoanalysis.

Hazlitt's reputation as a writer and thinker had grown, thanks also to his reviews and essays on authors as diverse as Garet Garrett, Spinoza, Santayana, Mencken, and Bertrand Russell. A 1927 essay entitled "Bertrand Russell's Universe" attracted the attention of the British author, who, at the time, was widely considered (probably incorrectly) to be the most brilliant man alive.

Russell so admired the young journalist's talent that he and his publisher asked Hazlitt to write the philosopher's official biography. Hazlitt spent much of 1928 and 1929 interviewing Russell in New York. One day, however, Russell announced: "You know, I *have* had a very interesting life. I think I'd like to do my own autobiography."

At *The Nation*

In the meantime, the editors of *The Nation* had noticed Hazlitt's work and hired him as literary editor. "*The Nation* was pretty much a leftist magazine then, as it has always remained," he explained to an interviewer. "One of the reasons they took me on was that they wanted me not only to write and handle the book reviews but to be able to write editorials on economic subjects." And his work there was extraordinary. He wrote on contemporary literature as a springboard to his own rich observations on philosophy, culture, history, economics, and politics.

He condemned modern education for forgetting the classics and laughed at Marxian attempts to read polylogism into the great works of the ancients. No matter how shoddy the rest of the magazine, Hazlitt's prose shone through: always provocative, always tightly written, and always worth reading. While there, he penned an early refutation of literary deconstructionism, *The Anatomy of Criticism*. It is still a fascinating work on standards in literature.

But he never lost his interest in economics. And from time to time, the editors allowed him space in the economic and political section of the magazine. One of his first articles in the area appeared in 1931. It was called "Rubber Money and Iron Debts," a phrase which pretty much sums up the era. He carried with him a passion for sound money the rest of his life.

If you want to read a magnificent attack on the New Deal abandonment of the gold standard, look at "Shall We Devaluate the Dollar? Parts 1 and 2," which appeared in March 1932 in *The Nation*. Or take a look at his classic attack on socialist George Soule, which appeared two months later. Even better, take a look at his defense of hoarding at the height of anti-hoarding hysteria in March 1933.

Hazlitt was not trained as an economist, although few scholars were as familiar with the relevant literature. He was inspired initially by the writings of Philip Wicksteed, a disciple of early Marginalist William Stanley Jevons, and later by the works of Herbert Spencer.

Over the course of his life, Hazlitt became more and more opposed to government intervention in the economy, and time and again he refused to give in to pressure from publishers and editors to change his views.

The first time he was squeezed out of a prestigious job was in mid-1933, when he squared off with Louis Fischer on the cause of the Depression. Fischer took the position that events confirmed the Marxian theory of economic crisis under capitalism. Hazlitt, though unfamiliar with the totality of the Austrian theory of the business cycle, argued that the Depression was caused by loose credit and subsequent interventions in the labor market.

It was a rigorous and free-wheeling debate. But the other editors must have realized how important it was to the future of government policy and the fate of progressivism itself. So at the end of Hazlitt's last piece, they wrote the following: "The discussion in the foregoing articles of the causes of the present economic debacle and possible ways out will be commented upon editorially in a forthcoming issue." Needless to say, *The Nation's* editors sided with the socialists. Hazlitt, suddenly condemned as a reactionary, was out. His adherence to principle had led to his ouster.

In the early thirties, the literary set also turned against H.L. Mencken, founding editor of the *American Mercury*, because of his opposition to the New Deal. When Mencken decided to turn the journal over to a new editor, he named Hazlitt, calling him the "only competent critic of the arts that I have heard of who was at the same time a competent economist, of practical as well as theoretical training." And, Mencken added, "he is one of the few economists in human history who could really write." True to his indefatigable spirit, Hazlitt's first article, "The Fallacies of the N.R.A.," was an implicit attack on the entire American Left, including *The Nation*.

The *Times* Years

Hazlitt was only the editor for a short while, before he decided to go back into newspaper work. In those days, even the *New York Times* was not as left wing as it is today, and the paper hired Hazlitt to write editorials and review essays, which he did from 1934 to 1946.

Appearing almost daily, his editorials covered an extraordinarily wide range: the dangers of economic controls, the evils of abandoning the gold standard, the stupidity of Blue Eagle planning, the idiocy of protectionism, the evils of wartime price controls, the fraud of Social Security (he was its original prophet of doom), the glories of G.K. Chesterton, the fallacies of Keynesian economics, the futility of foreign aid, the importance of a free market in securities, the hazards of an inflationary monetary policy, the ill-effects of unionization, and much more.

During this time, he met the emigré economist Ludwig von Mises, whose work Hazlitt had admired. Hazlitt and Mises became fast friends, and Mises thrilled to Hazlitt's editorial blasts against government planning, and often consulted Hazlitt on editorial matters and contemporary politics. It is said that Hazlitt even prepared, at Mises' request, a version of *Human Action* as a journalist would have written it. Mises thanked him, but rejected most of the changes.

While at the *Times*, Hazlitt did whatever he could to hold back the tide of statism. He maintained for 12 years a rapid-fire daily assault against the central state. Whether warning against devaluation or economic embargoes against Japan, which helped lead to Pearl Harbor, he emerges as a true prophet.

Scholars who look back at this period through the eyes of the *New York Times* editorial page might expect to find 100 percent support for Franklin D. Roosevelt. But they are shocked. For Hazlitt—against almost all elite opinion—was at work against FDR. When the American Left discovered this, they arranged for his departure.

But while there, he did a fantastic amount of good. We know FDR received daily reports on *New York Times* opinion. So did his so-called "brain trust." How much did Hazlitt hold them back? How much worse would the New Deal have been? The same could be asked after the war. Whatever steps were taken away from price controls and unionization could be due in part to his influence.

In 1938, before he had met Mises, Hazlitt wrote a review of Mises' *Socialism*, calling it the most devastating analysis of the system ever written. He became so enthralled with the economic calculation debate that later in the same year he negatively reviewed various responses to Mises, including Polish socialist Oskar Lange's. It could be said that it was Hazlitt who fully introduced Mises to American audiences. Later he followed up with reviews of *Human Action*, *Bureaucracy*, and many others. And six years after he first reviewed *Socialism*, he reviewed Hayek's *Road to Serfdom*, and gently criticized Hayek's concessions to the social democracy that Hazlitt had spent his life fighting.

His studies on the calculation debate became a novel nearly 15 years later, titled *The Great Idea*, and later, *Time Will Run Back*. And talk about prescience! It concerned how to transform a socialist system into a free market—at a time when most people thought socialism was the unstoppable wave of the future.

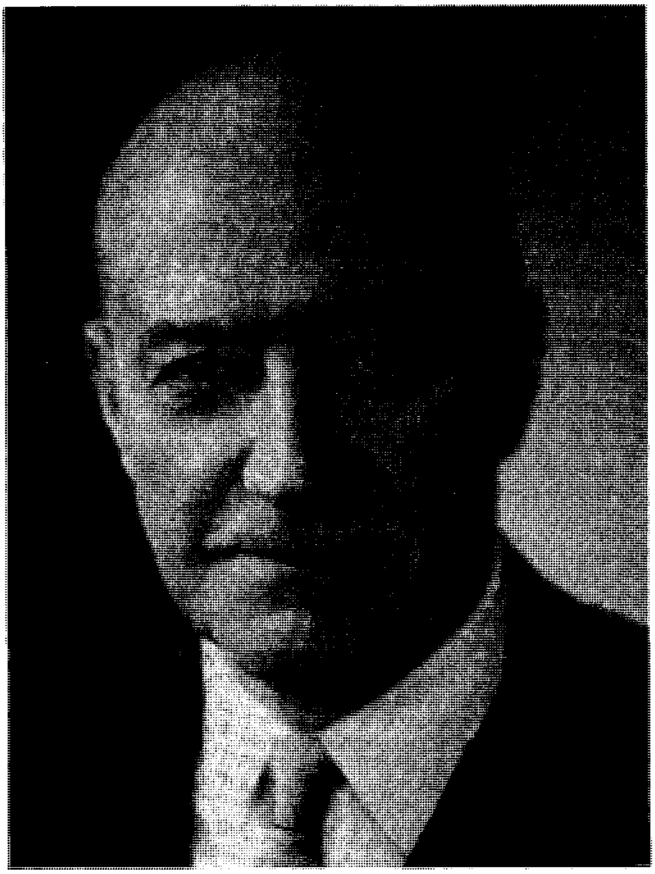
Hazlitt enjoyed his years at the *Times*, yet as with his previous positions, he eventually came under pressure from the publisher to compromise himself. Hazlitt had taken on Keynes' plans to reconstruct the monetary system after the war, and predicted worldwide inflation in the decades ahead. The *Times*, however, was moving to the Left, and so wanted to endorse the Bretton Woods agreement, including the World Bank and International Monetary Fund.

"Now, Henry," *Times* publisher Arthur Sulzberger said to him, "when 43 governments sign an agreement, I don't see how *The Times* can any longer combat this."

"All right," Hazlitt said, "but in that case I can't write anything further about Bretton Woods. It is an inflationist scheme that will end badly and I can't support it." Hazlitt was not fired immediately, although at one point, management threatened to put a disclaimer under his editorials. Soon after, he was squeezed out, but landed a job with *Newsweek*, and became one of the most influential financial writers in the country. His weekly "BusinessTides" column was enduringly popular. Surveys of the readership invariably showed that many subscribers took the magazine solely to read this column. I was among them.

While at *Newsweek*, his *Economics in One Lesson* appeared. As one of the most influential books on economics ever written, it has sold nearly one million copies and is available in at least ten languages. Hazlitt argued that government intervention focuses on the consequences that are seen, and ignores those that are not. These include wealth not created and even destroyed by regulation, inflation, and taxation. In 1947, he wrote *Will Dollars Save the World?*, a book attacking the Marshall Plan, which he saw as an international welfare scheme. The subsequent history of U.S. foreign aid shows just how right he was.

In 1950, Hazlitt took on additional responsibilities to become editor, along with John Chamberlain, of the fortnightly magazine



Henry Hazlitt (1894–1993)

The Freeman. He continued writing for *The Freeman* after its acquisition by the Foundation for Economic Education in the mid-fifties. Some of his best articles published there were later collected into FEE's *The Wisdom of Henry Hazlitt.*

In 1959, Hazlitt came out with *The Failure of the "New Economics,"* an extraordinary line-by-line refutation of John Maynard Keynes' *General Theory.* And though it was panned by the American academic journals at the time, it enlivened a growing movement favoring free markets over state planning. It continues to be an essential resource. A year later, Hazlitt collected a series of scholarly attacks on Keynes as *The Critics of Keynesian Economics,* also still very useful.

In the mid-sixties, Hazlitt turned his attention to the ethical basis of capitalism. Thus his book *The Foundations of Morality,* which he called his proudest achievement.

Now recall that during this time, he was still writing a weekly column for *Newsweek,* and speaking all over the country, meaning he was already busier than most academics. But after 20 years, another parting occurred in 1966. As Kenneth Auchincloss, managing editor, wrote years later, "At the time he was writing, there were readers—and perhaps even some *Newsweek* editors—who must have considered him old-fashioned, out of touch with the times. But Henry would never have considered trimming his opinions to the patterns of the day."

After he left *Newsweek,* he wrote a popular weekly column for the *Los Angeles Times,* which was syndicated around the country. Then he embarked on some new books.

He wrote *Man vs. the Welfare State,* which demonstrated that welfare promotes what it pretends to discourage. This was 20 years before Charles Murray's *Losing*

Ground. Then he wrote *The Conquest of Poverty* showing us how to get out of the welfare mess. In it he refuted such schemes as Milton Friedman's negative income tax, and urged immediate abolition of welfare.

His last complete book was published in 1984, when Hazlitt was 90 years old. It was a collection—the only one then in print—of the best writings of the Stoic philosophers Seneca, Epictetus, and Marcus Aurelius.

An unfinished manuscript of what would have been his last book sits in his collection at Syracuse University. It is a skeptical look at animal rights. His last published scholarly article appeared in the first issue of the *Review of Austrian Economics*, the journal co-published by the Ludwig von Mises Institute.

The Future of Liberty

Thirty years ago tonight, a group of friends gathered in this city on the occasion of Hazlitt's 70th birthday. It was only weeks after Lyndon Baines Johnson had been elected, and these freedom lovers were saddened at the state of the world, but at the same time ready to fight. Ludwig von Mises paid tribute to his "distinguished friend." "In this age at the great struggle in favor of freedom and the social system in which men can live as free men, you are our leader. You have indefatigably fought against the step by step advance of the powers anxious to destroy everything that human civilization has created over a long period of centuries. . . . You are the economic conscience of our country and of our nation." "Every friend of freedom may today, in this post-election month, be rather pessimistic about the future. But let us not forget that there is rising a new generation of defenders of freedom." "If we succeed," Mises said to Hazlitt, "it will be to a great extent your merit, the fruit of the work that you have done in the first 70 years of your life."

Hazlitt then reflected on his life, and in so doing painted a dark picture of the state of human liberty. Yet "none of us is yet on the torture rack; we are not yet in jail; we're getting various harassments and annoyances, but what we mainly risk is merely our popularity, the danger that we will be called nasty names."

"We have a duty to speak even more clearly and courageously, to work hard, and to keep fighting this battle while the strength is still in us. . . . Even those of us who have reached and passed our 70th birthdays cannot afford to rest on our oars and spend the rest of our lives dozing in the Florida sun. The times call for courage. The times call for hard work. But if the demands are high, it is because the stakes are even higher. They are nothing less than the future of human liberty, which means the future of civilization."

The great voice of Henry Hazlitt, "the economic conscience of our country and our nation," is now stilled. But this journalist of the century will not be forgotten. In a time dominated by prevaricators and planners, in a nation still threatened by statism, Hazlitt's written legacy, will continue to inspire writers and scholars.

We need more economists like Henry Hazlitt, who are willing to write in defense of free enterprise, and do so in plain English and to adhere to principle, whether analyzing history, theory, or present policy, regardless of the personal cost.

If we win, as Mises said, we can in part thank Henry Hazlitt. Yet Hazlitt has never gotten his due. And we know why: because he was right—right about the New Deal, right about Keynes, right about the attack on reason, right about the welfare state, right about inflation, and right about the morality of capitalism. Our age cannot tolerate that. The intellectual establishment has too much invested in the present failure to admit who the real prophets of this century are.

Henry Hazlitt, although he made a profound difference in our age, seemed sometimes to be from another time. He had the breadth and *gravitas* of a Cicero, the moral force of a Tacitus, and like his beloved Stoics, lived a life of honor and principle. The ancient republic of Rome would have cherished him. So should we. And if we restore the American republic, his bust should someday stand in our Senate, among those of our greatest men. □

THE FREEMAN
IDEAS ON LIBERTY

H. G. Wells in Russia

by Martin Gardner

Today's college students, preoccupied with everything except a liberal education, have only the dimmest awareness of how many famous writers, artists, and thinkers around the world were once under the magic spell of Communism. They have no conception of how many bright, attractive young people in American universities during the 1930s called each other "comrade," exulting in the delusion that they were part of a vast, inevitable Revolution destined to overthrow an evil capitalism.

The Soviet Empire has now crumbled, Communist parties are dissolving, the old tricolor Russian flag has replaced the hammer and sickle, statues of Lenin have been toppled, and Marxist ideology is dead except in the atrophied brains of a few elderly die-hards around the globe. As history takes this unexpected turn, it is good to remember that from the beginning—not just among conservatives but among democratic socialists—there were many who saw clearly that Marxism was a weird mystique set forth by an egotistical crank.

In 1920, three years after the Bolsheviks seized power, two of England's most influential writers, Bertrand Russell and H. G. Wells, made trips to Moscow to converse with Lenin. Each recorded his negative impressions in a book. Russell's *Practice and Theory of Bolshevism* is the more perceptive of the two books, but it is still in print and widely known. Here I shall focus on the book by Wells, *Russia in the Shadows*, because it has been almost totally forgotten. It deserves to be read today for three reasons: its vivid account of Russian chaos following the first world war, its portrait of Lenin, and its insights into Wells' early opinions of Marx and the future of Russia.

Wells made three visits to Russia. The first, accompanied by Maurice Baring, was in 1914, just before the outbreak of war, to see his old friend Maxim Gorky. Gorky's secretary and mistress was then the Countess Benckendorff, formerly Moura Zakrevskaya. She had been planted on Gorky as a government spy. But Moura had told Gorky this. Admiring her straightforwardness, Gorky did not seem to mind.

In 1920, when Wells returned to Russia, Gorky (a personal friend of Lenin) arranged for Moura to be Wells' guide and interpreter. Although there is no hint of it in Wells' book, he fell passionately in love with her. The full story of this beautiful and witty woman has yet to be told, although Anthony West, Wells' illegitimate son by Rebecca West, devotes many pages to her in his biography of Wells. "My father could not reason himself out of his intoxication with her, and however little future his passion might seem to have, he went home with it burning in him."

Wells' account of his 1920 trip first ran as a series of articles in London's *Sunday Express*, instantly boosting that paper's cir-

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Martin Gardner is a science writer, author of some fifty books about science, math, philosophy, and literature. His best known book is The Annotated Alice. *He was the editor of the math department of* Scientific American *for 25 years.*

culation by 80,000. Hodden and Stoughton brought the series out as a book in 1920, the same year that Russell's book appeared.

Wells went first to St. Petersburg (later renamed Petrograd, then Leningrad, now back to St. Petersburg) to renew his friendship with Gorky. Since 1914 Moura had been imprisoned several times by the Bolsheviks, and was now forbidden to leave Petersburg to return to her children in nearby Estonia.

Petersburg, Russia's second largest city, was in a state of almost total ruin. The old Czarist order had collapsed because of what Wells called its "inherent rottenness." The Bolsheviks had snatched power from the democratic but indecisive Mensheviks. There had been much killing to establish order and there was a crude rationing system for food and goods. Everywhere was evidence of a "vast irreparable breakdown." Shops were closed, clothes were shabby, roads were terrible, houses had been torn down for firewood. A black market flourished, though occasionally a profiteer was caught and shot. Men were unshaven only because they had no razor blades. Hospitals had broken down. Medicines were unavailable. Everybody looked sick and sad. People stood for hours in long queues to get bread. Wherever Wells looked, and he was allowed to roam freely, he saw nothing but decay and desolation.

Over and over again Wells insists that this decay was not the product of Bolshevism but the cause. "It was not Communism which built up these great, impossible cities, but capitalism. It was not Communism that plunged this huge, creaking, bankrupt empire into six years of exhausting war. It was European imperialism. Nor is it Communism that has pestered this suffering and perhaps dying Russia with a series of subsidized raids, invasions and insurrections, and inflicted upon it an atrocious blockade. The vindictive French creditor, the journalistic British oaf are far more responsible for these deathbed miseries than any Communist."

The Communist Party, Wells stressed, was at the moment the only possible government for Russia. Small in number, the Bolsheviks had been able to take over during the confusion that followed six years of war because they were the only party with a clear vision. Its leaders, Wells believed, were fanatical but honest. He acknowledged their brutalities, but suspected that a Red Terror, inspired by hate, was the only way order could have been restored.

Russell, whose visit to Russia preceded Wells', found Gorky dying along with Russian culture. Wells chides Russell for this. Russell had simply caught Gorky with a bad cold, then his imagination led him into a "dark and purple passage." Although Gorky was a great admirer of Lenin, Wells found him bitter toward the Communist Party, and strong in his respect for Western science and literature. Now thanks to Bolshevik efforts to prevent counterrevolutionary forces, Russian art, literature, and science had almost disappeared. Eminent scientists were without funds or access to Western journals. "The crude Marxist philosophy," Wells wrote, "which divides all men into bourgeoisie and proletariat, which sees all social life as a stupidly simple 'class war,' had no knowledge of the conditions necessary for the collective mental life."

Amazingly, only in plays and operas did pockets of the old culture persist. "When one faced the stage, it was as if nothing had changed." Another hopeful sign was the government subsidy for a vast encyclopedia, though how would it be distributed? Wells granted that the Bolsheviks were basically honest, but they were also naive and simpleminded. Astonished to find themselves in power, they were without plans or ideas. "Marx the Prophet and his Sacred Book" provided no leads. Although Marx had given a good factual account of the evils of unfettered capitalism, he offered no blueprints for what would replace it. All he did was intimate vaguely about the new paradise that would eventually result after a temporary socialist phase had withered away. Communism, wrote Wells, was like a magician who had lost his rabbit and could produce nothing from his hat.

An Active Hostility Toward Marx

In a chapter titled "The Quintessence of Bolshevism" Wells slashed away at Marxist ideology in two memorable paragraphs:

> It will be best if I write about Marx without any hypocritical deference. I have always regarded him as a Bore of the extremest sort. His vast unfinished work, *Das Kapital*, a cadence of wearisome volumes about such phantom unrealities as the *bourgeoisie* and *proletariat*, a book for ever maundering away into tedious secondary discussions, impresses me as a monument of pretentious pedantry. But before I went to Russia on this last occasion I had no active hostility to Marx. I avoided his works and when I encountered Marxists I disposed of them by asking them to tell me exactly what people constituted the proletariat. None of them knew. No Marxist knows. In Gorky's flat I listened with attention while Bokaiev discussed with Shalyapin the fine question of whether in Russia there was a proletariat at all, distinguishable from the peasants. As Bokaiev has been head of the Extraordinary Commission of the Dictatorship of the Proletariat in Petersburg, it was interesting to note the fine difficulties of the argument. The "proletarian" in the Marxist jargon is like the "producer" in the jargon of some political economists, who is supposed to be a creature absolutely distinct and different from the "consumer." So the proletarian is a figure put into flat opposition to something called capital. I find in large type outside the current number of the *Plebs*, "The working class and the employing class have nothing in common." Apply this to a works foreman who is being taken in a train by an engine-driver to see how the house he is having built for him by a building society is getting on. To which of these immiscible does he belong, employer or employed? The stuff is sheer nonsense.
>
> In Russia I must confess my passive objection to Marx has changed to a very active hostility. Wherever we went we encountered busts, portraits, and statues of Marx. About two-thirds of the face of Marx is beard, a vast solemn wooly uneventful beard that must have made all normal exercise impossible. It is not the sort of beard that happens to a man, it is a beard cultivated, cherished, and thrust patriarchally upon the world. It is exactly like *Das Kapital* in its inane abundance, and the human part of the face looks over it owlishly as if it looked to see how the growth impressed mankind. I found the omnipresent images of that beard more and more irritating. A gnawing desire grew upon me to see Karl Marx shaved. Some day, if I am spared, I will take up shears and a razor against *Das Kapital*; I will write *The Shaving of Karl Marx*.

Marxism, Wells wrote, was a cult that appealed to energetic young men and women who were aware of capitalism's excesses and who longed for a new order. They would have become Marxists if Marx had never lived. Wells recalls his own youth. Denied an education, he had worked long hours in a detestable shop which he would have gladly burned down if he had not assumed it was overinsured. Marxism spread like fire around the world not because Marx was wise but because capitalism was "stupid, selfish, wasteful, and anarchistic."

Marx saw a "great conspiracy against human happiness concocted by a mysterious body of wicked men called capitalists." Wells saw these tycoons as "no more than a scrambling disorder of mean-spirited and short-sighted men." Marxism, with its conspiracy mania and revolutionary ardor offered an illusory hope for a quick fix. Unfortunately, the Bolsheviks had no experience in running a giant nation. Wells found their incompetence amazing, their ignorance profound. Repeatedly he was asked, "When is the social revolution going to happen in England?"

Every intelligent Bolshevik, wrote Wells, is bothered by the fact that the revolution happened first in Russia. According to Marx, it was to occur in advanced capitalist countries—first in England, then France, and Germany, and finally in America. Instead, it happened in Russia where there was no specialized working class at all. Russian factories were worked by peasants who came and went from villages. There was no proletariat, in Marx's sense, to unite with the workers of the world. Slowly dawning on the minds of Bolsheviks was the "chill suspicion" that what happened in Russia was not a Marxist revolution at all, but only the capture of a derelict ship.

Wells tried to convince Russian leaders that in England there were at least 200 different classes, and the only class-conscious proletarians he knew were a small band of Scotch workers under the leadership of a gentleman named MacManus. Wells was amused by the repeated scoldings that came by wireless to British labor leaders because they refused to behave like Marx said they would. They ought to be Red. They were just yellow.

In Wells' eyes "never was there so amateurish a government." Their preposterous ideology was doing irreparable damage to science and art. The teaching of chemistry was actually forbidden unless it was Marxist chemistry. Art and literature were suppressed if not politically correct.

Wells visited a school selected by the government. When children were asked what Western writers they liked best, Wells' name dominated! "Such comparatively trivial figures as Milton, Dickens, Shakespeare ran about intermittently between the feet of that literary colossus." Wells was furious. The next day he visited a school of his own choice and found it far superior. There were no Wells books in its library. None of the children had ever heard of him.

At a meeting of Petersburg leaders he heard himself repeatedly praised. They urged him to write fairly about Russia; not to emulate Russell who had accepted their hospitality then gone home to write harsh criticism. To avoid mistranslations, Wells wrote down his speech and had it carefully translated before he gave it. He was not a Marxist, he told his listeners. He was a "collectivist." He wished Russia well, but assured them that in England any movement toward socialism would be peaceful, the product of education, not class hatred. The speech was reported fairly in *Pravda*. The meeting ended with everyone singing the *Internationale*. Wells realized that in no way was the meeting democratic. It simply rubberstamped what it had been told. It was like "a big bagful of miscellaneous wheels" compared to an "old-fashioned and inaccurate but still going clock."

Wells Meets Lenin

The sixth chapter of Wells' book, titled "The Dreamer in the Kremlin," describes Wells' chat with Lenin. He found Moscow in less disrepair than Petersburg. Its churches were open. Ten thousand crosses glittered in the sunlight, and kissing icons was still a flourishing industry. A sign outside one church said, "Religion is the opiate of the people." It had little effect, Wells observed, because most of the people in the street could not read.

After a long irritating wait, Wells was ushered through a labyrinth of passageways and guards to Lenin's sanctum. Wells was surprised at how small Lenin was. He had expected to find a doctrinaire Marxist, but found him nothing of the sort. He had a pleasant, quick-changing, brownish face, lively smile, and a habit of screwing up one side of his face because of defective vision in one eye. Speaking excellent English, Lenin asked the inevitable question. Why is there no social revolution in England?

Wells in turn wanted to know what Lenin planned to do with the mammoth country he found on his hands. There were huge plans. The cities would become smaller, all Russia would be electrified, agriculture would be seized by the state and modernized. "Come back," he said, "and see what we have done in ten years." Wells was favorably impressed. In spite of Lenin's cumbersome Marxist baggage, Wells believed that "this amazing little man" might actually succeed in revitalizing Russia.

H. G. Wells lecturing on Soviet Russia.

Wells stressed his faith in evolutionary socialism. Lenin disagreed. Capitalism was incurable. It had to be totally overturned. Their argument ended indecisively, but they parted warmly. Wells and his Russian-speaking biologist son G. P. ("Gip") who had accompanied him on the trip returned to Petersburg, then on to Revel to catch a ship home. Wells left convinced that Western nations should do all they could to provide aid, especially food to prevent a looming famine during the coming winter. If Russia were to collapse again, Bolshevism might be replaced by a new ideology and a dictatorship worse than Lenin's. Such a collapse, Wells feared, could spread westward, and "possibly all modern civilization may tumble in."

Leon Trotsky, in his biography of Lenin, wrote that several years after Wells' visit Lenin had said of Wells, "Ugh! What a narrow petty bourgeois he is! He is a philistine! Ugh! What a philistine!" Anthony West, in his biography of his father says that he thinks Trotsky fabricated Lenin's remark out of whole cloth.

Although *Russia in the Shadows* sold well in England, it was bitterly denounced by Communists for its attacks on Marx, and by conservatives for its tolerance of the Russian experiment and for its admiration of Lenin. Winston Churchill, who correctly perceived Communism as a growing cancer, blasted Wells' book in *The Daily Express* (December 5, 1920), followed by Wells' reply. Churchill and Wells had long been at odds. Wells would later caricature him as Rupert Catskill in his science fantasy *Men Like Gods* (1923). Arch-conservative Henry Arthur Jones was so enraged that he barraged Wells with abusive letters which he later published as a book *My Dear Wells* (1921).

Wells' Defective Vision

Who today can fault Wells for seeing clearly through the shams of Marx, and for his fears that Bolshevik fanaticism would stifle Russian science and culture? But there are three glaring defects in his book.

Wells was curiously unimpressed by the absence of democracy in the new Russia. Not once did he ask Lenin if there were plans for free elections and secret ballots. Wells had never been keen on allowing uneducated people to vote, preferring instead a state governed by an appointed elite of scientists and technicians. Perhaps he bought the Bolshevik notion that a democracy of sorts operated in Russia as decisions made by low-level party cells filtered upward to the Kremlin. There is no excuse for Wells not realizing that without a vigorous democracy, and a press free to criticize, there could be no guarantee that a tyrant would not gain total control, as indeed one did.

Nor did Wells show an awareness that a free-market economy, combined with private property, is a far more efficient way to produce food and goods than a command economy that stifles initiatives and regulates with a clumsy, easily corrupted bureaucracy. As a democratic (of sorts) socialist, Wells shared Marx's indictment of unrestrained capitalism, but he did not understand, as even democratic socialists do today, that a modern economy must be founded on free markets.

Finally, as an atheist himself, Wells was not appalled by Lenin's efforts to eliminate Christianity from Russian culture and establish atheism as a state "religion." Wells should have realized that efforts to stamp out religious faith, especially in a culture as deeply pious as Russia, would only alienate the masses and increase their hostility toward the government. As we now see, the Russian people are hungry as ever for the right to worship God, and flocking back by the millions to their newly opened churches. Some Russian leaders are even daring to end their speeches with "God bless you"!

This is not the place to cover the history of Wells' growing realization that nothing good would ever come from the Russian experiment, and that universal suffrage was essential for the health of any nation. In 1934, during his three-hour conversation with Stalin, Wells tried to persuade Stalin that Roosevelt's New Deal was the beginning in America of a movement toward socialism, and that the world's two great superpowers should seize the chance to work together for a world socialist state. Stalin countered, as had Lenin, with the usual Marxist bromides. American capitalists were simply making a few trivial concessions to stay in power. They would never give up without a workers' revolt that would totally overthrow them.

Wells' last full-length novel, *Babes in the Darkling Wood* (1940), was about the disenchantment of two young Stalinists, a change of heart triggered by Stalin's invasion of Finland. Hard as it is to believe, Wells still clung to his view that Stalin was a sincere, essentially decent fellow who was caught in the coils of a worthless ideology. By 1940 many books had accurately described Stalin's terror—the millions of innocents he had shot or sent to die in the Gulag—but Wells either had not read them or he knew about them and did not believe them. His last great outburst of anger, *Crux Ansata* (1943) was directed not against the crimes of Stalin, but against what he considered the crimes of Roman Catholicism. When Wells died in 1946, soon after the first atom bomb fell on Japan, he had given up hope that humanity could save itself from wars that would plunge it back to barbarism.

Many of Wells' prophecies were eerily accurate. As early as 1914, in his science-fiction novel *The World Set Free*, he described a second world war beginning in the forties in which "atom bombs" were dropped from planes. The one great event he totally failed to see was the abrupt collapse in the U.S.S.R. of its entire Marxist-Engels-Leninist-Stalinist heritage.

As I write, Russia is back in shadows strangely similar to those Wells encountered in 1920. Its economy is in chaos, famine is again a threat, and help from the West is desperately needed. As in 1920 its leaders have only the vaguest plans for restructuring a shattered empire along democratic and free-market lines. It is one of the magnificent and ironic surprises of history that this great culture, after 74 years of brutal Communist dictatorship, is now eager to construct a political and economic system of the very sort that Marx regarded as something so malevolent that it had to be destroyed utterly by workers of the world who had nothing to lose but their chains. □

THE FREEMAN
IDEAS ON LIBERTY

"Zero Inflation": A Flawed Ideal

by George A. Selgin

Lately a consensus has formed among policymakers that a stable price level or "zero inflation" should be the goal of monetary policy. Federal Reserve Chairman Alan Greenspan has recently expressed sympathy for this view, long favored by some other members of the Fed Board of Governors. A few years ago the House Subcommittee on Domestic Monetary Policy introduced a Joint Resolution that would have required the Fed to achieve and maintain zero inflation within five years. Today, Congress is considering amending the 1978 Humphrey-Hawkins Act so as to make achievement of zero inflation the sole object of monetary policy.

Zero inflation is, to be sure, a more realistic goal for monetary policy than such things as "full employment" or economic "fine-tuning." Nevertheless, it is far from being the ideal policy its advocates proclaim it to be.

Price Stability or Stability of Spending?

The zero inflation norm goes back to classical economics and has inspired countless monetary-reform proposals during the last 100 years. One would think that such a longstanding ideal must be solidly grounded in theory. But the truth is otherwise. In fact the zero inflation ideal is largely dogma, founded upon the unrealistic assumption of a stagnant or stationary economy where the productivity of labor and capital never changes.

In such a stationary economy, price stability goes hand-in-hand with stability of total spending, or "aggregate demand," measured in dollar terms. Economists generally favor stability of money spending because it allows the typical producer to just recover his money costs of production, avoiding depression on one hand and overexpansion of industry on the other. Thus stability of "aggregate demand" avoids deviations of real output from its "natural" level. But zero inflation implies stability of spending *only* in a stationary economy. In a growing economy with more to be bought, stability of money spending requires *falling* prices. In an economy where productivity is declining, stability of spending requires that prices generally *rise*. Because they overlook the reality of changing productivity, proponents of zero inflation wrongly conclude that the benefits of stable spending can be had by keeping the price level constant.

Debtor-Creditor Justice

A popular argument for zero inflation is that unanticipated price-level movements lead to unfair transfers of wealth. When

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prices rise unexpectedly, debtors gain at the expense of creditors because loans are repaid in dollars having less purchasing power than when the loans were originally made. When prices fall, creditors profit at the expense of debtors. Zero inflation, it is claimed, would prevent such unjust transfers.

Although the argument is valid for a static economy, a zero inflation policy enforced in the face of changing productivity would itself lead to unjust redistribtions of wealth. Any overall change in productivity implies a change in real income for the economic community taken as a whole. Distributive justice then becomes, not a matter of avoiding "windfall" transfers of wealth, but one of deciding how an increase or decline in *overall* wealth should be shared. Imagine the consequence of an unanticipated, all-around doubling of productivity in the United States. A halving of product prices would, here as when productivity is constant, double the real burden represented by each dollar of debt. But most debtors would be compensated by a doubling of their real earnings. Creditors, in turn, would enjoy a higher real return on their loans. But their gain would merely reflect a *pro rata* share of similar gains being enjoyed by the rest of society. To deprive creditors of their share by stabilizing the price level would be arbitrary at best.

Moreover, a zero inflation policy that would be arbitrary when productivity is improving could lead to disaster were productivity to fall significantly. Zero inflation would then require a forced contraction (via tight money) of spending to offset the normal tendency for the prices of scarcer goods to rise. Debtors would find their real income reduced, but the amount of real income needed to repay each dollar of debt would be unchanged. Few people would call the resulting rash of defaults and bankruptcies "just."

Helping Prices Do Their Job

Another argument for zero inflation is that price-level changes interfere with the price system's ability to allocate resources. Because it takes time and effort to make money-price adjustments, changes in the relative values of different goods should be signaled with as few money-price changes as possible. Otherwise the risk is great that incomplete or incorrect price adjustments will lead to economic waste. Proponents of zero inflation claim it would allow the price system to do its job with a minimum of money-price changes by eliminating any need for *general* price changes to offset changes in the supply of or demand for money.

This argument, too, is only valid for a static economy: When productivity changes, a change in the general price level is not only consistent with, but *essential* to the efficient working of the price system. Such a price-level change merely reflects changes in real costs of production. Suppose for instance that the cost of producing computers falls to half its former value, while the cost of producing other goods remains unchanged. The relative price of computers needs to fall below its former level. If the public continues to spend the same amount of money on computers, buying proportionately more units as the money price falls, the needed relative price adjustment is easily made by halving the money price of computers, leaving other money prices unchanged. Money spending would remain stable with no need for any increase in money supply. A zero inflation policy, in contrast, to keep the average level of prices constant, would require a monetary injection to enhance spending so that the price of computers falls by less than one-half and *all other prices* rise slightly. The zero-inflation policy clearly places a greater burden upon the price system, with greater opportunities for misdirection of resources.

Likewise, the best way to handle a *fall* in output, like an OPEC-inspired cut in oil production, is to allow the fall to be reflected in higher prices. Manipulating the money stock to keep prices from rising would reduce the price-system's ability to convey useful information about the true state of resource scarcity.

Many economists recognize the need to allow money prices to reflect changing output conditions in particular industries. Yet they refuse to extend their logic to situations involving *general* changes in productivity. They imply that doing so involves a fallacy of composition. But where lies the fallacy? They do not say.

If Not Zero Inflation, What?

Instead of aiming for zero inflation, a desirable monetary policy would stabilize total dollar spending, as measured by the money value of GNP or (more appropriately) sales of final goods and services. Money GNP stability is automatically approximated by a regime of free banking with a fixed stock of bank reserves. If a central bank controls the money supply, it could be assigned the goal of stabilizing money GNP. Stable spending would achieve all the really desirable ends sought by proponents of zero inflation, and would do so regardless of the state of productivity. Under stable spending, sustained improvements in productivity would necessitate falling prices; but these would not involve the bad side-effects usually associated with deflation. On the other hand, falling output would cause "inflation" of the price level, but without the pernicious effects of inflations stemming from excessive money injections. Finally, because money supply changes are more closely related to spending changes than to price-level changes in the short run, a spending target would be easier to enforce than a price-level target.

Zero inflation has its merits as a rough-and-ready policy goal. It is certainly better than the inflationary chaos that prevails in most fiat money regimes. But as a policy *ideal* it leaves a lot to be desired, and is plainly inferior to a goal of stable spending. □

Pearl Jam vs. Ticketmaster: A Holy War on Reality

by Charles Bilodeau

The lawsuit initiated last spring by the rock band Pearl Jam against Ticketmaster has once again brought antitrust laws into the limelight. *Time* magazine has called the legal battle "Rock 'n' Roll's Holy War."[1] According to Pearl Jam, Ticketmaster is intending to monopolize the ticket service industry. What is the truth of the matter? To find out, let's look at some of the charges against Ticketmaster in the context of antitrust laws.

In a memorandum filed with the Antitrust Division of the U.S. Department of Justice on May 6, 1994, Pearl Jam asserted that Ticketmaster has a "virtually absolute monopoly on the distribution of tickets to concerts." What constitutes a "virtually absolute" monopoly? Patent law creates monopolies (single seller positions) in inventions and innovations; copyright confers

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monopolies in literary/artistic works. Pearl Jam has a legal monopoly on any songs and performances they create, as they should. Does Ticketmaster have a similar monopoly on tickets? No. Ticketmaster *had* competition, but its rivals could not manage to compete.

According to *Rolling Stone* magazine, Ticketron, the largest competing ticket service sold out to Ticketmaster in 1991, after losing millions of dollars a year from 1988 on.[2] Why would Ticketron *lose* millions of dollars a year, while Ticketmaster turned a profit? Ticketron must have operated less efficiently. In ticketing, as in any contested market, the companies (or company) that survive will be the ones who best cut costs, find new markets, and plan long-term. In other words, the survivors will be the ones who make the best *business* decisions. Understanding this is vital to understand the "anti-competitive" practices that Pearl Jam's suit hopes to stop.

What are these "anti-competitive" practices? The *Rolling Stone* article by Neil Strauss and Tom Dunkel provides some examples: "Ticketmaster, it's claimed, keeps ticket sales organized and revenue high. This is often at the expense of fans, however. The service charges that Ticketmaster adds to tickets range from \$3 to \$6 and can add more than 30 percent to a ticket's face value." The suggestion here, that Ticketmaster's activities make fans worse off, involves an economic fallacy. The error, known to economists as the "physical fallacy,"[3] is examined below.

The article goes on: "One reason these surcharges are so high is because Ticketmaster pays a small fee to venues or promoters for every ticket sold in order to maintain its exclusive contracts with them. . . . Ticketmaster has even loaned promoters money to meet the guarantees of stadium acts and has given money to venues for promotion and marketing. . . . Several recent lawsuits call Ticketmaster dividends to venues 'kickbacks.'" Ticketmaster, in other words, is securing long-term arrangements. The money Ticketmaster loans or gives to arenas or promoters to meet guarantees is money spent to insure that the show will be performed.

The question to ask yourself (as an arena-rock fan) here is: What would I rather have? Fifty extra cents in your pocket is of little use to you when accompanied by a ticket to a show that has been canceled because the venue couldn't meet its guarantees. Ticketmaster likely started these loans and promotion subsidies *in response* to people who complained after shows were canceled, i.e., to better serve the same people Ticketmaster is now charged with ripping off. These policies *for insuring* that concerts will be performed are construed as "anti-competitive" because a small-scale ticket service might be unable to duplicate them. Yet everyone benefits: the fans, the performers, and the venue. Is this somehow unfair?

The "Physical Fallacy"

The article contains an interesting statement by one of Pearl Jam's guitarists, Stone Gossard: "Our band, which is determined to keep ticket prices low, will always be in conflict with Ticketmaster." To judge the truth-value of that statement, a discussion of the "physical fallacy" is in order.

The basic point is that economic value doesn't just depend on a good's physical features; value can also depend on where or when the good is available. By bringing a good from the producer to the consumer, a middleman can *add value* to that good despite the fact that the middleman has not changed (added anything to) its physical shape. Let's consider what value Ticketmaster might be adding to the tickets they convey.

When a rock band goes on tour, they have to be selective about the types of venues and number of sites they will play. It would be as unsuitable for Pearl Jam, a band with a large national following, to play at local nightclubs as it would be for a local garage band to play at Madison Square Garden. Pearl Jam typically plays big-city arenas (such as the homes of NBA teams). Small-city venues would offer the band less of a chance to recoup expenses. As well, touring can be a grueling thing. There is a limit on the number of shows any group can perform, before touring's effects start to show up on stage. Some cities, then, will have to be avoided.

Imagine a hypothetical Pearl Jam fan who lives in Bakersfield, California. Suppose that Pearl Jam has decided to tour once again, but not to perform in Bakersfield, because the population of Bakersfield is too small, and they are going to play a number of shows at the Forum in Los Angeles 75 miles away. Our hypothetical fan, Suzy, is a teenager who works part time at the Taco Bell near the mall for minimum wage while going to high school. She is a dedicated Pearl Jam follower, and would not think of missing them. If Ticketmaster did not exist, and the only source of tickets to the Pearl Jam concert was the Forum box office, what options would Suzy have? She could wait until the night of a show and drive down to L.A., but if all the shows had sold out beforehand, she would either have to pay a scalper's price or drive home disappointed. Her only other option for securing a ticket is to drive to the box office to get tickets at the first chance possible.

What is involved here? Not only the hassle of having to drive 150 miles *just to get* tickets (and drive again the night of the show), but whatever else Suzy *could* have done with the time it took to get to L.A., get to the Forum, and wait in line (remember that the Forum box office is now the *only* source for tickets) and drive back to Bakersfield. How long would this take? Even at the best times for driving, three hours minimum; with L.A. traffic and the wait in line added in, possibly four. What does this mean for Suzy? Suppose she takes time off from her job to make the ticket run, sacrificing $4.25 an hour. Multiply $4.25 an hour by four and you get $17. Add $5 for gasoline and you get $22. This is the value Ticketmaster adds by making tickets available at Suzy's favorite record store (Tower Records) in Bakersfield. Even if Ticketmaster charges her $6, Suzy has saved $16. And we haven't even considered the wear-and-tear on her old Toyota.

Sure, not *everyone* lives 75 miles from the closest Pearl Jam venue. But almost everyone lives closer to a Ticketmaster location than to such an arena. The ticket company, in fact, sees to that. Ticketmaster places its outlets in malls, music stores, and other right-on-the-way places, precisely so that most people will find its service charges worth paying. A trip to Ticketmaster, service charge included, is less costly than a trip to the arena box office.

Economies of Scale

If you believe that having "competition" from other ticket services would drive *down* the price of Ticketmaster's fees, you are wrong. Why? Economies of scale. Ticketmaster was able to "monopolize" ticket sales because they were the most efficient in utilizing economies of scale. Their larger network of outlets operates at lower cost per ticket sold than smaller firms could manage. (If not, smaller firms could spring up to sell Pearl Jam's tickets.) An antitrust ruling against Ticketmaster would work against the efficiencies that economies of scale allow.

Antitrust laws are at war with economic reality. The only way that Ticketmaster could have allowed the "little guys" to remain in business would have been to *raise* their fees to match the inefficiencies of these "little guys." Such "price fixing" is no favor to consumers, and is also illegal in the screwy world of antitrust. So what were Ticketmaster's options? Keep prices artificially high and be sued under antitrust statutes for "price fixing," or make use of economies of scale and be sued *under those same antitrust laws* for "intending to monopolize." Ticketmaster is only the latest firm caught in the arbitrary, contradictory world of antitrust, for no other reason than that they were and are the best in the business.

A *coercive* monopoly, i.e., a seller whose potential competitors are excluded by government force, can raise prices and limit quantities with impunity. The post office is a good example. But Ticketmaster is *not* backed by the government, and competitors *could* enter the field if they had a better method or organization. The methods of "coercion" described by complainants against Ticketmaster are not coercion at all. Ticketmaster has a *right* not to deal with anyone it does not wish to. What if arenas refuse to book certain bands because they are afraid that Ticketmaster *won't do business with them*? I cannot think of a more telling sign that a business firm has its act together than that people fear the loss of its services. And if the owners/managers are afraid that Ticketmaster will not do business with them, doesn't that mean Ticketmaster is leaving room for the "little guys"?

Consider what will happen if antitrust law is used to break up Ticketmaster. Remember that Ticketmaster's *largest* competitor (the one with the largest economies of scale) was losing millions of dollars a year trying to compete. What does this mean? Millions of dollars a year in *extra* fees will have to be paid to compensate for the inefficiencies of lack of scale. If Ticketmaster's "kickbacks" to promoters (to insure that shows take place) are ruled illegal, the number of show cancellations will rise. What will happen if another recession hits? In 1991, the concert industry was devastated. There were only two rock tours that year (that I can remember). One was Guns 'n' Roses, arguably the most popular rock band in the world at that time, the other was Perry Farrell's Lollapalooza tour. It is no coincidence that Ticketron finally gave up and sold their remaining assets to Ticketmaster in 1991. It is also significant that no potential competitor has (to my knowledge) stepped forward since the suit began, saying that they could do a *better* job than Ticketmaster. An antitrust suit ruling against Ticketmaster will mean lost jobs.

Kelly Curtis says that, "All [Pearl Jam] wants to do is to be able to tour with a cheap ticket price."[4] This is not what Pearl Jam wants to do. Pearl Jam wants to use Ticketmaster's service while dictating to Ticketmaster what fees Ticketmaster can receive, despite the fact that Ticketmaster makes its profit by *decreasing* the cost of tickets relative to individual ticket buyers.

What can Pearl Jam do to keep the tickets cheap? They could take a lesson from the Lollapalooza tour, and lower their own base ticket price. Farrell's tour had *six* bands, an average ticket price of only $25, *and it still made money during a recession*. How? By not playing expensive venues. It was a tour of fairgrounds, where facilities, and correspondingly venue fees were modest. Even if Pearl Jam takes along an opening act, it is unlikely that they would have more than one third the number of musicians of Lollapalooza, so the gate will not have to split as many ways. Ticket scalping—the result of unsatisfied demand at the intended price—can easily be reduced by simply adding more shows, until the market is saturated. Unlike the Forum, where there is no chance of adding another show if the Knicks are playing the Lakers the next day, a fairground can easily add dates as the initial shows sell out.

Pearl Jam *does* have alternatives to making an arena tour and using Ticketmaster's service. They have exercised one of them by not touring. If they truly want to provide a show at a low cost to their fans, they have options there, too. It is in both Ticketmaster's *and* Pearl Jam's best interest to realize exactly what they do for each other. Ticketmaster could not exist without entertainers, and Pearl Jam (and fans and venue managers) are better served by Ticketmaster than by anyone else who has appeared. It remains to be seen, whether Pearl Jam *will* actually learn this before their fans desert them for bands that do tour. □

1. "Rock 'n' Roll's Holy War," *Time*, June 20, 1994, pp. 48–49.
2. Neil Strauss and Tom Dunkel, "Exploding Tickets," *Rolling Stone*, August 11, 1994, pp. 29–30.
3. See J. D. Gwartney and R. L. Stroup, *Economics: Private and Public Choice* (New York: Harcourt Brace Jovanovich, Inc., 1990). The term "physical fallacy" was introduced by Thomas Sowell in his *Knowledge and Decisions* (New York: Basic Books, 1980), pp. 67–72.
4. "Rock 'n' Roll's Holy War," *op. cit.*

The Right Direction for Welfare Reform

One of America's greatest strengths has always been its extensive network of private efforts to solve personal, family, and community problems. When it comes to dealing effectively with such social concerns, government is not by a long shot the only game in town.

Indeed, given the expensive quagmire that government is widely conceded to have created with welfare programs, private efforts are providing a beacon for progress and reform. As management expert Peter Drucker has put it, agencies in the private sector "spend far less for results than governments spend for failure." What America needs, he says, is "a public policy that establishes the nonprofits as the country's first line of attack on its social problems."

Private, nonprofit agencies are spearheading an unprecedented number of local programs to combat hunger, illiteracy, homelessness, welfare dependency, drug use, teen pregnancy, and other social problems. The secret to the success of such programs is accountability, since they are run by local people who are closest to the problems and have a strong incentive to manage resources wisely and get the job done. Michigan is home to two new and innovative programs that deserve special attention.

In October 1991, the State of Michigan ended its General Assistance (GA) program for able-bodied, single adults. What has happened since is a case study of the private sector cleaning up after a government mess. In the mid-Michigan town of Harrison, a group of concerned volunteers wanted to help former GA recipients by easing their transition to productive self-reliance. These volunteer efforts created a unique privately funded assistance center called Hard Times Cafe.

Every Thursday afternoon, former GA recipients and other needy people, ranging in age from 18 to 63, gather at St. Athanasius Church for a hot meal, companionship, and innovative counseling—all designed to instill new incentives for gaining control of their lives. They share their concerns in an atmosphere of trust and respect. They learn thinking, planning, and organization skills, as well as good work habits.

They also earn "Hard Times Dollars," which are redeemable in personal needs items from soap to toothpaste. Recipients earn the goods, donated by churches and businesses, by displaying positive work habits while performing designated community service work. They do carpentry, maintenance, and gardening work; they plant trees; and they help out at a local YMCA camp. With sufficient "dollars" they can even obtain vouchers for rent, house payments, taxes, utilities, transportation, and medical needs, funded through private grants.

The government welfare system requires people to constantly affirm their inability to

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meet their personal and family needs. Hard Times Cafe does just the opposite: it infuses a "can-do" spirit of independence and rewards positive, pro-work attitudes. The project's organizers report remarkable success.

Meanwhile, in Grand Rapids, another locally conceived program is helping people rebuild their lives. Faith, Inc., is a non-profit organization started by Heartside Area Ministries to help the homeless get jobs, training, and counseling.

During the daytime, Faith's director, Verne Barry, seeks out homeless people, welfare recipients, and otherwise discouraged individuals from the area and offers them a chance to help themselves. In the evening, Faith, Inc., uses a portion of a 100,000-square-foot manufacturing warehouse owned by Hope Network (a work facility for the developmentally disabled), which is normally closed after 4 p.m. Faith employees teach these individuals, "whom everyone else has written off," to perform light assembly and packaging jobs—real work needed to fill orders for private contracts awarded to Hope Network. At the end of the week, each employee receives a paycheck, many for the first time in years.

Faith ensures each individual receives counseling from a variety of private organizations in order to improve their work habits and lifestyles—and overcome substance abuse and emotional problems. With very limited resources, Faith has helped several hundred people get off public assistance, either fully or partially, and many have moved on to higher paying, steady jobs.

The key to Faith's success, according to Barry, is that its clients work. He questions government programs which spend millions of dollars annually to teach and train people "how to work" in lieu of the real thing. "At Faith, we don't send them to 'assessment school' for six months to decide what career they would like," he said. "We help them start working immediately. It's essential to enhancing their self-worth."

The experience of Hard Times Cafe and Faith, Inc., adds credence to this comment from Marc Bendick of the Washington, D.C.-based Urban Institute: "Through their small scale, non-bureaucratic nature, local knowledge, and personal relationships, neighborhoods, families, churches, and voluntary associations can respond rapidly, accurately and in a more acceptable manner to local and individual needs in ways that large, formal institutions such as government agencies cannot."

Welfare programs operated by government may well be the most unpopular of all government initiatives—criticized by the social scientists who observe the effects, disdained by the taxpayers who pay the bills, and even unloved by many of the people who collect the benefits. Thirty years and billions of dollars after Lyndon Johnson fired the first shot in the War on Poverty, the enemy has won. The poverty rate has been essentially flat to slightly higher ever since. A new consensus seems to be emerging from among those who work closely with the poor: welfare has made worse the very problems it was intended to cure, and created a few new ones along the way.

Private initiatives like Hard Times Cafe and Faith, Inc., stand in stark contrast to their government counterparts that perpetuate poverty, undermine the work ethic, break up families, and promote illegitimacy. Unlike private efforts that stress character building, one-on-one mentoring, and a spiritual dimension, the impersonal public dole does nothing to resolve the behavioral poverty that keeps millions in demoralizing dependency. In the words of John Fund of the *Wall Street Journal*, "Ask yourself: If you had a financial windfall and wanted to help the poor, would you even *think* about giving time or a check to the government?"

The present welfare system has produced such disastrous consequences that it's hard to imagine how a radical overhaul could do worse. The remedy is privatization—families assuming responsibility for their loved ones, churches meeting the needs of their flock, neighbor helping neighbor, private organizations assisting those who "fall through the cracks."

True welfare reform may actually mean learning to trust ourselves again. That would indeed be revolutionary. □

THE FREEMAN
IDEAS ON LIBERTY

Spending Money Freely

by Lawrence H. White

In the last year, I have begun to buy things *without* using coins, paper money, a credit card, or a checkbook. You may begin to do likewise next year, or you may have begun a few years ago, though neither of us could have done it ten years back. I've actually learned two new ways to pay.

I bought a bag of groceries last week by swiping my "debit" card (the same card I use at an automatic teller machine, or ATM) through a small card-reader—mounted right next to the little check-writing platform for people who still use checks—and keying in my four-digit PIN (personal identification number). I thereby electronically authorized a transfer of funds, from my bank account to the supermarket's, equal to the $25.96 being displayed on the cash register as my total bill. In a matter of seconds—before my groceries were completely bagged, in fact—the cash register spit out my itemized receipt to signal that the payment was good. Last summer I used a service station along the interstate with similar card-readers and receipt-printers mounted by and wired to its gasoline pumps, allowing any debit-cardholder to buy gasoline at any hour without any station employee having to be on duty to process the payment. Before too long, just about every point of sale that takes credit cards will probably also take debit cards.

Yesterday I used a second novel way of paying at a nearby copy shop. The shop's self-service photocopier didn't take coins, paper money, credit cards, or even a debit card. Instead I put a plastic card bearing a magnetic strip on its back into a reader, which displayed in glowing yellow digits how many dollars-worth the card "carried." (On an earlier occasion I had purchased the card from a nearby machine, which had "loaded" the card with the dollar amount of paper money and coins I put into the machine. When the card balance gets low, it can be topped up at the same machine.) I watched the yellow number go down by .07 with each copy produced. In the future a single prepaid card, probably carrying a microchip rather than a magnetic strip, may be usable in a wide variety of transactions. Imagine the convenience if the same card were accepted by photocopy machines, soda machines, pay telephones, and even by the cash registers in ordinary retail shops. Imagine if the card balance could be topped up at an ATM—or even at your home computer—by transferring funds from your bank account. Such "smart cards," as the idea is known, would amount to a bank-issued currency, a modern equivalent of the private banknotes that circulated before governments monopolized the issue of currency.

New Ways to Pay: The Advantage

These new payment methods are spreading. Smart card systems have been introduced in Denmark, Singapore, and Eng-

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land.[1] Here in the United States, retailers are finding card-readers increasingly cheap to install, and growing numbers of customers are discovering the advantages of debit and prepaid cards. In a world where people are increasingly in a hurry, they speed the act of paying—no need to have the right change or to wait for change in return, no need to write out a check, no need to stop at the bank counter or ATM to get more cash. Paying by debit card or smart card will often be more convenient than paying with cash. A debit card is even better than cash or a smart card in at least two respects: using a debit card keeps your money in your bank account, where it is both more secure from theft *and* earns interest, right up to the moment it is spent.

Some observers are skeptical that payments methods will change dramatically any time soon. What happened to the predictions a decade ago that soon everyone would be banking electronically by home computer? Actually, home banking is now finally growing in popularity, for several reasons. Touch-tone phone-banking services, along with ATMs, have acclimated people to electronic banking; home computers and modems (devices to transmit computer information over telephone lines) have gotten cheaper; home banking software has gotten easier to use; and increasing numbers of households are subscribing to on-line services like Prodigy that include electronic home banking and bill-paying among their offerings.[2] Hundreds of thousands of people now make hundreds of millions of dollars worth of monthly payments electronically by typing and mouse-clicking at their home computers. (I'm not yet one of those people, but check back with me in a few years.)

An even more dramatic development in the last few years, with possibly profound implications for the payments system, has been the growth of the Internet, the decentralized worldwide network of interlinked computers across which users send electronic mail ("e-mail"), post messages to "newsgroups" for public discussion, and browse for and download information. The Internet is estimated to have had 30 million users at the start of 1995, and to have been growing at the amazing rate of 10 percent per month.[3] Like many in academia and business, I often spend an hour a day reading and sending e-mail and newsgroup postings. The Internet was originally non-commercial, but with tens of thousands of business firms now connected, plenty of business is already being done by e-mail. Those who "log on" to the "Net" or "go on-line" daily are natural candidates for convenient on-line retail shopping, and commercial Internet sites have begun to appear. On-line catalogs—fast becoming "virtual shopping malls"—have long been a staple of Prodigy, Compuserve, America On Line, and the other proprietary networks.

But how to pay for an item selected from your computer screen? For some transactions, you might want to send a credit card number by e-mail. I have actually renewed a magazine subscription this way, but I had to worry about my number being intercepted by a computer "hacker." The profit motive is now hurrying to the rescue: Microsoft and Visa, the software and credit-card giants, have recently announced a joint project to develop a user-friendly way to encrypt (encode) and decrypt credit-card numbers sent over e-mail to assure security in such transactions.

For other transactions, a way to "pay cash" over the Internet would be a winner. Several firms are now developing systems for "digital cash" or "e-money," most notably DigiCash, founded by cryptography (code-making) expert David Chaum. These systems allow an electronic funds transfer to be launched from a personal computer as easily as from a supermarket's debit-card-reader.

Privacy Concerns

There is, however, a potentially large fly in the ointment of these new payments methods. Unlike a paper-money or prepaid-card transaction, a credit-card or debit-card transaction typically lacks privacy. Using electronic deposit transfer or a credit card (either in person or via computer), like writing a check, generates a trail. Your bank's or card company's computer ends up with a list not only of how much you've spent, but of where you spent it. The same list could be constructed by combining the information held by all the vendors from whom you bought. This list is potentially available to the IRS or to other government agencies who may want to commandeer it. If you don't have a contract with your bank and vendors expressly forbidding it, the list is potentially available to credit bureaus or junk-mail firms who may want to buy the information. The privacy issue understandably concerns many people who are perfectly law-abiding citizens.

Fortunately, computing and cryptographic experts like Chaum are working to develop methods for *anonymous* electronic payments. One set of models for anonymous payments uses the "smart card" method (the funds to be transferred have already been downloaded onto a smart card or personal computer); an alternative set uses electronic deposit transfer either by debit card or by personal computer. For an example of the deposit-transfer type, suppose I wish to pay you $100 anonymously without using physical currency. (I might be standing at your cash register, or I might be home at my computer looking at your invoice on my screen.) By merely typing in my PIN, or clicking on a "pay" button on my computer screen, I send a cryptographically "signed" (or PIN-authorized) and numbered (you have assigned the number) message to my bank that instructs my bank to transfer $100 to an account (whose name is encoded) at your bank. My bank reads the "signature," and knows the message is genuine. My bank can't read the recipient account name, so doesn't know to whom the money's going (only to which bank). Your bank can't read my signature (which my bank may have removed), so doesn't know from whom the money came (only from which bank, and in favor of which account). You read the transaction number to know the payment came from me (though you might not know my name).[4] You then hand me the goods, or ship them to my private post office box.

Are bank customers actually eager to pay cost-covering prices for privacy features of this sort? I don't know. The market will tell us, assuming that government does not interfere. Some federal authorities have suggested that they would object to a completely untraceable version of smart-card or debit-card payment, because it *might* be used to hide transactions they want to tax or prohibit. To be consistent, such authorities should also object to the availability of untraceable $100 bills. Chillingly, some do.

Keeping the Government Off-Line

What role does the government need to play to orchestrate the shift to new payments methods? None whatsoever. Governments of the past, after all, played no role (or no *constructive* role) in the transitions from barter to commodity money, from raw metallic money to coins (though ancient despots later discovered profits in monopolizing the mints and in debasing the coins they produced), from coins to banknotes (though government-sponsored central banks later monopolized their issue and diluted their value as well), from currency to deposit transfer, cash to credit cards, checks to debit cards, or locally to nationally accepted ATM cards.[5] The shift to electronic payment methods is taking place already, without the Federal Reserve having taken any official position or promulgated any rules on digital cash or smart cards. Private ATM networks and credit-card networks already exist to set interconnection standards where new standards are needed.

Debit cards, being just a paperless substitute for checks, don't raise any important regulatory issues. But won't private banknote-like smart cards, being a new privately issued form of money, need regulation once they catch on? Don't they threaten an inflationary avalanche of electronic money? Absent central bank restrictions, what will limit the quantity of smart-card-loaded "dollars" commercial banks can create? The answer to the first two questions is no, because the answer to the third is that a bank's obligation to convert card-balance dollars to scarce reserve dollars (physical currency or account balances at the clearinghouse) on demand naturally limits the number of card-balance dollars a bank will find it prudent to create given the size of its reserves.[6]

There is more at stake for you and me in electronic funds transfer than simply more convenient payment methods. One major potential advantage of electronic funds transfer via personal computer is that it may give ordinary consumers affordable access to offshore banking. With direct deposit of paychecks, and with old-fashioned cash available at ATMs whenever we want it, few of us really need to visit our banks in person anymore. Why not keep your account at a reputable foreign bank (perhaps a branch of a major Swiss bank) in the Bahamas or the Cayman Islands? Such an offshore account is perfectly legal (though a U. S. bank's offshore branch is prohibited from directly doing business with American citizens or firms), but not worth the trouble for most individuals or small businesses today. If an offshore bank were linked to the clearing system and to an onshore ATM network (or if access to physical cash were irrelevant because all cash-like payments could be made by debit card or smart card), more of us could begin enjoying the advantages of offshore banking that big-money players and large firms have enjoyed for years. Offshore banks pay higher interest on deposits because they are free from the taxes on deposit balances that the U.S. government levies in the form of reserve requirements, deposit insurance "premiums," and taxes on bank earnings. Individuals who are concerned about privacy should also find an offshore foreign bank attractive for its lesser propensity to surrender its records to domestic authorities.

Just as a variety of old and new forms of payment are available today, old-fashioned payment methods like cash and check-writing can be expected to persist well into the twenty-first century. There they will coexist with smart cards, debit cards, personal-computer-launched deposit transfer, and perhaps other new electronic methods of payment. If and when Prodigy, Compuserve, and Internet sites begin offering offshore banking services, things should really become interesting. An exodus of retail banking business from the regulated sector to a free banking sector will shrink the fiefdom of federal banking authorities. Let us hope the authorities accept that fate gracefully. □

1. For an account of recent and possible future developments see Steven Levy, "E-Money (That's What I Want)," *Wired* (December 1994), pp. 174ff.
2. David C. Churbuck, "Let Your Fingers do the Banking," *Forbes* (19 August 1991), pp. 122–24.
3. "So Much for the Cashless Society," *The Economist* (26 November 1994), pp. 21–23.
4. In Internet lingo, this method preserves privacy by using the two banks as semi-anonymous "remailers" of different parts of the payment message. Privacy could be increased even further by having a clearinghouse relay the message so that neither bank even knows the identity of the other bank. For an enlightening explanation of how the necessary encryption method works (such that my computer can encode a message that *only* the intended recipient's computer can decode), see Hal Finney, "Protecting Privacy with Electronic Cash," *Extropy* #10 (Winter/Spring 1993), pp. 8–14.
5. For brief accounts of how these practices emerged in the market see George A. Selgin and Lawrence H. White, "The Evolution of a Free Banking System," *Economic Inquiry*, vol. 25, no. 3 (July 1987), pp. 439–57.
6. The theory of the natural limit to banknote volume under "free banking" applies equally to smart-card balances. See George A. Selgin and Lawrence H. White, "How Would the Invisible Hand Handle Money?," *Journal of Economic Literature*, vol. 32, no. 4 (December 1994), pp. 1718–49.

THE FREEMAN
IDEAS ON LIBERTY

Phones and Freedom

by Marty Mattocks

After a recent departmental meeting at work, my boss asked a colleague and me to stay and discuss progress on a common project. After we had dispensed with the business at hand, the discussion moved on to new topics and an open-ended question and answer period. In this relaxed atmosphere I asked my boss to bring me up to date on what was outlined on the blackboard behind him: a recent proposal by an alternative long-distance provider for cutting our telecommunications costs. We are mutually responsible for providing technical support to a relatively large company with its own telephone switch and so I am curious to learn all I can about this dynamic field.

He went over the physical layout of the company's equipment and services, highlighting the advantages and improvements that had been made over the competition's current approach. This was one of the "big three" long-distance companies and a sizable investment of billions of dollars had been made in building transmission towers and installing sophisticated state-of-the-art equipment and software, all for the purpose of acquiring new customers in order to make a profit. At this point, my colleague made an interesting statement—one of those remarks that grabs your attention but you don't know why until you think about it later. He said, "I don't know how these companies can justify all this duplication of equipment," or something along that line. The wheels inside my head began turning as the conversation drifted off to other topics.

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Yes, how can companies like these justify the expenditure of billions of dollars to duplicate something that is already there? I was intrigued by the sentiment I had just heard—genuinely and honestly expressed—one of those attitudes that are the real root causes behind much of what goes on in our world.

I am not being judgmental. We all have first impressions that often are out of our mouths before being processed by our brains. But as I gave my colleague's honest query more thought I began to see in a microcosm much of the wisdom and many of the benefits of the free market philosophy, along with the disadvantages of its alternative. Let me explain.

The Benefits of Competition

In our community—within one block—there are two supermarkets, each with its own bakery and deli and aisles upon aisles of foods in every shape and form. Within the same block are three banks, each offering competitive rates on certificates of deposit, home equity loans, and checking accounts. These enterprises compete against one another for customers and must do so at the right price and by providing the best value for that price. They all have expenses which include the cost of their property, equipment, labor, and advertising. The more efficient a firm's system of providing goods and services at the lowest possible cost, the greater its profit and chance of survival. The joint pressures of price competition, cost containment, and creativity in providing new goods and services to attract and keep customers all result in lower prices and more readily available goods and services for the entire community.

If we were to complain that all this expense was unnecessary—or, more fashionably, that the duplication was environmentally wasteful—we would be shooting ourselves in the foot. If we were to grant only one supermarket owner, or one banker, the exclusive privilege of providing these goods and services (or worse yet have a government grocery store or a government bank), he would no doubt get rich (charging monopoly prices) and lazy (less incentive for more efficient operations). Prices would be higher and there would be less attention to consumer convenience as we all went to do business at the same place (services would not be as readily available).

Boris Yeltsin, the maverick Muscovite who championed political freedom in Russia in the late eighties, comments in his book *Against the Grain*, about his first trip to an American supermarket. "When I saw those shelves crammed with hundreds, thousands of cans, cartons and goods of every possible sort, for the first time I felt quite frankly sick with despair for the Soviet people. That such a potentially superrich country as ours has been brought to a state of such poverty! It is terrible to think of it."[1] He had experienced firsthand the alternative to "not being able to justify all that duplication," the alternative to the one supermarket/one bank per community concept that had been implemented in his native Russia. He came to this conclusion: "If one accepts the private ownership of property then this means the collapse of the main buttress that supports the state's monopoly of property ownership . . . we soon realize that we are practically the only country left on earth which is trying to enter the twenty-first century with an obsolete nineteenth-century ideology; that we are the last inhabitants of a country defeated by socialism."[2] It should have come as no surprise to find out that when the Iron Curtain fell, it was discovered that much of the U.S.S.R.'s telecommunications infrastructure had not been upgraded for many decades.

Market Forces at Work

Gas stations, convenience stores, hardware stores, and fast-food restaurants are other businesses where we see these same market forces at work. Despite the advantage of being able to eat Mexican, pizza, burgers, chicken, or fish, each a different night of the week, it is natural to wonder, "Where is the saturation point?" Perhaps the answer is in a simple equation: where supply is greater than demand, or where a good return can no longer be received from the capital investment necessary to compete profitably. Or even simpler yet: where there are too few paying customers. The more entrepreneurial among us defy the saturation point daily, thinking of ways to create new demand for their products and services. They offer their wares at better prices, provide them more conveniently, make them better quality or with new added value that no one had thought of before.

Though not as readily visible, there exists a market for long-distance services, whose participants are influenced by the same forces as the grocery store owner and the banker. Since the divestiture of AT&T's Bell System in 1984, Sprint and MCI's increasing participation in the national telephony market has had effects similar to those we have discussed in local retail markets. Long-distance rates have dropped an average of 40 to 45 percent,[3] and every day we hear of new, gee-whiz services available over our plain old telephone service line.

In fact, industry analysts point out that "during the last decade, the lessons and benefits of long-distance telephone competition have begun to echo in the local telecommunications marketplace. Business users have begun to appreciate and demand more choices for vendor diversity, for network reliability, and cost savings. Other states including Washington and Maryland have joined New York in authorizing local telephone service competition."[4] Like MCI and Sprint ten years ago, two new competitors in providing local dial-tone service are Metropolitan Fiber Systems (MFS) and Teleport Communications Group (TCG). MFS currently has networks in 18 cities and an additional 13 under construction. TCG has service available in the New York metropolitan area with seven other states targeted for expansion.[5]

These established players are now looking over their shoulders at some major new and potential entrants. Cable companies, cellular/wireless alliances, and long-distance companies interested in saving on access charges they must pay to local Bell operating companies are beginning to enter the playing field. Time Warner (whose entry into the Rochester, New York, market has been called the most significant step so far in promoting local competition[6]), Cox Cable, Viacom, and TCI are cable companies that could offer phone services.[7] AT&T is in the process of acquiring McCaw Communications, the largest cellular service provider in the United States. MCI has invested more than a billion dollars in Nextel, a special mobile radio company that uses a technology to compete with cellular. Sprint has formed an alliance to bid for personal communications services licenses, and merged with Centel to provide cellular services.[8] MCI's Metro subsidiary is building a metropolitan area network in Atlanta to compete for local phone service there, part of its plan to spend two billion dollars this year constructing fiber-optic networks in the 20 largest U.S. cities.[9] And low earth-orbiting satellites may also become part of the telecommunicating landscape in the future.

"The End User as King"

With all these companies stumbling over themselves to provide the least expensive, most efficient, most ingenious system of providing local phone service, whom do you think will benefit? In an article entitled, "The End User as King," industry pioneer Craig McCaw is quoted as having said, "Our customers don't care whether we use TDMA, CDMA (communications technologies/protocols) or spaghetti. They only care that we provide them with the services they need, when they want them, and at a price they can afford."[10] Two other consultants and telecommunications industry analysts stated it in similar terms, "The more competitors there are in a market, the more competitive the market will be, which will bring down prices and increase service quality";[11] and, "Business users are likely to benefit from improved quality and reduced prices."[12] Dr. Joseph S. Kraemer, Managing Director of EDS's Communications Industries Consulting practice, notes that "in response to competitive threats, local exchange carriers (LEC's) are rapidly implementing new services, cutting costs, improving productivity and accelerating the deployment of new technology, all of which benefits the LEC's customers."[13]

Cries can nonetheless be heard for government intervention, regulation, and a return to the good old days. Kraemer has identified a number of regulatory attitudes and actions that "could either delay or stop local exchange competition." He adds: "Without a credible competitive threat, the incentive to continue to improve productivity and accelerate technology deployment will be eliminated."[14] Turning the table around, the regional Bell operating companies have rightfully asked to be freed from the restrictions preventing them from competing in the cable and long-distance markets.

In all the talk about an "information superhighway" and the "national information infrastructure" the key question is: Will it be public or private? Here again we see a replay of a monopoly's or government's sluggishness versus the speed of the free market. Vice President Gore has been an outspoken proponent of government intervention and in 1991 proposed spending two billion dollars of taxpayers' money for research and upgrades in hopes of channeling private investment activity. Informed critics said this top-down approach would create a very elegant network "but it may be obsolete by the time it's deployed."[15] In a typical week's telecommunications news, the private sector announces plans and demonstrates prototypes, while the White House says it will take slightly longer than previously expected just to name the members of a task force.[16] A perceptive letter to the editor in one trade magazine stated, "I am not the least bit interested in having the federal government take the lead with regard to the information highway. The agony and confusion in corporate information systems during the last decade in dealing with mainframes, PCs, workstations, networks, etc., will be dwarfed by the problems accompanying federal leadership."[17]

A host of companies are vying for customers in the potentially lucrative market currently dominated by online services providers Compuserve, Prodigy, and America Online.[18] PC software giant Microsoft now offers online commerce with its Microsoft Network online service, and giants IBM and (once again) MCI have respectively launched their IBM Global Network and marketplaceMCI offerings with e-mail, electronic software distribution, and multimedia on-line catalogs and ordering systems.[19]

Whether in supermarkets, banking, or telecommunications, a free market unhampered by government intervention is the most fertile environment for human progress and for the best allocation of scarce resources. Temporary setbacks notwithstanding, this truth will win out in the end. We will do better to cooperate with it than to endure the hard lesson learned by nations that ignore the simple yet profound principles of freedom. □

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3. David Buerger, "It's Time for Competition in the Local Loop," *CommunicationsWeek*, April 19, 1993, p. 70.
4. Paul Keleher, "Local Exchange Competition: Are Users Ready for Another Divestiture?", *Telecommunications*, December 1994, p. 45.
5. Robert O'Brien and Dolores Kazanjian, "Competitive Access Providers Enter Local Dial Tone Market," *Telecommunications*, October 1994, p. 17.
6. Annie Lindstrom, "Rochester Telephone to Open Competition," *CommunicationsWeek*, May 23, 1994, p. 103.
7. Dr. Joseph S. Kraemer, "Local Competition." In "Changing Ground Rules for Network Access," a supplement to *Business Communications Review*, September, 1994, p. 8.
8. *Ibid.*, pp. 7, 8.
9. Mary Thyfault, "MCI Details Local Plans," *InformationWeek*, May 2, 1994, p. 18.
10. Charles F. Mason, "The End User as King," *Wireless*, Sept./Oct. 1994, p. 64.
11. John Rendleman, "MCI Reaches Out to Grab Share of Local Service," *CommunicationsWeek*, date unknown.
12. Annie Lindstrom, "Looming Local-loop Battle is Good News for Users," *CommunicationsWeek*, April 19, 1994, p. 59.
13. Kraemer, *op. cit.*, p. 10.
14. *Ibid.*
15. Peter Coy, "How Do You Build an Information Highway?" *Business Week*, September 16, 1991, p. 108.
16. Annie Lindstrom, "NII: Gov't Delay, Private Sector Advances," *CommunicationsWeek*, December 20, 1993, p. 49.
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18. Clinton Wilder, "Prodigy in Two Parts," *InformationWeek*, December 19, 1994, p. 20.
19. Clinton Wilder, "Microsoft Going Online," *InformationWeek*, November 28, 1994, p. 15; Joe Paone, "IBM Creates Its Own Internet," *Midrange Systems*, September 16, 1994, p. 1; John Rendleman, "Collaboration Objective of Network-MCI," *CommunicationsWeek*, September 19, 1994, p. 1.

THE FREEMAN
IDEAS ON LIBERTY

Live Freely, Live Longer

by Max More

The founders of the United States valued "life, liberty, and the pursuit of happiness." Life—healthy and long life—makes possible everything else we value. Without life we cannot enjoy liberty or pursue happiness. It's also true that without liberty—freedom from government and bureaucratic control—we will have shorter lives, and poorer health while we live. If we do away with the government's growing control over research into life extension and its treatments, we'll see faster progress towards the longest, healthiest lives ever enjoyed by humans.

Extending Healthy Life

We humans have long dreamed of preventing aging and its associated diseases. As molecular biology has matured over recent decades, the dream shows growing signs of becoming reality. Methods already exist for extending healthy human life to 120 or 140 years, though currently this involves a tough low-calorie diet. Potential life-extending substances are being studied, and we are beginning to find aging controls in our genes. If we can master these, we may be able to prevent and reverse aging, allowing all of us to remain physically and mentally vital.

Even today, various nutrients, drugs, hormones, and diets may be able to halt or slow aspects of the aging process. Drugs such as Deprenyl and Hydergine reportedly slow the rate of brain aging, helping to maintain youthful sharpness and quickness of thought. The hormone DHEA is thought to assist in keeping body fat at youthful levels and strengthens the vulnerable immune systems of older people. Substances such as melatonin and thymosin may also help in the fight against aging. Reports indicate that elderly volunteers given human growth hormone gained considerable muscle mass and strength, their skin thickened, and their immune systems partially returned to their youthful power.

As we continue to unravel the complexities of our genetic code at an accelerating rate, we may find ways to intervene in programmed cellular death. This cellular death has prevented even the healthiest human beings from living more than 120 years. In principle, nothing stands in the way of our being able to intervene in this biological process. We just need more understanding and better interventive technology.

What of those who will not live long enough to see these dramatic advances? Even they may have a chance. In the practice of "cryonics," as soon as a person has been declared legally dead (while practically all of their cells are yet alive), the body is filled with protective chemicals and gradually cooled to extremely low temperatures. At the temperature of liquid nitrogen (−320°F) all biological activity halts. The person can then wait for years, until cures

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NOTES FROM FEE

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May 1995

Woeful Bankers

An old Christian saying warns us not to make money our god, for it will plague us like the devil. Based on this maxim, a few economists admonish us not to place politicians in charge of our money, for they will plague us worse than the devil.

Most Americans take heed of the first warning, but few pay attention to the latter. Unaware of the dire consequences of political control over money, they appointed "monetary authorities" and authorized them to issue and regulate their money. The Federal Reserve Act of 1913 established a central bank with seven governors who in time were to become the regulators and overseers of the monetary system. In 1933, the federal government expropriated the people's gold coins and replaced them with Federal Reserve notes. In the same year it organized the Federal Deposit Insurance Corporation (FDIC) which was followed by the Federal Savings and Loan Insurance Corporation (FSLIC). The directors of both government agencies assumed responsibility for and control over the people's bank deposits,

Since then a myriad of special laws has tightened the political grip on the banking industry. There are the laws regulating Truth in Lending, Truth in Savings, Fair Housing, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the Expedited Funds Availability Act, the Electronic Funds Transfer Act, the Financial Institution Reform, Recovery, and Enforcement Acts, the Equal Credit Opportunity Act, the Flood Disaster Protection Act, the Home Mortgage Disclosure Act, and various environmental acts.

The "war on drugs" gave occasion to the Bank Secrecy Act which forces bankers to reveal all major deposits and withdrawals to the banking authorities and call their attention to suspicious transactions. Failure to comply is called "structuring" and is punishable with fines and imprisonment. In other words, failure to snitch on their depositors is a serious crime. A number of bank tellers and supervisors are lingering in federal penitentiaries paying for their crimes. **There is no bank secrecy in the sense of customer privacy; bank secrecy now means the very opposite: secret reporting to the authorities.**

The authorities scrutinize every aspect of the lending process. Bankers are forced to observe the prescribed procedures in all details. Phone calls from customers about home loans must be logged, the marital status recorded; loan limits and waiting periods must be observed. What used to be a half–page application form has grown to a multi–page form designed to meet government edicts.

Banking regulations are crushing the banking industry. Last year (1994) a small–town banker received 2,945 pages of new regulations, amendments, and proposed regulations. For six long weeks five regulators conducted "compliance examinations," busily comparing books and records with more than ten thousand pages of regulations and searching for violations. The "compliance examinations" followed the major annual "safety–and–soundness" examinations.

The Community Reinvestment Act forces bankers to give special consideration to individuals who belong to minority groups. It compels bankers to grant loans on the basis of race, gender, and national origin rather than credit worthiness. The U.S. Department of Justice always stands ready to lend support to the regulators who may mete out stupendous fines. Their threat alone is enough to make all bankers quite subservient.

Bankers live in constant fear of criminal prosecution for violations of banking regulations. Minor infractions such as overdrafts on an executive's checking account call for draconian penalties. Minor deviations from a regulator's interpretation of a regulation may be penalized severely. Facing their regulators, most bankers stand at attention, stammering "Yes, Sir," or "No, Sir," "I am truly sorry, Sir," "We will follow your instructions immediately, Sir."

Under such conditions it is not difficult to reflect on the future of American banking. In the coming years, the number of banks (now about 11,000) is likely to shrink through mergers, syndications, cartelization, and other combinations. It takes large law and regulation departments to specialize in the intricacies of banking law and engage with the regulators and their prosecutors. Million–dollar fines per day are likely to crush most banks except for the giants such as Citicorp with $213 billion in assets or Bank of America with $180 billion. The regulators themselves undoubtedly will applaud the concentration movement as it simplifies and reinforces their control over the industry.

The trait and type of banking personnel is likely to change. Men of character, integrity, and independent judgment will give way to two types which thrive in all kinds of command systems: the servants and bondsmen who obey all orders and the villains who corrupt all orders. The number of banking scandals is bound to multiply in the coming years.

While banking itself is bound to linger and wane, related industries offering deposit and loan services will grow and fill the void — provided they escape the banking regiment. The "money market" offering treasury bills, commercial paper, certificates of deposit, and other instruments beckons for deposits; mutual funds and brokerage funds offer special checking account advantages. Yet, all this banking ersatz will not take the place of old–fashioned banks; the regulators who sit in judgment of what every sector of the capital market may do will not allow it. Political control over money tends to be comprehensive.

Harassed by regulators and prosecutors, some bank customers may seek refuge abroad. Since the disintegration of the Soviet system emerging markets all over the world are begging for funds, offering many attractions and high returns for capital fleeing from U.S. regulators.

The greatest difference between rich countries and poor countries is not so much the quality and effort of labor nor the abundance of natural resources, but the size and vitality of the capital market in which private banks play a pivotal role. U.S. banking laws and regulations are straining to create the very conditions so characteristic of poor countries.

Hans Sennholz

Hans F. Sennholz

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featuring

Robert James Bidinotto

speaking on

"Criminal Justice?"

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have been found both for what killed him and for the aging process itself. The workability of cryonics is controversial, but even in its current state of development it may offer a chance of postponing our old enemy, death.

Try to extend your lifespan through medical technology and you'll quickly discover that the government acts as though it owns your life. If we each individually own our bodies and minds, you would think we would be free to evaluate any longevity-extending treatments, and assume the accompanying risk and responsibility. Yet government agencies, such as the Food and Drug Administration (FDA), and groups with government-granted privileges (such as state-licensed M.D.'s, whose lobbying group is the American Medical Association), claim the authority to make our choices for us. They treat us as children, constantly needing the protection of the nanny State. Not only does this insult us, but government control, compared to free choice in free markets, does badly at encouraging new and effective life extension technologies.

The Government Chokehold

Government involvement in life extension means both funding and regulation. Research funding by the state means funding by taxation. Two major problems arise from tax-funding of life extension research. First, since taxes are compulsory, unlike consumer purchases or venture capital investments, the recipients have little incentive to perform well. If your company is funded by taxes, you need not be so concerned with cost-effectiveness (remember the $500 military screwdriver?). With money coming not from customers but from taxpayers via the political system, you needn't worry about whether your proposed product is cost-effective. Second, since state funding is brokered by politicians, it will reflect the strength of interest groups and lobbying skills. These have little connection to the most promising research.

Whenever the state involves itself, decisions become centralized and heavily regulated. Progress in halting aging slows as politicians and interest groups block some kinds of research. Jeremy Rifkin's Foundation on Economic Trends, for example, has used the government to try to prevent various kinds of biotech research. On the free market, any peaceful idea can find funding and proceed if it shows sufficient promise, but in a politically controlled regime new ideas have to fight entrenched interests and their political allies sitting on numerous committees and regulatory agencies.

Much regulation in the life extension arena comes from the FDA. Other civilized countries get by just fine without any equivalent to this agency, and enjoy access to thousands of beneficial drugs and treatments years before Americans. For ten years following 1962 (when the FDA gained new powers), not one of the hypertension drugs available in Europe was approved in the United States. The delay before introducing beta blockers may have resulted in 10,000 unnecessary deaths annually. To develop, test, and gain approval of a new drug, companies must spend hundreds of millions of dollars and wait eight to ten years. Since 1962, the cost of developing new drugs has increased 50 times faster than inflation and approval time has quadrupled.[1] This isn't likely to change: Regulators tend to be over-tough because if they approve a drug that later causes problems, the blame falls on them. They receive no balancing benefit from rapid approval.[2]

The FDA started out small with limited powers, but has grown enormously. Currently it's attempting to make vitamins and protein components (amino acids) into prescription items. A few years ago, when one Japanese manufacturer produced contaminated supplies of the amino acid tryptophan, the FDA seized the chance to ban all sales of tryptophan. This supposedly temporary action has never been reversed. As a result, many thousands of people with sleeping and mood problems have gone back to using far more dangerous tranquilizers, some dying of accidental overdoses or suffering side effects.

The FDA uses SWAT-style raids on vitamin suppliers who dare to offer "unapproved" information about products they sell. The FDA has been working towards establishing a monopoly on information about drugs and nutrients. If you make claims (no matter how well scientifically supported) that the FDA hasn't sanctioned, you may find yourself held at gunpoint while your office is stripped. FDA agents even threatened to shut down a newsletter printer for the Life Extension Foundation, an organization frequently critical of the agency.

Some problems caused by the FDA and other agencies come from an unwillingness to recognize life extension as a legitimate aim of medicine. According to the prevailing medical view, enforced by the privileged medical establishment in league with the FDA, medicine should cure disease but not improve our health or capabilities beyond what's normal. Treatments which may allow us to live longer, or better than normal, are not even candidates for approval. A possibly life-saving practice as unusual as cryonics has even more difficulties with the state. Cryonics has been banned outright in British Columbia, while California agencies did all in their power to make it impossible for cryonics organizations to operate. (The government bureaucrats finally lost in the courts.) Terminal patients may not legally be cryonically suspended voluntarily before clinical death, even though this may greatly improve their chances of eventual restoration to life.

Freer Markets, Longer Lives

The more involved government becomes in life extension research and development, the slower such research proceeds and the more it costs. If we allow the free market to operate, subject only to reasonable liability rules rather than bureaucratic regulations and political maneuvers, innovation will accelerate. When people are free they can experiment in many directions simultaneously. Companies can more quickly offer the results of their research to customers. The incentive to bring products quickly to market will be balanced by caution due to liability for inadequate testing.

Rather than all treatments having to conform to state-approved levels of safety, individuals will be free to decide for themselves how much to risk for the expected benefits. We own our lives and are responsible for them. Decisions about our health and longevity belong to us, not to politicians and bureaucrats who don't know us. The more Americans are shielded from making their own decisions like infants, the more irresponsible and helpless they will become. Granted more freedom, we will also gain more responsibility. Some of the products tried by even well-informed people in a free market may be ineffective or harmful. But progress requires trial and error, and a system that restricts experimentation restricts the growth of knowledge.

Each of us is faced with the difficult challenges of aging and death. Let's not let the state reinforce the death-dealing tendencies of nature by restraining human intelligence from tackling the problem of degenerative aging. □

1. See Milton Friedman, *Free To Choose* (Orlando, Fla.: Harcourt, Brace, Jovanovich, 1990), p. 206.
2. Sam Peltzman, "Regulation of Phamaceutical Innovation" (Washington, D.C.,: American Enterprise Institute, 1974).

THE FREEMAN
IDEAS ON LIBERTY

Two Insights for Business Ethics

by Douglas B. Rasmussen

Business ethics does not stand by itself. It depends in large measure on the insights of political philosophy and ethics. Of course, it is not possible to do everything at once, and works in business ethics cannot be expected to deal with more general questions about the ultimate normative dimensions of capitalism, much less with the fundamental nature of morality and moral reasoning. Nonetheless, it is important to note two fundamental political and ethical insights that are crucial to appreciating the ethical significance of capitalism.

To begin with it should be understood that "capitalism" is not a mere descriptive term. It has a normative dimension. For example, "Murder Incorporated" is not regarded as a business firm in a capitalistic system. It is something criminal. One does not have the right to offer murder as a service that can be bought. This "service" is not allowed to operate. Similarly, the term "profit" does not mean merely a return on an exchange that is over costs; it also involves a certain type of exchange, namely a free or voluntary exchange. The gunman's offer, "Your money or your life," is, for example, not considered a free or voluntary exchange—even though one would prefer remaining alive to losing one's money. The problem with such an "exchange" is, of course, that the gunman does not have the right to demand from you either your life or your money in exchange for the other. Thus, there is an ethical perspective that is presupposed in our very understanding of capitalism and our notion of free or voluntary exchange.

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The Role of Rights

In order to understand the ethical perspective from which the terms "capitalism" and "profit" derive their particular meaning, the concept of "rights" should be considered. "Rights" are a moral concept, but they are different from other moral concepts. They have a unique function. Their function is not to directly secure the moral well-being of individuals. Rather, their function is to protect the self-directedness of individual human beings and thereby secure the liberty under which individual human moral well-being can occur.[1]

Rights provide guidance in the creation, interpretation, and evaluation of political/legal systems. They protect individuals from being used by others for purposes to which they have not consented. Rights are used to determine fundamentally what ought to be a law. They provide the normative basis to law, but they do not, like the virtues, provide individuals with any guidance regarding what choices to make in the conduct of their daily lives.

The idea that "no one's purposes or goals take moral precedence over the purposes and goals of any other person in a way that would justify the complete or partial subordination of any individual to any other individual or to any group of individuals"[2]—more simply put, that there are no natural moral slaves or sovereigns—is expressed in the claim that individuals have rights. Smith's having a right in this sense legally obligates others to abstain from initiating physical compulsion, coercion, or interference against Smith.

It should be emphasized that the protection against being used for purposes to which one has not consented is understood to proscribe the nonconsensual use of the product of one's labor. As Robert Nozick has said:

> Seizing the results of someone's labor is equivalent to seizing hours from him and directing him to carry on various activities. If people force you to do certain work, or unrewarded work, for a certain period of time, they decide what you are to do and what purpose your work is to serve, apart from your decisions. This process whereby they take this decision from you makes them *part-owner* of you; it gives them a property-right in you. Just as having such partial control and power of decision, by right, over an animal or an inanimate object would be to have a property right in it.[3]

Government's proper function is to implement and enforce laws that protect the lives, time, and resources of persons from being used without their consent.

Capitalism is a socioeconomic system based on the recognition of individual rights. It is thus only against the political/legal backdrop provided by individual rights that a moral evaluation of the activities of creating wealth and exchanging goods and services within a capitalist system can be properly made.

Morality and Moral Reasoning

We need to consider the nature of morality and moral reasoning. When it comes to making an accurate moral assessment of capitalist activities, it is crucial that a certain understanding of the moral good of human beings be considered. Otherwise the moral significance of capitalism, as distinct from the political/legal significance, will not be appreciated.

Contrary to what is sometimes thought, it is not necessary to assume that the fundamental principle of human conduct and relations within capitalism is sheer greed or hedonism. Further, it is not necessary to assume that in order for capitalist activities to be morally defensible what is good for a person must be simply a matter of taste. It is quite possible to understand the activities of business people within capitalism as being motivated by the pursuit of more than merely wealth or pleasure. People can be understood as pursuing their moral well-being or fulfillment. In other words, the human moral good could be something objective, and yet the diverse activities of persons operating within capitalism be consistent with the attempt to achieve the good.

Human moral well-being need not be viewed as something abstract, impersonal, or uniform in order to be objective. Rather, the human good could be objective and nonetheless be concrete, personal, and variable. Though there are generic virtues that abstractly define the human good, what they amount to in the concrete situation for any individual human being varies. This does not mean that what is good for any person is simply a matter of taste or that there are no right or wrong choices, but it does mean that it would be a mistake to think that what is good for someone in some concrete situation can be determined merely from some armchair.

If human moral well-being is both real *and* pluralistic, this has great importance when it comes to morally assessing capitalist activities. It allows one to see the ethical importance of a socioeconomic system that protects and permits individuals in using their practical insight toward achieving their good in contingent and particular cases. This is especially so if it is true, as it certainly seems to be, that human moral well-being involves the creation, maintenance, and use of wealth in fulfilling ways. The judgments exercised by persons as producers and consumers are then related to the central intellectual virtue of practical reason of which Aristotle speaks in his ethical works.[4]

There is a parallel between an argument

that Mises and Hayek used to show that socialist economies could not efficiently coordinate the production and exchange of goods and services and an Aristotelian argument against rationalistic accounts of the good life. Just as central planners do not have access to the contingent and particular facts that individuals do in exercising the "entrepreneurial insight" that moves free markets toward equilibrium, so too speculative insight into the nature of the human good is not sufficient for a person's well-being to be achieved. Practical insight is needed, and this insight can only be used by that individual, no one else, in confronting at the time of action the contingent and particular facts of his or her life. Such insight cannot function from an abstract perspective in finding the "mean" that is appropriate for the individual. Thus, there is a creative role for the individual to play in *discovering* the individuative content that gives reality to the good life philosophers abstractly describe. It is the practical insight of individual human beings, not only in the creation of wealth but in achieving their unique form of the human good, that a system based on political and economic liberty helps to make possible.

Here then are two insights—one from political philosophy and one from ethics—that make a crucial difference as to how one morally evaluates the activities of persons within a capitalistic socioeconomic system. The idea that individual rights provide the basis for a political/legal context that protects the exercise of practical reason by individuals and the idea that the human good is objective, but individualized, are fundamental. It is important for anyone taking up issues in business ethics not to forget the import of these ideas—as well as others from political philosophy and ethics—for the understanding of capitalism. □

1. See Douglas B. Rasmussen and Douglas J. Den Uyl, *Liberty and Nature: An Aristotelian Defense of Liberal Order* (La Salle, Ill.: Open Court, 1991) for a defense of individual rights.
2. Eric Mack, "The Ethics of Taxation: Rights Versus Public Goods," in Dwight R. Lee, ed., *Taxation and Deficit Economy* (San Francisco: Pacific Research Institute for Public Policy, 1986), pp. 489–490.
3. Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974), p. 172.
4. See Douglas B. Rasmussen, "Capitalism and Morality: The Role of Practical Reason," in Robert W. McGee, ed., *Business Ethics & Common Sense* (Westport: Conn.: Quorum Books, 1992), pp. 31–44. Yet, also see Douglas J. Den Uyl, *The Virtue of Prudence* (New York: Peter Lang, 1991) as well as *Liberty and Nature*.

Rights versus "Rights"

by Tibor R. Machan

For the past 200 years or so a debate has ensued in political philosophy, on the issue of what sorts of rights human beings have. This is not the debate about whether we have rights at all, which is different. (Some hold that rights were identified by John Locke and others to bolster certain hidden goals, not because these rights actually exist.) What the rights versus "rights" debate is about is whether human beings have rights other than negative rights *not* to be killed, assaulted, kidnapped, or robbed. Negative rights, not to be intruded upon, are what Locke, the major seventeenth-century individual rights theorist, argued we all possess *by nature*. That is, we require certain social conditions when we

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form communities, because of the kind of being we are. We require the respect of our negative rights.

In response to Locke and his students, critics argued that the rights Locke identified are only some of those we possess. They maintained that we also have what are called "positive" rights: others must not only *refrain* from killing, assaulting, kidnapping, or robbing us but owe us services such as welfare, health care, and education. The point isn't that it is decent and morally proper for others to help us when we are in need. Rather they can be forced to provide us with what they can to help—their work, their earnings, the fruits of their talents—just as others *may be forced to desist* from murdering or assaulting us.

The recent debate in the United States about government-supplied health care illustrates the conflict between these two views of rights. Negative rights theorists argue that individuals ought to strive for living properly, for flourishing *in voluntary association with each other*, while positive rights theorists argue that *individuals naturally belong to each other*, as parts of an organic body. While Locke put on record the former theory, Karl Marx, who thought little of rights, spawned this alternative view of social relations. He declared that "The human essence is the true collectivity of man," meaning we are essentially "species beings," parts of the larger organic body of humanity. Others proceeded to soften this hard-line collectivist position into the milder sounding positive rights theory.

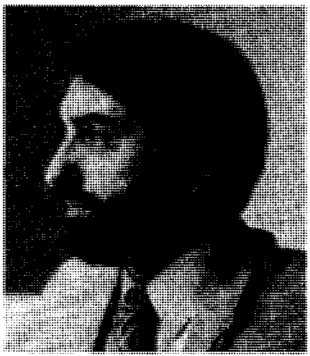
Some misunderstand the nature of positive rights, thinking that they simply arise out of an elaboration of negative rights. When columnist George Will noted a while ago that one official in our government leaned toward authoritarianism by inventing positive rights, ones not listed in the U.S. Constitution, someone criticized him along these lines: "[T]he Constitution has been amended in the past to include the 'right' to vote for African-Americans, women and 18-year-olds, as well as the right to be free from slavery and involuntary servitude."

The amendments the critic mentions are, however, drastically different from those advocated by many big-government theorists. Many of the amendments are simple elaborations, for more specialized cases, of the basic negative rights everyone possesses by nature. The "right to vote" is an application of the right to liberty to the area of political action: government may not prevent an adult citizen from fully participating in the political system. The right to be free from slavery is a simple corollary of the negative right to liberty, as is the right to be free from involuntary servitude. Just how different such amendments are from those proposed by advocates of positive rights can be appreciated when we consider that all positive rights imply involuntary servitude. If one is forced to make provisions for the health care, social security, or related needs of others, one is forced to serve them, plain and simple.

The debate is important but one must be careful not to misunderstand it. Basic negative rights need at times to be spelled out in some detail, made applicable to new areas of human conduct and problem-solving. For example, the right to freedom of speech—which spells out the right to liberty for communication—may need to be developed further in light of the growth of the electronic communications "superhighway." The right to own property had to be developed further to clarify ownership of portions of the electromagnetic (broadcast) spectrum. It can be shown, by careful logical reasoning, that these refinements follow from our basic negative rights.

Positive rights, however, violate our basic negative rights, place us in servitude to others, and therefore can only be fraudulently presented as things derived from our natural rights. We should be on guard when those who wish to solve social problems advocate unjustified power for the government by distorting the rights we all have. We have only negative rights. Positive "rights" are deceptive inventions that capitalize on the soundness of the theory of negative rights for dangerous purposes, leading, indeed, to the subversion of the original function of the concept of basic individual rights. □

by Robert James Bidinotto



In Praise of Pain

In recent months, we have heard daily alarms concerning legislation proposed by the new Congress.

Babies will starve, modern Chicken Littles warn, because teenage mothers will be deprived of "their" food stamps. Little children in schools will go hungry, because the new Scrooges on Capitol Hill will rob them of "their" school lunches. The elderly will lose "their" Medicare and Social Security. Opera enthusiasts will lose tax-subsidized encounters with Wagner and Puccini, and pre-schoolers the daily inspiration of Barney the Dinosaur, all because of plans to close down "their" local public broadcasting stations.

Never mind that none of this unearned largess is truly "theirs." Never mind that no one has a right to that which he has not produced—that no one can lay legitimate claim to goods and services belonging to others—that all of those "entitlements" entail legalized plunder of the taxpayers. In addition, none of the claims by special interests is even true.

Babies won't starve, because welfare programs aren't going to end: they're only going to be dumped by Washington in "block grants" onto state governments. School lunch subsidies are actually scheduled to *rise*, and likewise be sent to governors to administer. Ditto, spending on the elderly: all that will decline is the *rate of increase* in projected spending. As for public broadcasting, the only portion of its budget targeted for trimming is the meager 14 percent supplied by federal taxpayers. Clearly, Barney is in no danger of extinction.

You'd never know this judging by the cries of impending doom echoing across the land. Yet despite the claims of the Compassion Lobby, few redistributionist programs are on any politician's chopping block; even fewer will be gone when the political dust settles. As I anticipated in my January column, most of the modest reforms passed by the House are being bottled up in the Senate.

The block-grant approach symbolizes the weakness of the proposed reforms. Instead of ending programs that plunder Peter to pay Paul, Congress is proposing only that Paul receive the loot from his governor, rather than his congressman. The apparent "principle" here is that robbery is more efficient if done at the local level.

As revolutions go, this one is boringly bloodless. In fact, many self-styled revolutionaries are *trying* to keep it absolutely painless—when a little pain is exactly what recipients of the unearned need to experience right now.

Yes, you read that correctly.

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Criminal Justice? The Legal System Versus Individual Responsibility, *edited by Mr. Bidinotto and published by FEE, is available at $29.95 in cloth and $19.95 in paperback.*

Don't get me wrong. I'm not endorsing the Stoic view that pain builds character. Nor am I a Social Darwinist arguing for "survival of the fittest." Pain and suffering are not ends in themselves, nor is the collectivist goal of social purification a valid rationale for allowing harm to befall the weak.

But pain and suffering do have a vital purpose. They are invaluable signals to us, warnings that something is amiss—that we need to change course.

Mistakes and irresponsible behavior unavoidably lead to destructive consequences. Yet if we could not feel their impact, we'd have no reason to alter harmful behavior. The experience of pain warns us we're doing something injurious. Pain is nature's invaluable teacher; without it, we could not survive, because we'd never be deterred from self-destructive paths. A child learns not to put his hand on the stove, because it hurt the *first* time he did it.

Capitalism is a profit *and loss* system, one that rewards those who successfully produce valued goods and services, while punishing those who fail to do so. If profits were guaranteed and automatic, and losses impossible, there would be no *motive* for anyone to produce the things we need. Poverty and want soon would be everyone's fate.

That's precisely the impact of welfare statism. By trying to eliminate all suffering, it obliterates all incentives and motives to act wisely. It buffers people from the injurious consequences of error and irresponsibility, depriving them of the painful but vital lessons of life. It thus allows people to believe they can continue down destructive paths with impunity.

But even if *they* are buffered from pain, the destruction they have caused doesn't disappear: it's merely *transferred* onto others. To spare some people painful lessons, the welfare state forces innocent and responsible taxpayers to bear the pain and suffering instead.

To protect an unwed teenage mother from experiencing any discomfort from her folly, her married, working neighbors must deprive their own children to support hers. To protect American bankers from stupid investments, American workers must raid their own savings and cover the losses. To protect "family farmers" from the reality of supply and demand, urban American families must squeeze their own budgets and fund subsidies and supports.

Again, the welfare state doesn't *eliminate* pain and suffering: it merely *transfers* them from one person to another. It's a measure of modern corruption that this sordid policy is defended as embodying "compassion." But it's a curiously selective compassion: compassion only for the deserved suffering of the irresponsible and foolish, and simultaneous indifference toward the undeserved suffering of the responsible and wise.

In truth, the Compassion Lobby's claim to moral concern is fraudulent. There's nothing compassionate in transferring pain and suffering from those who caused it onto those who didn't. It is cruel injustice. Yet that's the operative moral premise of the welfare state.

Because people make mistakes, pain is always unavoidable. The question is, who should bear it: those who cause it, or those who didn't? Likewise, the idea of a painless revolution is an oxymoron. Change is always painful; but keeping our present welfare state is also causing pain. Whose pain should be our concern?

For too long, in order to spare some the hardships of self-responsibility, we have been willing to batter and burden millions of decent, hardworking citizens. *They* are the real victims today, and *their* unjustified suffering must end.

To salvage the moral initiative we must have the courage to look the Compassion Lobby directly in the eye, and refuse to blink. Rejecting their phony compassion, we must state bluntly:

"It's high time you *did* feel some pain. Better *you* than those self-responsible people who have been too long compelled to support you in your irresponsibility." □

THE FREEMAN
IDEAS ON LIBERTY

Bilingual by Choice

by James M. McCaffery

In the summer of 1992, I was a guest lecturer in comparative law at a large private law school in Latin America. One morning before class, I read in a local newspaper that the newly appointed minister of education had decreed that Indian children (defined as children who spoke an Indian language at home), who had previously received all their public education in Spanish, would now be instructed in Indian languages through the sixth grade in order to preserve Indian culture and ease their transition to Spanish. Ominously, the article mentioned that bilingual and multicultural experts from the United States had been consulted in this matter; there was no mention if anybody had asked the Indians for their opinion. I decided to do so myself.

Shortly before, I had seen a report on television about a conference at which Latin American Indians had met to discuss their mutual problems. Interestingly, the conference was conducted in Spanish (with some Portuguese), the lingua franca among Indians from Mexico to Patagonia, whose native languages may be as mutually unintelligible as German is to Chinese. Even some Indian languages that are seen as being a single tongue (Quechua, for example) have dialects that vary as much as Latin-based Spanish and Latin-based French do from each other. In rural markets I have seen Indians, who are speaking an Indian language within their group, start speaking Spanish with another Indian from a different tribe.

Mr. McCaffery resides in New Orleans and is considered a great guide to Mardi Gras.

I put the paper down and went to my class, where I tried an experiment with my students, the children of the nation's elite. When I asked what they thought of bilingual education, I got some very enthusiastic answers. All of them thought that learning to read, write, and speak in English was very important. Few knew no English; most had at least a reading knowledge of English; two or three spoke it as well as I did (showing a great effort on the part of their parents). All of the students wanted their children to learn English. They realized that their children would need English to succeed in the world beyond Latin America.

When I mentioned to the students that I was talking about bilingualism of Spanish-speaking learning an Indian language, the students started to laugh. They figured that this was a strange form of *gringo* humor, like that of the American law professor who had come the year before to lecture on animal rights in a country that has starving children in the streets of some cities. However, when I insisted that there must be some benefit they could derive from knowing an Indian language, one young lady suggested that this might be useful since one could then have Indian maids who spoke no Spanish, rather than Spanish-speaking Indian maids who command higher wages. Their contempt for the idea could not have been more patent.

Later that evening, I spoke with our teenage Indian maid about this subject. Although I did not notice an accent in the girl's Spanish, my wife assured me that the maid had an "Indian" accent. The young girl said that her family spoke an Indian language both at home and with their neighbors in her village far from the capital. But she had learned Spanish from radio, television, the movies, and of course, in school. She was now working for a while in the city to improve her Spanish, to see the world, and to save up money for a dowry to better her marriage prospects when she returned home. Her brother had been drafted (willingly) into the Army, where young Indian men who were deficient in Spanish were put into Spanish immersion classes. Those who already spoke Spanish improved their grammar and pronunciation. The Indian girl said that her parents were happy that she was perfecting her Spanish in the big city and that her brother was being schooled in Spanish in the Army. Indian parents wanted their children to get the best possible education, which meant speaking, reading, and writing good Spanish: exactly how the elite viewed English for their children.

Thus, both the rich parents of the ruling elite of the capital, who send their children to law school and make sure they learn English, and the poor Indian parents of a small village in a remote province, who want their children to master Spanish, have made rational choices about their sons' and daughters' language preparation. For government officials to override such decisions against the best interest of children and the wishes of the parents is an abuse. In Latin America and in the United States it is an increasing problem.

Governmental Meddling

Consider the bizarre experience I had recently. I received notice that my six-year-old son was being removed from his normal French classes, to be put in ESL (English as a Second Language) classes—without my permission—because my wife and I had truthfully told the school system that Spanish is the language we normally use at home. There was no suggestion that his English was in any way deficient.

How this came about is a story of how mindless governmental meddling extends today even to the learning of language, which used to be guided by the normal laws of economics, common sense, and parental choice. As a young boy I grew up in the inner city of one of the great northern urban areas of the United States. The immigrant flotsam and jetsam of Eastern Europe, speaking dozens of languages, ebbed and flowed into that city after World War II. The Catholic Church across the street had all but one Sunday service in Croatian. (The last time I visited, all but one service was in English, showing the natural evolution of language choice.) My family attended the English-language Catholic Church several blocks away, which had been founded a century before by Irish immigrants (my father's people) and later inherited by German and Polish immigrants (my mother's grandparents). Although my mother spoke Polish and German at home, she attended school totally in English without any ill effect. I attended grade school with children who spoke German, Polish, Croatian, Hungarian, Romanian, Czech, and a dozen other languages or dialects at home. These boys and girls all achieved native ability in English without any special government programs to teach them the national language, now practically the world's language.

A friend of mine, now a prominent surgeon, grew up living with his parents and both pairs of grandparents. His mother and her family spoke Lithuanian; his father and his family spoke Hungarian; the two sides of the family communicated in German. All five children knew these languages, yet spoke English as their primary tongue as a natural consequence of living in the United States. Nobody had to convince the kids to learn English; it was self-evident. No government program was needed to help them learn English. Common sense and self-interest did the job.

Several years ago I read through a book of short biographies of Americans who had won the Nobel Prize, looking for any common linguistic pattern. The only conclusion I reached was that speaking Yiddish as a child seems to be a good indicator for winning a Nobel Prize. Can it be seriously argued that Yiddish-speaking students would have won more Nobel Prizes had they not been put in English immersion but instead had spent years in Yiddish classes to ease their "transition" to English?

The great historic lesson from our past—that immigrant parents prefer, for good reason, to have their children educated in English immersion in school while preserving their native language at home or at church or synagogue—is ignored by the politicized public education apparatchik. Immigrant parents today face increasing coercion as they stubbornly try to avoid bilingual or multicultural schemes. These parents understand that their children's future lies with ability in English, not Bengali or Vietnamese. The multicultural bureaucracy demands that immigrant children not evade their instructional clutches since there can be no funding for the "problem" of bilingualism if there are no children suffering from lack of native-language instruction. Perversely, the funding for bilingual education seems to come off the top of the education budget, not the bottom, reducing the funds going into real education.

Recently I met a couple who had moved to Louisiana from another state. They told me that they had been required by their previous school district to execute affidavits that they spoke English at home. Parents who admitted that they spoke a foreign language at home could not avoid being hassled and pressured by the multicultural programmers. Father and Mother evidently do not know best—the educational establishment does. The parents most harmed are those with the least education and at the lowest economic rung since parents who are professionals are better able to fend off the bureaucrats.

Significantly, the federal government does not practice the sort of bilingualism it preaches. The Department of Defense and the State Department employ "total immersion" to train their people in foreign languages, just the way immigrant children used to learn English.

There is nothing wrong with teaching children other languages. On the contrary, it is an excellent idea if done properly, by the parents, or at least with active parental support. My own children speak English, Spanish, and French (in approximately that order). However, this is a result of a conscious and reasoned decision by my wife (a native speaker of Spanish) and me, given the particular circumstances of our family and the unique resources available in New Orleans. No bureaucrat, no matter how well intentioned (most are—I am one myself), could possibly weigh these factors as well as we, the children's parents can.

Our children attend a French-language school (grades K through 8) in New Orleans established by the French government, in cooperation with the state of Louisiana and the Orleans Parish School Board. They are taught by teachers from France, using the same textbooks used in France. Except for the children of French citizens, entry to the school is on a first-come, first-serve basis, with a line forming several days before registration. Thus, I spent a day waiting (and a night sleeping) in line to register my child in French Immersion Kindergarten six years ago. Since siblings of students in the program are automatically admitted, all of us in the line were there for the first time.

My fellow parents in line were a mixed lot—racially, ethnically, linguistically, and economically. The first in line was a poorly dressed black woman, seemingly without much formal education, who had been in line several days. She said that she had given up several days' pay (obviously a great sacrifice for her) to be sure that her child got into the program since it was her daughter's only chance to get a quality education (her child is one of the best students in her grade, American or French). Many of the other parents in line were immigrants or foreign exchange students who spoke languages other than French or English at home: German, Russian, Chinese, Portuguese, Spanish, Polish, and Vietnamese, to mention a few. For them, like my wife and me, French would be a third language for their children, a responsibility all seemed to take quite seriously. There were doctors, laborers, lawyers, waitresses, civil servants, active duty military, and truck drivers in line that night.

The proportion of French surnames was probably not out of proportion to a random cross-section of the population in the area. Nobody seemed driven by ancestral genes to have their children study French, contrary to the tenet of the new government-imposed multiculturalism that ancestry alone determines linguistic ability and preference.

These people had made personal evaluations of their children's and their families' unique environment, ability, and resources in such an endeavor. For example, it is understood by the non-French-speaking parents that there will be a cost for private French tutors for their children. I spend about $200 monthly for such tutors, a cost that will surely increase as my children continue French at a more advanced level. No bureaucrat could possibly know the parents' resolve and resources in such matters, or gauge their resolve half as well as the first-come, first-serve system does in a crude but effective way. Because their parents are willing to bear the costs, the school's students are the children with the best opportunity to succeed in its French immersion program.

The official bilingual, multicultural movement is no respecter of parent's wishes or children's best interests. Throughout the nation, but especially in California, children with Hispanic surnames whose families may have spoken English for generations are being herded into bilingual Spanish programs, supposedly to help them adjust to learning English. Just as logically (or illogically), children with Irish surnames, such as mine, should be incarcerated in Gaelic-immersion to help them better adapt to learning English, Spanish, and French.

Except in the rare case of children who are literally wards of the state, the linguistic training of children should be the matter of familial and not governmental responsibility and choice. Parents quite naturally want their children to do well in life and wish them to master the language of the society in which they live, English in the case of the United States. In any event parents all over the world wish their children to learn English, the modern lingua franca of mankind. I have noticed that French families that are temporarily in New Orleans strive to have their children master English in the short time that they have in the United States.

To rephrase Clemenceau, language training of children is too serious a thing to be left to bureaucrats. The family knows best. ☐

Rolling Back the Imperial Congress

by Ralph R. Reiland

A top priority in the new Congress was to approve legislation that requires members of Congress to obey the same laws that they pass for the rest of us. No longer will the private sector be mandated to build wheelchair ramps while the disabled are told to forget about easy access to the Imperial Congress.

That's a revolutionary concept to the old guard on Capitol Hill. A few years ago, a former Senate Democratic leader stated: "It's been said here many times tonight that

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we want to treat Senators the same as everyone else, that we want to have the Senate treated the same as the private sector. Not a single Senator believes that. Not a single Senator wants that."

The senator was arguing that the hiring and firing decisions in a senator's office should be exempt from civil rights laws. The EEOC wouldn't be playing any quota games with victim groups in his office. Another senator put it more bluntly: "The Senate is no lumber yard."

Those senators are gone now. They didn't understand that most of us value the houses we get from lumber yards more than we value the meddlesome laws and red tape we get from Congress. The senators didn't understand why the public ranks Washington politicians below any other occupational category, including lumber workers. At least the guys carrying plywood buy their own stamps and don't confiscate part of our paychecks by voting themselves midnight pay raises.

The call to exempt the Senate from civil rights legislation wasn't unique. Congress has exempted itself from the most far-reaching and important pieces of modern legislation: the Civil Rights Act of 1964, the Freedom of Information Act of 1966, the Age Discrimination Act of 1967, the Occupational Safety and Health Act of 1970, the Equal Employment Opportunity Act of 1972, Title 9 of the Higher Education Act of 1972, the Rehabilitation Act of 1973, the Privacy Act of 1974, the Age Discrimination Act amendments of 1975, the Ethics in Government Act of 1978, and the Civil Rights Restoration Act of 1988.

With the Americans with Disabilities Act in 1990, Senator Charles Grassley of Iowa offered an amendment that said simply that the ADA would apply to the Senate. Sam Gerdano, senior counsel to Grassley at the time, reported that he and the senator were besieged by Capitol Hill lawmakers who were worried that they might be sued for discrimination under the bill. The amendment was defeated. The Lords of the Hill who created the world's worst litigation explosion didn't want to face trial by jury.

Many Washington politicians never learned that a nation dominated by an arrogant political class that creates an increasingly intrusive government and sneers at the work of the private sector ends up with an abundance of misery (and a shortage of lumber).

We've reached the point where over half of the GDP of the United States is socialized by the various levels of government through taxes, transfer payments, and regulations. Still, there's no shortage of politicians who push for more. They ignore the key economic fact that the more market-oriented, small government economies around the world outstrip their statist counterparts by virtually every measure. When the Berlin Wall was toppled, the per capita GDP in capitalist West Germany was twice that of socialist East Germany.

Today, South Korea's GDP is six times that of North Korea. Taiwan's is more than twenty times that of mainland China.

In 1993, for the first time, the United States had more people employed in government than manufacturing. Making rules was more important than making things. Increasingly, the government became a collection of litigiously minded busybodies and self-righteous social engineers who practiced less and less restraint in their assaults against private enterprise and personal liberty.

What's springing to life now is the public backlash against the ceaseless growth of monitoring by government bureaucrats and the job-killing explosion of taxation, litigation, and regulation. Making politicians in Washington subject to the rules and regulations they pass is a meaningful first step toward pulling the nation out of its statist rut and returning to common sense.

In November's election, the public elected more businessmen and businesswomen than lawyers to the freshman class of Congress. Let's hope they start running Washington, D.C., more like a lumber yard. □

THE FREEMAN
IDEAS ON LIBERTY

John Stuart Mill's Immortal Case for Toleration

by Jim Powell

John Stuart Mill's essay *On Liberty* (1859) is the most famous work about toleration in the English language. It is clear, concise, logical, and passionate. It defends toleration—of thought, speech, and individuality—as a practical means to promote happiness for the greatest number of people. The book inspired generations of classical liberal thinkers, and today it is probably the only historic work about toleration that most people ever read.

Yet from the standpoint of liberty generally, the philosophy behind *On Liberty*—Utilitarianism—was a terrible failure. Mill and other Utilitarians relentlessly attacked the doctrine of natural rights, a moral basis for liberty which had provided the only known intellectual barrier to tyranny. Natural rights, as explained by thinkers like Thomas Jefferson and Thomas Paine, defined what governments could not rightfully do. Neither Mill nor any other Utilitarian offered fixed principles to replace natural rights. As far as Mill was concerned, Utilitarianism became a moral plea for socialism. He didn't anticipate how socialist government power could unleash horrifying intolerance during the twentieth century.

Mill's opinion had to be reckoned with because he was the most influential English philosopher of the nineteenth century, the author of respected books on economics, logic, and political philosophy, a prolific journalist, the editor of a widely followed journal of opinion, a friend of leading intellectuals in Europe and the United States. People listened when Mill spoke about a vital issue.

Mill owed his influence perhaps as much to his appealing personality as to his intellectual firepower. He was a rational, positive, generous man who sincerely loved liberty. There is moral fervor in *On Liberty,* even if he couldn't bring himself to justify liberty for moral reasons. He was far ahead of his time in insisting that women are entitled to equal rights with men—he endured more hostile criticism for his book *The Subjection of Women* (1869) than for anything else he wrote.

Recalled classical liberal author John Morley who first met Mill several years after *On Liberty* was published: "In bodily presence, though not commanding, at sixty he was attractive, spare in build, his voice low but harmonious, his eye sympathetic and responsive. His perfect simplicity and candour, friendly gravity with no accent of the don, his readiness of interest and curiosity, the evident love of truth and justice and improvement as the standing habit of mind—all this diffused a high, enlightening ethos that, aided by the magic halo of accepted fame, made him extraordinarily impressive."

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The Training of a Philosopher

Mill had humble beginnings. Not much is known about his mother, Harriet Barrow. His father James Mill went to the University of Edinburgh on a scholarship for potential clergymen in the Scottish Church. But after graduation James rebelled against Church doctrines and moved to London following the death of his mother and the bankruptcy of his father's meager shoemaking business. Although James Mill wasn't particularly qualified for anything, he was resourceful and got himself a succession of jobs editing small publications. His firstborn, John Stuart Mill, arrived on May 20, 1806.

Two years later, when James Mill was 35, he met the 60-year-old philosopher and legal reformer Jeremy Bentham. This eccentric bachelor was quite a sight in an austere Quaker-cut coat, knee breeches, and white woolen stockings. Bentham had developed the doctrine of Utilitarianism—government policy should aim to help achieve the greatest happiness for the greatest number of people. Bentham promoted the expansion of the voting franchise, and he attacked the irrational, conflicting features of British law. Bentham's zeal inspired James Mill to become a passionate political reformer.

Mill decided to groom his eldest son as a rationalist philosopher who could guide the next generation of political reformers. This involved an ambitious experiment in accelerated education at home. The curriculum consisted mainly of great books. John Stuart Mill started learning Greek when he was three. He learned Latin, arithmetic, algebra, geometry, and political economy by the time he was a teenager.

In May 1823, when John Stuart Mill was 17, he gained security for life—a six-hour-a-day administrative job at the East India Company, arranged by his father who had been working there four years. John Stuart Mill's starting pay was only £30 a year, but he got promotions and had plenty of time for intellectual pursuits. He was to work at the East India Company for 35 years.

Mill's first freelance effort to improve the world landed him in jail for a couple days on an obscenity charge: concerned about overpopulation, he had distributed birth control information in a London park. Mill was defiant, but his family and friends were scandalized.

He launched his scholarly career, writing articles for the *Westminister Review,* the Utilitarian journal which started publication in 1824, financed by Bentham and filled with articles by associates of both Mills. They attacked ideas expressed in the Whig *Edinburgh Review as* well as the Tory *Quarterly Review.*

Mill seemed to be fulfilling his dream. But after all the years of absorbing facts, concentrating on his logical powers and without a close personal relationship, he suffered a nervous breakdown in 1826. He was 20. His severe depression continued for about six months, although nobody else seems to have noticed. In the spring of 1827, he read the memoir of a minor eighteenth-century French playwright named Marmontel who talked about the death of his father, the grief of his family, and how he discovered new meaning for his life. Mill was moved to tears, reminding him that he really did have feelings. He began to read poetry. He flirted with the ideas of French socialists Comte de Saint-Simon and Auguste Comte.

The Influence of Harriet Taylor

In the summer of 1830, when Mill was 24, he had dinner at the home of London merchant John Taylor and met his 22-year-old wife, Harriet Taylor, who, it turned out, shared these passions. According to one acquaintance, she "was possessed of a beauty and grace quite unique of their kind. Tall and slight, with a slightly drooping figure, the movements of undulating grace. A small head, a swan-like throat, and a complexion like a pearl. Large dark eyes, not soft or sleepy, but with a look of quiet command in them. A low sweet voice with very distinct utterance emphasized the effect of her engrossing personality."

Mill was enchanted. They became an item, with a resigned John Taylor's consent.

They spent time together in London and traveled through Europe together, scandalizing their friends. For about two years, Mill was her mentor, sharing his panoramic view of Western thought. Gradually, though, she gained influence over Mill. She suggested changes in his manuscripts, and he reflected her passion for women's rights and social reform.

His *Principles of Political Economy* (1848) was a collaborative effort, and it became the most influential economics book of the nineteenth century. It was sophisticated enough to satisfy the most rigorous thinkers, yet it was written in plain language, understandable by almost everyone. Mill prepared the draft, she critiqued it, and he dutifully made changes which were significant in later editions (there were four editions before she died, eight altogether). He eliminated his most serious objections to socialism.

John Taylor died in July 1849. Two years later, Mill and Harriet Taylor decided to get married, and he gave her a written agreement foreswearing any special legal privileges as husband. Alas, her health was frail. In November 1858, she succumbed to tuberculosis.

On Liberty

Mill had started writing *On Liberty* in 1855. He and Harriet collaborated on it, and after her death he worked to complete it. The book was published in February 1859, dedicated to her. Like most intellectuals, Mill was mainly interested in freedom of thought and was much less concerned about freedom of action, which required secure private contracts as well as private property. The book is an eloquent plea for toleration rather than a general defense of liberty, as commonly supposed. Nonetheless, the vigor of Mill's language makes clear that he did value liberty for its own sake and not just as one among many possible ways to achieve a Utilitarian's conception of happiness.

"The object of this Essay," he wrote, "is to assert one very simple principle . . . the only purpose for which power can be rightfully exercised over any member of a civilised community, against his will, is to prevent harm to others . . . Over himself, over his own body and mind, the individual is sovereign." Mill's "one very simple principle" became quite controversial. Adversaries claimed everything an individual might do affected others and therefore was potentially subject to government intervention.

As expected, Mill based his case on "utility," rejecting natural rights and offering practical reasons for tolerating unorthodox opinions: "First, if any opinion is compelled to silence, that opinion may, for aught we can certainly know, be true. To deny this is to assume our own infallibility.

"Secondly, though the silenced opinion be an error, it may, and very commonly does, contain a portion of truth; and since the general or prevailing opinion on any subject is rarely or never the whole truth, it is only by the collision of adverse opinions that the remainder of the truth has any chance of being supplied.

"Thirdly, even if the received opinion be not only true, but the whole truth; unless it is suffered to be, and actually is, vigorously and earnestly contested, it will, by most of those who receive it, be held in the manner of a prejudice, with little comprehension or feeling of its rational grounds. And not only this, but, fourthly, the meaning of the doctrine itself will be in danger of being lost, or enfeebled, and deprived of its vital effect on the character and conduct. . . ."

Then Mill insisted that individuality ought to be tolerated even when eccentricities bother other people. First, he observed that cultivation of individuality is essential for well-developed human beings. Second, he reminded readers that you never know which individuals will contribute valuable innovations.

Mill recognized that liberty cannot survive government takeover of the economy: "If the roads, the railways, the banks, the insurance offices, the great joint-stock companies, the universities, and the public charities, were all of them branches of the government; if, in addition, the municipal corporations and local boards, with all that now devolves on them, became departments of the central administration; if the employes of all these different enterprises were appointed and paid by the government, and looked to the government for every rise of life; not all the freedom of the press and popular constitution of the legislature would make this or any other country free otherwise than in name."

Yet, inexplicably, Mill didn't see that government control is every bit as dangerous as outright government ownership. For example, while he opposed government schools, he heartily urged that government compel all children to attend schools, set educational standards, conduct regular examinations to verify that standards are being met, and if necessary the government might have to provide education. Equally amazing, this fabled Utilitarian, as devoted as ever to reason, failed to make a reasoned case for government control. While he disparaged natural rights philosophers for basing their views on "self-evident" truths, he claimed that government control of education was "almost a self-evident axiom." Moreover, Mill took the puzzling position that free trade could not be justified by his principles of liberty.

Mill didn't come up with anything to take the place of natural rights which clearly define human liberty and set specific, enforceable limits to government power. His cherished principle of utility turned out to be a slippery slope.

Without the anchor of natural rights, Mill found himself advocating steep inheritance taxes, nationalization of land, local government takeover of gas companies and—most astounding—universal military conscription. Utilitarian James Fitzjames Stephen went much further, advocating an authoritarian government to forcibly improve human behavior by applying Bentham's pleasure-pain principle on a grand scale. During the twentieth century, intellectuals and mobs alike swept aside practical considerations as they plunged into socialism.

In later writings, Mill made clear that he didn't think socialism or communism would work. For example, in *Chapters on Socialism*, a partial draft of a book he started in 1869, published posthumously by his stepdaughter in 1879, he recognized that socialist policies don't give people any incentive to improve their performance. Mill dismissed talk about central planning.

While Mill presented a compelling practical case for liberty, he avoided a moral defense of liberty. Indeed, he made it clear that he believed socialists occupied the moral high ground. Mill died on May 5, 1873, still trying to reconcile the seeming desirability of socialism with its evident dangers.

Despite critical limitations, Mill's essay did much to stimulate continuing debate about liberty. He expressed his practical case more passionately than anyone else, especially his declaration that there is a significant sphere of individual action which should never be restricted by government. Mill's work survived his death and penetrated mainstream opinion like few writings about liberty before or since. For that, he achieved immortality. □

THE FREEMAN
IDEAS ON LIBERTY

The Story of a Movement

by Peter J. Boettke

In June of 1974 in the little town of South Royalton, Vermont, the modern resurgence of Austrian economics began. George Pearson, who had graduated from Grove City College and was then working with the Institute for Humane Studies, initiated the idea to bring together the three leading active scholars in Austrian economics—Israel Kirzner, Ludwig Lachmann, and Murray Rothbard—to present a series of lectures to young faculty and graduate students who had expressed an interest in Austrian economics to the Institute.

The list of attendees was truly impressive. Besides the lecturers, such senior luminaries within Austrian economics as W. H. Hutt and Henry Hazlitt were in attendance. Even Milton Friedman dropped by for one evening—though Friedman never bought the idea of a unique Austrian economics independent from other schools of neoclassical economics. The younger generation of participants included D. T. Armentano, Walter Block, Richard Ebeling, Roger Garrison, Jack High, Don Lavoie, Laurence Moss, Gerald O'Driscoll, Mario Rizzo, Joseph Salerno, Sudha Shenoy, and Karen Vaughn. Each of these individuals has subsequently made a name within the invisible college of Austrian economists.

Other well known scholars and intellectuals—not exclusively associated with Austrian economics but whose work conveys a deep affinity to Austrian economics—were also in attendance: John Blundell (now President of Institute of Economic Affairs in London), David Henderson (Professor of Economics at the Naval Post-Graduate School, and the editor of *The Fortune Encyclopedia of Economics*), Randall Holcombe (Professor of Economics at Florida State University, and the author of numerous studies in public choice economics), and Svetozar Pejovich (Professor of Economics at Texas A&M University and a pioneer in the economic analysis of property rights).

The South Royalton lectures were published in 1976 as a volume entitled *Foundations of Modern Austrian Economics*, edited by Ed Dolan. This volume became the major introduction to Austrian economics for my generation, that is, for those of us who reached graduate school in the 1980s. The success of the South Royalton conference demonstrates how small events can have a major impact.

At the time of the conference in the summer of 1974, Austrian economics was in desperate shape. The towering intellect of the modern Austrian school, Ludwig von Mises, had passed away in the fall of 1973. His most senior intellectual heir, F. A. Hayek, appeared to have lost interest in economic theory long ago. The legacy of Austrian economics rested in the hands of Israel Kirzner, Ludwig Lachmann, Murray Rothbard, Hans Sennholz, Percy Greaves, a few other professors scattered about small colleges, the staff at FEE, some like-minded individuals at foundations and institutes like

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Dr. Boettke teaches economics at New York University. He would like to thank Mario Rizzo and Edward Weick for helpful comments on an earlier draft.

Austrian Economics in America: The Migration of a Tradition by Karen I. Vaughn (New York: Cambridge University Press, 1994), 198 pages $49.95

Liberty Fund and IHS, and a rag-tag group of undergraduate and graduate students.

Twenty-one years later, Austrian economics is still not on the required reading list at Harvard, but it has experienced great growth in terms of thought and influence. Formal instruction in Austrian economics is no longer limited to Grove City College. Many colleges across the land now offer explicitly or implicitly Austrian courses at both the undergraduate and graduate level. Some two dozen faculty at more than a dozen colleges and universities come immediately to mind, and no doubt many more would figure on a complete list. Moreover, the Ludwig von Mises Institute, with its summer "Mises University" program, FEE and the New York University Austrian Economics Program with their joint Advanced Seminar in Austrian Economics, and IHS, with its Liberty and Society seminar program, continue to introduce and cultivate student interest in Austrian scholarship.

The growth of interest in Austrian ideas, has spread well beyond the United States. Two years ago a conference was held in the Netherlands dealing with the history of Austrian economics, and in January of 1995 another conference was held in the Netherlands dealing with contemporary Austrian economics. In Germany, Austrian ideas have been influential in the development of an "evolutionary economics" promoted by Professor Urlich Witt of the University of Freiburg. The head of the prestigious Max Planck Institut for the Study of Economic Systems in Jena, Professor Manfred Streit, has explicit ties to the resurgent Austrian school. In Spain, Italy, France, New Zealand, Austria, and England major intellectual figures are pushing out the Austrian paradigm. In Brazil and Argentina there is a South American Austrian movement, and Guatemala is home to a Central American contingent of Austrian school economists (even a university where the main library is the Ludwig von Mises Library!). Throughout Eastern Europe and Russia, Austrian economists have emerged from the rubble of Communism. Vitali Naishul in Moscow, for example, is one of the most thoughtful scholars and political economists on the Russian scene. Australia as well boasts a vibrant classical liberal movement that has been influenced greatly by the works of Mises and Hayek.

Whereas twenty years ago there was no journal or publisher eager to promote Austrian work, today we have the journal *Review of Austrian Economics* and the research annual *Advances in Austrian Economics*. There are Austrian book series with Kluwer Academic Publishers (The Ludwig von Mises Institute), Routledge (the NYU Austrian Economics Program), and New York University Press (also the NYU Austrian Economics Program). Austrian works are not limited to these publishers or journals but can be found throughout university press and academic press catalogues (Cambridge, Chicago, Blackwell, Westview, Edward Elgar), and across the economic journals.

The Resurgence of Austrian Economics

In a wonderfully written new book, *Austrian Economics in America*, Karen Vaughn tells the story of how all of this took place. Her task is not so much to tell the institutional and personal story of the resurgence of Austrian ideas, but rather to convey to other economists the ideas and problems (both theoretical and empirical) that came to define the resurgence in Austrian economics in the 1970s and 1980s. Her story is focused exclusively on the U.S. experience and not the international growth that has become evident within the past few years. She tells an exciting intellectual story of a movement which had by 1974 been "reduced" to a few professors and a band of graduate students, who set about to make a name for themselves and the ideas they were committed to exploring. This is a story of the courage of convictions. Many of the younger scholars took their lumps over the years at the hands of the established academic traditions of economic scholarship which were intolerant of Austrian deviations.

Vaughn accurately conveys the spirit of open inquisitiveness that has characterized the modern resurgence of Austrian ideas. Ludwig Lachmann's great contribution to modern Austrian economics was to "shake the tree" so to speak. His willingness to push for the consistent development of subjectivist ideas—wherever they might lead—forced the younger generation of Austrian economists to think hard for themselves about the meaning of market processes and the relationship of Austrian economics to neoclassical economics. An unintended consequence of this pushing by Lachmann was the continued refinement of the argument by Lachmann's colleague and main opponent on several issues of basic economic theory, Israel Kirzner. Vaughn favors Lachmann's position in the debates over the implications of subjectivist thought for equilibrium propositions, and over the relationship of Austrian economics with neoclassical economics. As she states: "Despite the daunting nature of the task, I ultimately side with the Lachmannians, who argue that if Austrian economics is to have a future, it must lead to a complete recasting of the organizing principle of economic theory. Otherwise, it seems inevitable that the ideas of the new Austrians will either fade from view or be absorbed into the neoclassical orthodoxy in ways that Austrians will claim still miss the point" (p. 9).

It is important to stress that Vaughn, despite her conclusion concerning the long-term viability of traditional Austrian economics, does not build a strawman out of the more traditional Austrian position. She tries to deal fairly with Kirzner's subtle understanding of market processes and the continual maturation of that understanding over the twenty-year period she is studying (pp. 101–103; 139–150).

Lachmann, Kirzner, Rothbard

In her book the Lachmann/Kirzner debate takes center stage in the revival of interest in Austrian economics. The late Murray Rothbard plays a vital role in stimulating the resurgence of interest in Austrian economics, but he quickly disappears from the intellectual scene Vaughn is interested in analyzing (see pp. 93–100). This is because in Vaughn's account, Rothbard declined to address Lachmann's argument concerning the nature of equilibrium propositions within economics. Thus Rothbard—arguably the most important intellectual figure in the eyes of the participants at the South Royalton Conference—is strangely peripheral to the foundational internal debate amongst Austrian economists on the implications of consistently pursuing the subjectivist paradigm. While in the late 1960s and early 1970s the central characteristic of young Austrians was their interest in the Rothbardian system (including his radical libertarianism), by the early 1980s modern Austrian economics was engulfed in a theoretical controversy in which Rothbard did not really participate.

While Vaughn admits to her Lachmannian sympathies, it is clear that her position is as much influenced by her South Royalton student colleagues—Don Lavoie, Gerald O'Driscoll, and Mario Rizzo—as by the troika of Professors Kirzner, Lachmann, and Rothbard.

Vaughn has long endorsed Lavoie's work in comparative systems (she had in fact anticipated Lavoie's argument somewhat in her 1980 paper in *Economic Inquiry*). It was through her suggestion that Lavoie eventually came to publish his dissertation on the calculation debate as the seminal book *Rivalry and Central Planning* with Cambridge University Press (see her own discussion of the issues surrounding the economic calculation argument on pp. 38–61). But Vaughn also reports in this book how much she has intellectually benefited from her association with Lavoie on other issues (see pp. 127–133). Lavoie's examination of the philosophical "foundations" of modern Austrian economics in the mid-1980s, inspired by Lachmann, led him to a position sharply critical of neoclassical economics (in fact, Lavoie has since abandoned the confines of an economics department for the promise of a more intellectually viable interdisciplinary social-theory program). Vaughn became increasingly aware of her own Austrianism and persuaded of the irreconcilibility of that position with neoclassical economic theory.

O'Driscoll and Rizzo, through their coauthored book, *The Economics of Time and Ignorance*, provide the other pillar for Vaughn's understanding of where modern Austrian economics must go to develop further (pp. 133–138; 162–178). O'Driscoll and Rizzo set out to explain what Austrian economics was to a wider professional audience. Their book turned out to be a major reconstruction of Austrian economics, again inspired by Lachmann. Like others within the radical subjectivist camp of Austrian economics, Vaughn is particularly impressed with their arguments concerning the potent implications for economic understanding of the passage of real time, in contrast to the sterile treatment of time within more mainstream models of economic life.

Vaughn readily admits that the theoretical project she associates with modern Austrian economics—the project of developing an economics that will deal seriously with the passage of time and the implications of our ignorance—is still emerging. The promise of a more realistic and relevant economics largely remains to be fulfilled. But the accomplishments made so far, in fields of comparative systems, money and banking, law and economics, industrial organization, philosophical economics and pure theory, bode well for the continued fertility of a reconstructed Austrian economics.

Some readers may have problems with this or that aspect of the story Vaughn tells, but they would miss the point. If *Austrian Economics in America* had been an intellectual history of modern Austrian economics, then it could have explored more the archives of institutes like FEE, the Volker Fund, IHS, and Liberty Fund, or employed more extensively interviews with surviving members of Mises' seminar at NYU, or examined the private papers of Austrian economic scholars, to see how Austrian economics was kept afloat during its dark age of the 1950s and 1960s. That kind of history of Austrian economics is yet to be written.

Vaughn, a former president of the History of Economics Society, certainly doesn't need a lesson in how to do a history of economic thought (see her study on Locke or her various papers on Menger). Her decision not to detail the institutional history (though she does give each of these institutes mention and in doing so points the interested student in the right direction) was due to the nature of her project. Vaughn wanted to tell the history of modern Austrian economics through its internal intellectual debate rather than through its institutional infrastructure and personalities. She uses the history of the 1950s and 1960s only to set the stage for the subsequent debate (see pp. 62–91).

Vaughn's analysis of the potential tension within Mises' theoretical system is extremely important in this regard. Mises' *Human Action* presented the reader with a system of thought which was at the same time: (1) a radical subjectivist research program in economics that demanded a reconstruction of the entire corpus of economic science (from methodology to capital theory), yet was also (2) an example of orthodox economics pointing out the errors in the "New Economics" of Keynes and the fallacies of Institutionalism and mathematical market socialism. What was the connection between Mises' consistent development of Carl Menger's subjectivism and his classical liberal political economy? How did Mises differ from other classical liberal economists, such as the classical economics of Adam Smith or the contemporary neoclassical economics of Frank Knight? Does the economic policy wisdom of classical economics hold after the theory has been reconstructed in light of the subjectivist and marginalist revolution? Highlighting these potential tensions within Mises' *Human*

Action is a major contribution of Vaughn's book and should stimulate further research into the relationship between the theoretical economics and public policy of Mises.

While Vaughn's intellectual task is to summarize the terms of a debate in economic theory, she does go beyond the narrow confines of that project to enliven her narrative. Being the excellent storyteller she is, Vaughn gives the reader an excellent glimpse into the main personalities and institutions in the history of Austrian economics. We get tasty tidbits concerning Mises' Vienna and NYU seminar, and firsthand accounts of discussions in the Rothbards' living room, in the hallways of various conferences, and at the lunch table at George Mason University. Stuffy scholarly conventions may not approve, but this is interesting reading. The spice does not deter from her scholarly project. Vaughn focuses on her main task (and accomplishes it to my mind), and yet invites further research into the history of the subject by expertly whetting our appetite. There is great stuff in this book, material to learn from, disagree with, and take as a motivation for further exploration.

Some may be concerned that Vaughn sides with the radical subjectivist element within the Austrian movement. Here, I must honestly state I am not the best critical judge of this issue because my intellectual sympathies lie with radical subjectivism. Unlike many of my colleagues within the radical subjectivist wing of modern Austrian economics, however, I see within Kirzner's refinements to his market process theory (refinements made in response to the work of Lachmann and of G.L.S. Shackle, and James Buchanan) strong possibilities of reconciliation between radical subjectivist ideas and more traditional Austrian arguments about the systematic nature of market processes. In particular, the Misesian view of the functional significance of economic calculation within capitalist processes of production, as elaborated within Kirzner's theory of entrepreneurial discovery, offers a conception of market coordination radically different from neoclassical theory, yet provides us with a coherent notion of economic order and an alternative standard of economic welfare from which to judge states of the world. Following Lachmann we must reconstruct economics along consistently subjectivist lines, but as Lachmann himself said, we must be thankful we have Mises' work to aid us in this task.

Whatever side one takes on these issues, one must recognize the importance of Vaughn's book. One of the leading academic publishers in the scholarly world has published a book-length treatment of the debates which animate modern Austrian economics. This is a major intellectual event, and should be celebrated by all those who have an interest in Austrian economics. Twenty years after a conference in a little town in Vermont, organized on a shoestring budget and attended by a small group of beleaguered professors and interested graduate students, Austrian economics is not only alive and well, but thriving.

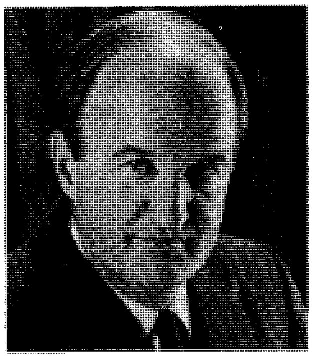
Milton Friedman stated at that South Royalton conference that there was no such thing as Austrian economics—only good economics and bad economics. Well, Friedman was right to an extent. But it turns out that Austrian economics—seriously grappling with the implications of time and ignorance for economic science, rather than focusing instead on ever more refined exercises in constrained optimization—provides the foundation for a humanistic, logically sound, and policy-relevant economics. In the end, that is Vaughn's conclusion and that is something which all the branches of modern Austrian economics can celebrate. □

In Memoriam
John Chamberlain

October 28, 1903–April 9, 1995

He laid down his pen and was gathered to his people.

Did the Gold Standard Cause the Great Depression?



"Far from being synonymous with stability, the gold standard itself was the principal threat to financial stability and economic prosperity between the wars."
—Barry Eichengreen, *Golden Fetters* (1992), p. 4

Berkeley Professor Barry Eichengreen has fueled the flames of anti-gold in his recent historical work, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (Oxford University Press, 1992). Essentially, the author argues that (1) the international gold standard caused the Great Depression and (2) only after abandoning gold did the world economy recover. The book has been praised by colleagues, further dampening enthusiasm for the precious metal as an ideal monetary system.

It should be noted at the outset that Eichengreen, a Keynesian, is extremely biased against gold. In 1985, while teaching at Harvard, he edited a collection of essays entitled *The Gold Standard in Theory and History* (New York: Methuen, 1985), which pretends to offer a "complete picture" of how an international gold standard would operate, with pro's and con's. Yet he failed to include a single article by a gold supporter! His last chapter, "Further reading," makes no reference to Mises, Hayek, Röpke, Rothbard, Sennholz, Laffer, and other noted defenders of gold. So much for objectivity and what MIT professor Peter Temin calls "the best collection of readings on the gold standard available today."

Despite his extensive research and history, Eichengreen cannot crucify mankind upon a cross of gold. In reality, the blame for the Great Depression must be laid at the feet of Western leaders who blundered repeatedly in re-establishing an international monetary system following the First World War. Their mistake was establishing a fatally flawed mixture of gold, fiat money, and central banking, known as the "gold exchange standard," instead of returning to the "classical gold standard" that existed prior to the Great War.

Eichengreen rightly points out that the mischief began during the First World War, when the European nations went off the gold standard and resorted to massive inflation to pay for the war. Following the Armistice, European nations desired to return to gold-convertible currencies, but they created a weak monetary system known as the "gold exchange standard," where currencies were pegged primarily to the British pound and the American dollar rather than to gold itself. The gold exchange standard created a pyramid of paper claims upon other paper claims, with gold playing a far lesser role.

Austrian economists, such as Ludwig von Mises and F. A. Hayek, and the American sound-money school, led by Benjamin Anderson and H. Parker Willis, recognized that the fractional-reserve, fixed-exchange gold standard was a recipe for disaster. They predicted an eventual economic crisis under the gold exchange standard.

Monetary troubles worsened when, in 1925, Britain made the fateful error of pegging the pound at the exchange rate that prevailed before World War I at $4.86, clearly an artificially high rate. As a result, Britain suffered a deflationary depression for the rest of the 1920s. Moreover, to help Britain return to gold at the prewar ex-

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change level, the Federal Reserve pushed down interest rates in 1924 and 1927, igniting a fateful inflationary boom in the U.S.

Eichengreen blames the gold standard, but the real fault lies in Britain's nationalistic zeal to return to gold at an artificially high rate. A more sensible solution would have been for all European nations, including Britain, to return to gold at a redefined rate that recognized the increased supply of money and price levels following the war. In Britain's case, this would have meant a new exchange rate of approximately $3.50.

Eichengreen also blames the gold standard for the monetary crises of the 1920s and 1930s, but it was really a gradual movement away from a genuine gold standard that caused the economic debacle of the 1930s.

Eichengreen even admits that the prewar classical gold standard worked well. He writes, "For more than a quarter of a century before World War I . . . the gold standard had been a remarkably efficient mechanism for organizing financial affairs." (p. 3) Eichengreen attributes exchange-rate stability and prosperity to international cooperation, but the underlying reason was that industrial nations largely avoided inflation and strictly linked their monetary policy to gold flows during this period.

The classical gold standard required issuers of money to hold sufficient gold reserves to handle the demands of anyone who wished to redeem their currencies into lawful money. National banknotes and bank reserves were redeemable in gold coins or bullion at any time. For example, each gold certificate issued by the U.S. Treasury contained the following declaration: "This certifies that there has been deposited in the Treasury of the United States of America TWENTY DOLLARS IN GOLD COIN payable to the bearer on demand." Although the U.S. Treasury did not maintain 100 percent specie reserves for all its legal obligations under the classical gold standard, it did hold more than 100 percent reserves to cover its gold certificates.

Auburn University economist Leland Yeager explains the virtues of a fully-backed commodity standard: "Under a 100 percent hard-money international gold standard . . . the government and its agencies would not have to worry about any drain on their reserves. . . . There would be no danger of gold deserting some countries and piling up excessively in others . . ."[1] Because of monetary stability under the prewar gold standard, Milton Friedman and Anna J. Schwartz conclude, "The blind, undesigned, and quasi-automatic working of the gold standard turned out to produce a greater measure of predictability and regularity—perhaps because its discipline was impersonal and inescapable—than did deliberate and conscious control exercised within institutional arrangements intended to promote monetary stability."[2]

Was the Depression Inevitable Under Gold?

Eichengreen and other gold critics have pointed out that in a crucial time period, 1931–33, the Federal Reserve raised the discount rate for fear of a run on its gold deposits. If only the U.S. had not been on a gold standard, the critics say, the Fed could have avoided this reckless credit squeeze that pushed the country into depression and a banking crisis. However, Friedman and Schwartz demur, pointing out that the U.S. gold stock *rose* during the first two years of the contraction. But the Fed reacted ineptly. "We did not permit the inflow of gold to expand the U.S. money stock. We not only sterilized it, we went much further. Our money stock moved perversely, going down as the gold stock went up."[3]

In short, even under the defective gold exchange standard, there may have been room to avoid a devastating worldwide depression and monetary crisis.

How should we solve our continuing monetary problems? After recounting the chaotic events between the world wars, Eichengreen opposes the strict discipline of gold. Amazingly, he calls for more international cooperation between central banks, which even he admits is "weak soup for dinner at the end of a bitter cold day." (p. 398) A much better solution would be to return the classical gold standard. □

1. Leland Yeager, "An Evaluation of Freely Fluctuating Exchange Rates," quoted in Mark Skousen, *Economics of a Pure Gold Standard*, 2nd ed. (Mises Institute, 1988), pp. 81–82.

2. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton University Press, 1963), p. 10.

3. *A Monetary History*, pp. 360–61.

BOOKS

Hayek on Hayek: An Autobiographical Dialogue

edited by Stephen Kresge and Leif Wenar

The University of Chicago Press • 1994 • 208 pages • $27.50

Reviewed by Robert Batemarco

F.A. Hayek died in 1992 at the age of 92. Most readers of *The Freeman* know of his writings on business cycles and political philosophy. But what of Hayek the man? *Hayek on Hayek*, a supplement to the planned 19-volume *Collected Works of F.A. Hayek*, gives us insight into the life experiences and turn of mind that shaped one of the premier free-market economists of our time.

Prominent among the economic concepts Hayek brought to light was the idea of the market economy as a "spontaneous order." How fitting this was in light of the unforeseeable events which impelled Hayek's career along the circuitous path it traveled. Attracted to economics by his experience in World War I, cured of Fabianism by Ludwig von Mises, drawn to theorizing by his exposure to Wesley Mitchell's "history without theory," he ended up forsaking his youthful fascination with biology. His early plan to straddle the academic and government sectors was also derailed by external events—his drawing the attention of Lionel Robbins and being offered a position at the London School of Economics, World War II preventing his return to Austria, and the success of *The Road to Serfdom*, which at the same time reduced his standing among professional economists and led to a position at the University of Chicago's Committee on Social Thought. Hayek's migration from country to country kept him, for the most part, out of the government sector. He was ultimately thankful for this, having theorized "that all economists who serve in government are corrupted as a result. . . . I owe my own independence [to the fact] that I cleared out of every country as soon as they started using me for governmental service."

Hayek relates that the most intellectually stimulating period of his life was that part of the 1930s he spent at LSE. It was there that his work on the business cycle led him to prominence as the principal critic of John Maynard Keynes. When Hayek stood up to Keynes' customary attempt to intellectually steamroller younger colleagues, meeting him with serious arguments at every turn, he earned the respect of his nemesis. Despite the close friendship that eventually developed between the two men, Keynes' intellectual evaluation of Hayek was no better than "Of course he is crazy, but his ideas are rather interesting."

Hayek's view of Keynes was no more flattering. He describes Keynes as devoid of any knowledge of economic history, even of economic theory other than Marshall's, yet supremely confident that he knew more than anyone else. As Hayek put it, "He was so convinced that he was cleverer than all the other people that he thought his instinct told him what ought to be done, and he would invent a theory to convince people to do it."

Not carrying the day over Keynes was not only one of Hayek's biggest personal disappointments, but also represented a collapse of effective intellectual opposition to the inflationary policies that have prevailed ever since. Ironically, Hayek believes that the combination of Keynes' sudden death, which accorded him a sort of secular sainthood that placed criticism of his ideas beyond the pale, and his own demonization among academic economists as a result of his *Road to Serfdom*, finalized Keynes' victory. Nonetheless, Hayek confides that his own belief in the Austrian Business Cycle theory he espoused was strengthened by subsequent events.

At this point in his career, Hayek tired of macroeconomics and his professional work turned to methodology and political philosophy. Conceiving of economics as an empirical science, he deviated from the praxeological approach pursued by his mentor, Ludwig von Mises. However, he never accepted the positivism dominant in the economics profession today, which teaches that theories derived from false assumptions are fine as long as they yield accurate predictions. Indeed, his failure to have even attempted to rebut Milton Friedman's *Methodology of Positive Economics*, which he deemed "in a way . . . quite as dangerous a book," as Keynes' *General Theory*, was another major source of regret to Hayek.

In some ways, Hayek's method was his downfall. In contrasting the mental aptitudes of Böhm-Bawerk, "the absolute master of his subject," and Wieser, "a slow thoughtful person, to whom nothing was simple, . . . who hated discussing anything because he had to give a quick answer," Hayek makes it clear that he himself more resembled Wieser. He adds, "what original ideas I have actually had did not come out of an orderly process of reasoning."

In discussing his own adolescent rejection of the Catholic faith into which he was born, Hayek opined that, "if someone really wanted religion, he had better stick to what seemed to me the 'true article,' that is, Roman Catholicism. Protestantism always appeared to me as a step in the process of emancipation from a superstition . . . which, once taken, must lead to complete unbelief." Surely, both Catholics and Protestants will take exception to different parts of this claim. I raise it, however, because of a parallel I detect between his rejection of the religious orthodoxy of Catholicism and the Austrian economic orthodoxy of praxeology. While in turning away from the latter, Hayek never approached the total rejection of free-market economics, he did move further in that direction than many people realize. This comes through in the transcript of a 1945 radio discussion of *The Road to Serfdom* reproduced here. Free-market purists will surely cringe at the concessions Hayek makes under the admitted pounding he takes from the other panelists, one a socialist, the other a New Dealer: expressing support for a government-guaranteed minimum income and central banking ("that the monetary system must be under central control has never, to my mind, been denied by any sensible person"), for instance.

The narrative is, as one would expect from this type of book, somewhat fragmented and occasionally repetitious. Still, the editors deserve our gratitude for weaving together as well as they did this melange of scattered autobiographical notes and interviews into a coherent narrative. Their efforts have accorded us a glimpse into the prolific mind of a man who, whatever his compromises, courageously opposed the inflationary, socialistic, and redistributive spirit of his age. □

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The New Unionism in the New Society: Public Sector Unions in the Redistributive States

by Leo Troy

George Mason University Press • 1994 • 228 pages • $42.50

Reviewed by Charles W. Baird

Leo Troy, Distinguished Professor of Economics at Rutgers University, has written much about the American union movement—its history, law, economics, and future prospects. The focus of his work has been the changing nature of unionism here and in other advanced industrial countries, especially Canada. In *New Unionism* he has brought together the analyses of several papers he wrote in the 1980s and the early 1990s. This is an important book, not just for those of us who specialize in unionism, but for all who are concerned about the future course of American society.

Before I get into the substance of the book, with which I enthusiastically agree, I have some minor quibbles. The book consists of six chapters, a bibliography, three appendices, and three charts. Although the book has a 1994 copyright, it is apparent that the six main chapters were written no later than mid-1992. Two appendices are reprints of articles Troy wrote in 1986 and in 1987. The articles are germane to his theme, but it would have been useful to update them. Finally, the entire book suffers from an abundance of typographical errors that should have been picked up when the manuscript was in proofs. The impression is that the production of the book, not its writing, was a careless, hurry-up job.

Troy's first sentence in Chapter 1 is, "A New Society began to evolve during the past generation and its leading characteristic is the redistributive state." Those words were, to me, reminiscent of the opening sentence of the *Communist Manifesto*: "A specter is haunting Europe—the specter of Communism." The association is not as strained as it seems, for Troy's main theme is that government employee unionism (what Troy calls the "New Unionism") is the principal means by which a "New Socialism" has already taken hold, and is spreading, in the United States.

"Old Unionism" (collective bargaining between private sector employers and their employees) has long been waning. It reached its peak market share of 36 percent in 1956. In 1993 the figure was 11.2 percent. Conventional labor academics and practitioners used to think of this as a uniquely American "disease" which they attributed to the resistance of American private sector employers to unionization. As Troy explains in the present book, this conventional wisdom was wrong on both counts. The decline of Old Unionism is neither unique to the United States, nor caused by employer resistance to unionism. The decline is happening in all advanced industrial countries for two primary reasons.

First, there has been a shift from heavily unionized, blue-collar manufacturing employment to largely union-free, high-tech manufacturing and service employment. Second, national and international markets are becoming more and more competitive. According to Troy, these two forces will reduce the market share of Old Unionism to below 7 percent by the year 2000.

The old conventional wisdom that private sector union decline was a uniquely American disease was debunked by Troy when, in 1990, he demonstrated that the foreign private sector figures were grossly overstated because they included unions that, in the United States, would be considered public sector institutions. When Troy applied the same definitions of public and private unionism that are used in the United States to foreign unionism, he discovered that private sector unionism has been declining in other advanced industrial countries as much as it has been here. Even pro-union academics now acknowledge that Troy is right on this point.

But unionism isn't dead. Government employee unionism, the New Unionism, is not only well established in America (only seven states have failed to pass laws that promote the unionization of state and local employees), it is spreading and becoming more and more menacing to freedom. In 1993, 37.7 percent of all government employees were unionized. Troy expects that figure to exceed 40 percent by the turn of the century. New Unionism already dominates Old Unionism in Canada, Britain, France, and Italy, and Troy expects the same to happen here.

Most observers think of government sector unionism as merely an extension of private sector unionism. Troy doesn't agree. He uses the term New Unionism precisely to suggest that government sector unionism is a different, and much more dangerous, breed of unionism. For example, Old Unionism and socialism were antagonists. Old Unionism wanted to preserve the free enterprise system and redistribute income from private sector employers to private sector employees. In contrast, the New Unionism promotes what Troy calls the New Socialism, or the redistributive state. The New Socialism recognizes that government ownership of the means of production creates poverty for nearly everyone, so it advocates private ownership of enterprises, but it seeks the socialization of incomes. New Socialism and its chief instrument, New Unionism, seek to transfer income from the private sector to the public sector.

The New Socialism seeks to create as much dependency on government, and as large an army of unionized government employees to carry out government programs and enforce government regulations, as possible. All in the name of "fairness."

New unionism was virtually nonexistent until President Kennedy signed an executive order in 1962 that authorized the formation of federal employee unions with powers of exclusive representation and mandatory good faith bargaining. After that, state after state adopted similar laws, some of which even forced government employees to join, or at least pay dues to, government employee unions. After all, unionists argued, a worker is a worker whether he works in the private sector or for government. It is unfair for government workers to be denied the same collective bargaining rights that private sector workers have enjoyed since the passage of the National Labor Relations Act (NLRA) in 1935.

Troy convincingly argues that collective bargaining in the government sector is actually an attack on the sovereignty delegated to government by the American electorate. When a government is forced to bargain, exclusively, with a private organization on the determination of public policy, that government is no longer sovereign. It no longer has a monopoly on the legal use of force. Government employee unions become a fourth branch of government whose approval must be obtained before public policy can be fashioned and implemented. With the growth of New Unionism, voters have to share what control over government they have with private organizations called government employee unions. Troy says that a collective bargaining agreement between a government employee union and a government employer is like a treaty between two sovereign powers.

According to Troy the New Unionism doesn't have to worry about eventually losing market share the way the Old Unionism has. Government employment is largely immune to competitive market pressures. Government monopolizes its activities, and, through regulation, prevents private sector alternatives from developing. Moreover, government employers want the same things that government employee unions want—bigger budgets, more responsibilities, and more income transferred from the private sector to the public sector. That is why government employers are so much more "cooperative" than private sector employers. It is in their direct self-interest to cave in to union demands.

Troy is pessimistic about the future of New Unionism and New Socialism. He considers such innovations as term limits, balanced budget amendments, tax caps, and privatization as possible countervailing forces, but he doesn't seem to have much confidence that such measures will be adopted, or, if adopted, that they will be very effective. The only cause for hope, it seems, is the phenomenon of municipal bankruptcy, such as New York City in the 1970s and again today. Such crises make the perils of New Unionism obvious to anyone who looks.

I am more optimistic than he is. Government failure and voter cynicism are now widespread and growing. The failures of the Old Socialism brought it down, I don't see why the failures of the New Socialism will not, eventually, do the same. In the meantime, books like this one are indispensable in the ongoing battle against socialism in all its forms. □

Dr. Baird, a Freeman *contributing editor, is a professor of economics at California State University, Hayward and Director of the Smith Center for Private Enterprise Studies.*

Race and Culture: A World View

by Thomas Sowell

New York: Basic Books • 1994 • 331 pages • $25.00

Reviewed by John W. Robbins

Thomas Sowell, a prolific economist and senior fellow at the Hoover Institution in California, has written an important and heretical book on the relationship between race and culture—heretical, that is, as judged by the prevailing dogmas of social science.

Sowell states the obvious, which apparently is not at all obvious to many social scientists: there are significant differences among cultures; some cultures are in fact superior to other cultures; and they are superior because some values, skills, habits of thought and practice, and ideas are superior. All these notions, Sowell says, are rejected by the social science establishment: "This book challenges many dogmas of so-called social science, as well as many underlying assumptions about racial issues and cultural differences."

Based on extensive travel and research (the hundreds of notes run for 58 pages), *Race and Culture* is packed with information about races, ethnic groups, migration, conquest, intelligence, slavery, economics, politics, and history. It is indeed a "world view," not in the sense of a *Weltanschauung*, but in the sense that Sowell has canvassed the world for evidence for his thesis—an international view. He believes that those who are preoccupied with race relations in the United States have failed to study race relations throughout the world and recorded history, and thus entertain warped and distorted views. His book is a badly needed rebuttal to the social science charlatans who infest academia.

In order that he not be misunderstood, Sowell defines his terms immediately in the preface: by "culture" he means "specific skills, general work habits, saving propensities, and attitudes toward education and entrepreneurship—in short, what economists call 'human capital.'" He warns us that "the purpose of this book is not to offer some grand theory explaining cultural differences"—and it does not—but to demonstrate the "reality, persistence, and consequences of cultural differences." "Culture" as Sowell defines it—not genetic superiority or inferiority, nor objective conditions, economic forces, or social structures—is what shapes peoples and history.

Sowell uses the word "race" in a colloquial sense: "a more scientific definition of race is not attempted." Sowell argues that the preponderance of historical evidence does not support any theory of inherent racial superiority or inferiority, whether the race be Black, Oriental, Semite, or Caucasian. He cautions the reader against drawing unwarranted conclusions from empirical evidence, especially statistics: "Vast differences between the economic productivity of peoples from different cultures do not imply that these differences are permanent, much less hereditary."

More important than any "objective conditions" are attitudes: "attitudes toward education, toward business, and toward labor, especially so-called 'menial' labor." A poor attitude toward productive labor has resulted in three-quarters of college graduates in India going to work for the government. Schooling—I do not say education—in many countries has imbued the graduates with what Sowell calls "a passionate sense of entitlement." Sowell scorns "self-flattering" ethnic studies, which he finds in many countries, not only in the United States.

What requires explanation, Sowell says, is not the disdain for labor one finds in most cultures, including Latin America ("Work is for dogs and Negroes" is a Brazilian saying), but "the extremely high productivity of a relative handful of northwestern European nations and their overseas off-shoots, such as the United States and Australia."

Sowell is at his analytical best in the chapter "Race and Economics," explaining the economics of the nineteenth-century help-wanted ads that read, "No Irish need apply"; why the "vicious cycle of poverty" is a myth; why nineteenth-century American workforces were wholly Jewish or wholly Gentile; and much more. Along the way he informs us of innumerable and fascinating details, e.g., Japanese immigrants at the turn of the century were more prevalent in agricultural and domestic labor than blacks.

His book is very readable and his style is epigrammatic at times: "The most dangerous kind of ignorance is the ignorance of the educated"; "The political mobilization of envy"; "A society can be made ungovernable by the impossibility of satisfying those with a passionate sense of entitlement"; "Being wrong may be a free good for intellectuals, judges, or the media, but not for economic transactors competing in the marketplace"; "Respect is earned, not conferred. It is not a door prize. Equal respect is a contradiction in terms."

On slavery Sowell writes: "The biggest story about slavery—how the ancient institution, older than either Islam or Christianity, was wiped out over vast regions of the earth—remains a story seldom told." Sowell reports how "the anti-slavery political crusade [that] began among evangelical Christians in eighteenth-century Britain" was wildly successful, even beyond the dreams of its founders, William Wilberforce and Henry Thornton.

Sowell's concluding chapter, "Race and History," is, unfortunately, his weakest. He seems fascinated by the influence of geography on history, although he does not endorse Montesquieu's geographical soft-determinism. Despite ending weakly, *Race and Culture* is first-rate: readable, interesting, timely, and important. □

Dr. Robbins is Director of The Freedom School and Professor of Political Philosophy at College of the Southwest, Hobbs, New Mexico.

Education and the State: A Study in Political Economy Third Edition, Revised and Expanded

by E. G. West

Liberty Fund • 1994 • 364 pages • $14.00 cloth; $8.00 paperback

Reviewed by Julio H. Cole

E. G. West's *Education and the State* is an important book on an important subject. Liberty Fund has performed a valuable service in sponsoring the expanded third edition of this well known analysis of the economics of state education. Indeed, though West's masterful and no-nonsense study has long been an acknowledged classic in its field, it has nonetheless been out of print for quite some time—too long, I should say, given the continuing topicality of its theme.

No one ever seems to be completely satisfied with the quality of education at any given time. Perhaps that is in the nature of things. Too often, however, the temptation arises to invoke state intervention in the educational market in order to improve matters, since it is widely assumed that a free market cannot be relied upon to produce private educational services of "acceptable" quality in socially "optimal" amounts. Thus, the state is called upon to finance schooling (note that, as West points out, there is a difference between "education" and mere "schooling"), usually in the form of state-managed public school systems, for a variety of reasons: among other things, public schools are expected to reduce crime, produce good citizens, provide for equal opportunities, and promote economic growth. Quite a tall order!

West examines these and other arguments in painstaking detail, subjecting them to penetrating and relentless criticism, and generally concludes that they are either lacking in cogency or based upon faulty interpretations of the evidence. His methodology is eclectic: rigorous theoretical analyses are complemented with careful historical research and a comprehensive survey of the relevant literature, including an excellent chapter on the opinions of the classical economists, contrasting especially the views of Adam Smith and John Stuart Mill (it is well to recall, in this regard, that West is also a leading Smith scholar, having written the biography *Adam Smith—The Man and His Works*).

To be sure, most of the historical material is drawn from nineteenth-century British experience (this edition does, however, include a new chapter on "The Political Economy of American Public School Legislation"), although this does not detract from the book's relevance for other times and places. Similar problems are faced by virtually all societies: Should the state educate at all? If so, is a publicly managed school system the best possible solution? Does state education have unwanted and unintended side effects? In posing these questions I have been paraphrasing West. Let me now quote him directly: "Has state education become a 'necessary' institution simply because it is one of those institutions to which we have become accustomed?"

Serious thinking on educational policy reform cannot really begin until these questions are addressed openly and honestly. *Education and the State* is a bold attempt to face these issues. This handsome new edition will help to provide the wide readership it deserves. □

Professor Cole teaches economics at Universidad Francisco Marroquin in Guatemala.

Letters to the Editor

On Nuclear Power

Concerning Rodney Adams' "The First Atomic Age" and "Nuclear Power: Our Best Option" by Mike Oliver and John Hospers (January 1995): Both articles totally ignored the U.S. Army Engineer Reactor Group, formed in 1954 and in operation until 1974. This organization built, operated, and maintained small nuclear power plants, both high and low enriched, pressurized-water, all over the world very successfully. They were in existence and operational at the North and South Poles and in Alaska, Wyoming, Virginia, and the Panama Canal Zone. This elite group of servicemen proved that small nuclear power plants could operate successfully under the most arduous conditions. A good deal of the technology that companies such as GE and Westinghouse gained in nuclear power plants came from that program.

The inability of our free enterprise system to develop further, what was already proven, will remain one of the great mysteries of our time.

—David E. Gonier (Retired, U.S. Army)
Fredericksburg, Virginia

Rodney Adams replies:

I have a great deal of respect for the technical accomplishments of the Army in their reactor program. Not only did the Army Engineer Reactor Group successfully operate small pressurized-water reactors in the locations Mr. Gonier mentions, but they also built and operated the first closed-cycle nuclear heated gas turbine. ML-1, a 300 KW(e) machine designed to be transported to remote communications sites, is a technical ancestor of the machine that Adams Atomic Engines, Inc., is marketing.

I must disagree, however, with his final comment. There is little mystery why the Army's technology was never commercialized. No one involved with the program, either from the military or from the contractor organizations, ever left their organization with the fire to develop new markets for the exciting technology they had learned. Even in the nuclear industry, few people have heard much about the Army's program or its accomplishments.

The main point in my article is that technical revolutions are led by promoters as much as they are by inventors, engineers, and technicians. The success of a market economy depends on people who are free to be rewarded for the risks of challenging the status quo. Market success also depends on those people being allowed to fail. Bureaucratic organizations rarely provide the freedom necessary for true innovation.

Assent on Tacit Consent

I was pleased to see the work of a fellow Montanan in your January 1995 issue. Bowen Greenwood's "Tacit Consent: A Quiet Tyranny" was very well reasoned and presented.

The idea of tacit consent is, of course, detrimental to a free government. For years the Left has been telling us, "If you live here, and enjoy the benefits of the state, then you agree to pay the taxes we levy to maintain that state." They've used the idea of tacit consent to justify taxes to which we would never actually consent.

My congratulations to *The Freeman* for your continuing good work, and your success at finding insightful new writers, especially local ones!

—Senator Sharon Estrada
Montana State Senate

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