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THE FREEMAN

IDEAS ON LIBERTY

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PERSPECTIVE

Whose Economics, Which Economic Liberalism?

Robert Lucas, a professor of economics at the University of Chicago, was awarded the 1995 Nobel Prize in Economic Science in October. The Swedish Royal Academy of Science declared that Lucas was "the economist who has had the greatest influence on macroeconomic research since 1970." To economists of my generation, Lucas' approach to economic science has been treated as the methodological gospel. But as pundits quickly pointed out, Lucas' theories had a tremendous public-policy influence by bursting the Keynesian hubris of the profession that was dominant in the 1950s and 1960s.

Lucas' theoretical innovation was to insist that the behavioral assumptions of so-called macroeconomic theory had to be consistent with those employed in microeconomic theory. Economic actors cannot be assumed to be persistently fooled by policy-makers. Rational actors will come to know the model of the economy that policy-makers are employing in designing policy.

At first blush, the policy implication of Lucas' "rational expectations hypothesis" was that traditional Keynesian policies of fine-tuning were flawed because they failed to take into account how economic actors would anticipate government policy. If unemployment, for example, rises by a couple of percentage points, then traditional Keynesian theory suggests that the Federal Reserve should ease monetary policy to combat this rise. But if union leaders watch Fed policy, they will notice that loosening monetary policy will lead to inflation and thus will adjust future wage demands upwards. In doing so, they will offset completely the intended effect of the fine-tuning policy. Unemployment will not be reduced, but inflation will persist. Only unanticipated policies will have an effect on the economy; anticipated policies will be fully incorporated in the decision-making of economic actors. Stable and predictable rules in policy will outperform the discretionary fine-tuning of Keynesian economic policy in terms of combating inflation and unemployment, and promoting economic growth.

Subsequent developments in economic theory have questioned this first-blush policy implication, but the technique of "rational expectations" became part of the staple tool-kit of modern economists. On a theoretical level, Lucas led a revolution intended to eliminate the unnecessary split between microeconomic and macroeconomic theory, and the loose theorizing that resulted from that split. On a policy level, Lucas dealt the old Keynesian system its final blow. Mises and Hayek had challenged the theory at its core (and were largely ignored). Milton Friedman had shown its internal theoretical and empirical weaknesses, James Buchanan had demonstrated the shortcomings of its political economy, but Lucas destroyed the logic of the entire enterprise. In this sense, Lucas harked back to the pre-Keynesian theories of monetary economics and appeared to be offering a "neo-Austrian" theory. In fact, Lucas acknowledged this influence in the early 1970s. With the failure of the Keynesian system, it was time to reassess the writings of scholars such as Mises and Hayek, especially Hayek's work on the business cycle.

Lucas' translation of Hayek's project into modern technical economics, however, was challenged quite quickly by such contemporary Austrian economists as Gerald O'Driscoll, Roger Garrison, and William Butos. The model that Lucas had built, which certainly possessed a certain laissez-faire conclusion to it, was not consistent with many of the core claims of Austrian economics from Menger to Mises. Austrians no doubt rejected the split between microeconomics and macroeconomics, and they postulated that economic actors learn and adjust their behavior accordingly through time. But Lucas treated choice as a mechanical procedure; the choice environment was not one of uncertainty and ignorance, but rather one of risk and rational search. Moreover, the theoretical and policy implications of the logic of this situation were unsettling to economists of Austrian sensibilities—e.g., money was assumed to be neutral and simply a veil, not the essential link in transactions.

No doubt the logic of Lucas' argument was impeccable, and no doubt the implication of his economic logic was largely a non-interventionist position, so why aren't contemporary Austrian economists rejoicing in the honor bestowed upon Lucas by the Nobel committee?

Austrian economics is not just free-market economics—it is something much more than that. Not all arguments that favor the free market over government intervention are equal. As economic scientists all we are entitled to ask is "How does theoretical innovation improve our understanding of human action and social cooperation?" On the other hand, as intellectuals and enlightened citizens it is incumbent on us to ask "Whose economics, which economic liberalism?"

If we allow modeling techniques to crowd out questions about human behavior which cannot fit into the model, yet are essential for understanding how the market functions to coordinate our decisions, then the simplified model will distort our view of the market. If this "weak" view of the market economy is then employed as a background to a defense of economic liberalism, then the case for economic liberalism will also be weak and vulnerable to challenge.

Robert Lucas is a brilliant man. But his theory of human behavior fails to account for the diversity of individual perception, his theory of market equilibrium mischaracterizes the economic order, and the policy implications that flow from his theories render the laissez-faire position vulnerable on several fronts (something that has already been exploited by New Keynesian economics of the type championed by Joseph Stiglitz and Gregory Mankiw).

Modern economic research, as influenced by Lucas, has produced ever more refined techniques and models, but the cost of this increased specialization has been a loss of relevance for the broader human conversation. Economic science has become increasingly narrow and inaccessible to the layman. But as Ludwig von Mises argued:

> It is a fateful error on the part of our most valuable contemporaries to believe that economics can be left to specialists in the same way in which various fields of technology can be safely left to those who have chosen to make any one of them their vocation. The issues of society's economic organization are every citizen's business. To master them to the best of one's ability is the duty of everyone.

Thus, we can agree that Lucas has greatly influenced modern economics, yet—despite substantial agreement in the policy arena—still express concern that economics has been pushed to become increasingly precise about less and less, thus losing its relevance for the everyday life of business and politics.

—PETER J. BOETTKE
Guest Editor

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The Arts in a Free Market Economy

by Tyler Cowen

Capitalism has proven to be the most favorable system for the arts, letters, and music. Most renowned Western creators, from Michelangelo to Mozart to Monet, succeeded in the marketplace. Shakespeare wrote for profit and marketed his plays to a wide public audience. Marcel Proust did not write bestsellers but nonetheless lived off the capitalist wealth of his family to produce his innovative *Remembrance of Things Past*. The essence of capitalism—bringing producer and consumer together—is a prescription for producing and distributing great art.

Markets base artistic success on inspiring, entertaining, and educating other human beings, rather than on force or on political privilege. In a market economy, support for creative endeavors can be obtained only by convincing other individuals—whether customers or patrons—that the project is worthwhile. Free markets therefore provide the material analog of the concepts of free speech and persuasion.

The market economy encourages artistic production through diverse means. Growing wealth, for instance, enables more individuals to pursue artistic vocations. Today the world supports a greater number of full-time artistic creators than ever before. The market economy also has freed mankind from tiresome physical labor and has given our creative flights of fancy increasing room to grow and flourish. Higher standards of living give individuals more time to produce and consume art. A wealthy and comfortable society is also a beautiful society.

Money fertilizes the artistic spirit. Paul Cezanne lived from family allowances and inheritances. Poet Wallace Stevens worked as an insurance claimsman and William Carlos Williams worked as a doctor. T.S. Eliot worked in a bank while he wrote poetry. Paul Gauguin first accumulated his savings while working as a stockbroker and only later pursued a career in art.

Other artists have engaged in the pursuit of money through their art itself. Mozart once wrote to his father: "Believe me, my sole purpose is to make as much money as possible; for after good health it is the best thing to have." Mozart was a keen bargainer who reaped the maximum profit from each concert or composition. Charlie Chaplin once remarked: "I went into the business for money and the art grew out of it." These great creators did not "sell out," but rather turned their personal visions into material profit by reaching large numbers of eager customers.

Artistic Diversity

Wealthy economies will support a diverse set of artistic visions. Financial security

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gives artists the scope to reject societal values. Bohemian and avant-garde artists, in spite of their frequent protests against capitalism, owe their existence to that system. Artists who do not care much about money are a luxury that can be afforded only in wealthy societies.

The falling prices of artistic materials, brought on by technical progress, allowed the Impressionist and Post-Impressionist painters to subsist on the margins of society, outside the mainstream cultural establishment. Later, the Impressionists achieved riches and fame by setting up independent networks of commercial distribution for their artworks.

We tend to take artistic materials for granted, but the affordability of these materials required entrepreneurial innovation through markets. The artistic Renaissance of the Italian city-states sprang out of the growth of medieval commerce, which made painting, marble sculpture, and bronze casting affordable on a large scale. The literary revolution came to England in the eighteenth century when the Industrial Revolution lowered the cost of paper and increased consumers' book-buying incomes. Blues, rock and roll, and jazz required the medium of electronic recording to spread and support themselves. Digital technology may well create new forms of art for our future.

The technologies of capitalism not only spur the future but also preserve the past through video cassettes, recordings, and picture book reproductions. The modern viewer has better access to Shakespeare than the Elizabethans did, and the modern listener has better access to any classical composer than did the peers of that composer. More individuals watched Wagner's Ring Cycle during one television showing than have seen it during all the live performances that have ever been staged.

The increasing division of labor in a market economy also increases artistic diversity, as recognized by Adam Ferguson and Adam Smith. Music, literature, and the arts have all given birth to a growing number of diverse genres and sub-genres. The greater the size of the market, the greater the number of artistic forms that creators can earn a living from. Whereas authors in the eighteenth century could support themselves only by writing bestsellers, today's authors can earn good money in a variety of genres, including science fiction, mysteries, biographies, and travel books, to name but a few examples of many.

Artists have enjoyed increasing creative freedom over time. Unlike in previous eras, today's artists are not dependent on a single patron or customer. When artists do rely on a single patron, the artist must produce to meet the tastes of that patron or lose support. A multiplicity of sources of financial support allows artists to pick and choose projects to suit their tastes. Michelangelo, who faced strong market demand for his services in Florence, was able to walk away from his work on the Sistine Chapel when a conflict arose. He returned only when Pope Julius allowed him to finish the project to suit his desires.

Cultural outsiders—such as African-Americans, Jews, and women—have their best chance of artistic success in a market economy. Blues music, kept off the radio at first, moved into the jukeboxes, a decentralized means of product delivery attuned to consumer tastes. Jewish immigrants—drawing on their retail capital and expertise—set up Hollywood studio empires to distribute their cinematic product. Women writers received little support from patrons and governments but connected with a wide readership once a market for novels arose. Capitalist corporations, who seek to market new ideas for profit, are more effective supporters of true multiculturalism than the "political correctness" advocates are.

The modern split between high culture, those creations receiving the most critical recognition, and "low" culture, the most popular creations, reflects the diversity and sophistication of our culture, not its corruption. Modern artists can target niche audiences and take more chances. The best works need no longer fit the most popular style. The massive amount of cultural "trash" around today—while it distresses

The 1878 loan exhibition of miscellaneous **objets d'art** *at The National Academy of Art in New York reflected the tremendous growth in the interest in decorative art during that era.*

many observers —is actually a symptom of the diverse artistic riches that we enjoy.

Enter, the NEA

Despite the historical successes of markets in supporting culture, the American government initiated the National Endowment for the Arts in 1965. Yet even well before the creation of this agency, America led the world in modern art, popular music, and cinema, while also holding strong positions in literature, poetry, and contemporary classical composition. America's private museums and symphony orchestras have been the envy of the world. Supporters of government arts funding seek a contradictory goal. They want to enjoy the benefits of a wealthy political elite without suffering the costs. We end up with the National Endowment for the Arts—an institution with an impossible mandate. It is supposed to deliver the benefits of aristocratic arts spending while remaining accountable to a political system based on the rule of law. In practice government funding has supported a cult of mediocrity. The NEA funds either bland, establishment efforts or more controversial exhibits (e.g., Robert Mapplethorpe, Andres Serrano) that offend its taxpaying supporters and violate its democratic mandate.

Advocates of government funding portray themselves as progressives but they actually support a historically reactionary position. Music and the arts have been moving away from government funding since the Middle Ages. The Renaissance, the Enlightenment, the nineteenth-century Romantic movement, and twentieth century modernism all brought art further into the market nexus. Most of the important work in film, music, literature, painting, and sculpture—whether from the present or from the past—is now sold as a commodity. In the current debates over government funding, we should not forget that the history of art is a history of the struggle to establish markets. □

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Ludwig van Beethoven's Joyous Affirmation of Human Freedom

by Jim Powell

Ludwig van Beethoven inspired the world with his titanic liberating spirit. "His emotions at their highest level were almost godlike," declared critic H.L. Mencken, "he gave music a sort of Alpine grandeur."

A bold maverick, Beethoven broke free of conventional forms, so music could plumb the depths of despair, express heroic struggles and reach astonishing peaks of joy. Beethoven scholar Robert Haven Schauffler: "Whenever the spirit moved him he could squeeze blood out of bricks. And he made rubies of the blood, and platinum out of the residue of the bricks, and organized these products into miracles of design. . . ."

Beethoven took orchestral music out of aristocratic salons and into packed concert halls. After 1815, he composed mostly for publishers rather than patrons. He was proud to have pioneered a commercial market where composers earned a livelihood from the rights to their work. "What I am," he wrote, "I am through myself."

Beethoven was an outspoken republican amidst a continent of kings. He was outraged after Napoleon, who long claimed to uphold republican principles of the French Revolution, had himself crowned emperor. Beethoven admired England for its House of Commons, and he liked to follow Parliamentary debates reported in the German language newspapers. "The sum of his message was freedom," observed critic Paul Bekker, "artistic freedom, political freedom, personal freedom of will, of art, of faith, freedom of the individual in all aspects of life."

To be sure, Beethoven was tormented by demons. He endured a rude upbringing and chronic health problems, especially deafness, and his personal life was a mess. He neglected his appearance so badly that he was once mistaken as a tramp and arrested. His apartments—he moved dozens of times—were strewn with old food and dirty clothing. His handwriting was virtually illegible. He couldn't keep track of money. Longing for domestic happiness, he courted a succession of women but was rejected by every one. He never married.

He was impossible for most people to deal with. He was a suspicious person who often accused friends of cheating him, and by the end of his life there were few left. He had a volatile temper. When a waiter brought him the wrong dish and wasn't apologetic enough, Beethoven threw it at his head. He was so obnoxious to an orchestra during rehearsal that the musicians wouldn't continue unless he left the room. Lost in his thoughts, he sometimes seemed like a wild man. Once he waved his arms as he walked

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across a field, scaring a pair of oxen, and they took off down a steep hill, pulling a panicked peasant behind.

Yet these personal failings are dwarfed by his music. He expressed a love of liberty in ways millions could understand. He gave the world the most glorious affirmations of human life.

Contemporaries commented on the extraordinary intensity of the man. "Everything about his appearance," observed Dr. W. Christian Muller in 1820, "is powerful, much of it coarse, like the raw-boned structure of his face, with a high, broad forehead, a short, angular nose, with hair standing up and divided into thick locks. But he is blessed with a delicate mouth and with beautiful, eloquent eyes which reflect at every moment his quickly changing ideas and feelings."

Early Genius

Ludwig van Beethoven was born December 16, 1770, in Bonn. He had Dutch-Flemish, ancestors which is why it's "van" rather than the German spelling "von." He was the eldest surviving child of Maria Magdalena, a maid. Four of his six siblings died in infancy. His father, Johann Beethoven, was a tenor in the choir of Maximilian Friedrich, Elector of Cologne.

Early on, Beethoven displayed musical talent. Hoping to strike it rich, his father pushed him hard. He took piano lessons from the time he was four years old. He devoted most of his waking hours to the piano. He often practiced till midnight, improving his techniques and trying new variations. At eight, he gave an impressive public performance. Six years later, he was playing the harpsichord, viola, and organ in the Elector's orchestra. The Elector, an enlightened prince who promoted intellectual freedom, paid expenses to have him visit Vienna which was Europe's musical capital.

There, probably in April 1787, 16-year-old Beethoven met the 31-year-old reigning musical genius Wolfgang Amadeus Mozart. After hearing the young man's facility for improvisation, Mozart declared: "Keep your eyes on him; someday he will give the world something to talk about." Beethoven seems to have taken a few lessons from Mozart, but their visits were cut short when both got bad news about their families. Mozart's father, Leopold, died May 28, 1787. Beethoven's mother suffered from tuberculosis, and he returned home to see her die, July 17, 1787. "She was such a good loving mother, my best friend!" he wrote.

Although Beethoven's formal education ended at age 11, he attended some classes at the University of Bonn. A highlight were lectures on literature, ethics, and law by the anti-clerical republican Eulogius Schneider. Beethoven loved to hang out at the *Zehrgarten*, a tavern and bookshop where radical intellectuals gathered. Like so many German artists and thinkers of that period, Beethoven believed passionately in individual liberty.

Johann Beethoven spent much time in taverns, and by 1789 Ludwig became the head of household, responsible for supporting his two younger brothers. He began giving piano lessons for a wealthy family. An aristocratic admirer, Count Ferdinand von Waldstein, sometimes sent money.

The following year, the influential composer and performer Franz Joseph Haydn, then 58, stopped in Bonn on his way back to Vienna. Beethoven played him a cantata he had composed, and Haydn offered enough encouragement that Elector Maximilian Friedrich provided funds so Beethoven could study with Haydn in Vienna. He arrived on November 10, 1792, and never looked back. Music was mainly chamber music offered in private performances for aristocrats—leading families had staff musicians. While patrons provided some money, fine clothing, and other amenities, they expected fashionable tunes. Patrons paid for performance rather than composition, but Beethoven was determined to make it as a composer.

He became restless with Haydn's musical formulas and insisted on charting his own course. He took violin lessons from Ignaz Schuppanzigh. He went to Antonio Salieri, director of the Vienna Opera, for lessons on composing for the voice. He learned counterpoint from Johann Georg Albrechtsberger, Vienna's most famous teacher of composition and author of an internationally respected book on the subject.

Count Waldstein helped introduce Beethoven to Vienna's aristocratic music patrons, and by the mid-1790s he ranked as the most popular pianist with a powerful style. He excelled at improvisation. Ferdinand Ries, who studied with both Haydn and Beethoven, recalled: "No artist that I ever heard came at all near the height which Beethoven attained in this branch of playing. The wealth of ideas which forced themselves on him, the caprices to which he surrendered himself, the variety of treatment, the difficulties, were inexhaustible." Beethoven gave successful performances in Prague and Berlin as well as Vienna.

The French Revolution—before the Terror—had inspired musicians to turn away from light entertainment and pursue more serious themes. Beethoven began to imbue his compositions with high moral purpose. Among his most notable early efforts: the First Symphony (1800), C minor Piano Concerto no. 3 (1800) and C sharp ("Moonlight") piano sonata (1801).

What was it like for him to compose? "From the focus of enthusiasm," he told one lady friend, "I must discharge melody in all directions; I pursue it, capture it again passionately; I see it flying away and disappearing in the mass of varied agitations; now I seize upon it again with renewed passion; I cannot tear myself from it; I am impelled with hurried modulations to multiply it, and, at length I conquer it: behold, a symphony!"

He was extraordinarily resourceful. "It would be hard to think of a composer, even of the fourth rate," observed H.L. Mencken, "who worked with thematic material of less intrinsic merit. He borrowed tunes wherever he found them; he made them up out of snatches of country jigs; when he lacked one altogether he contented himself with a simple phrase, a few banal notes. All such things he viewed simply as raw materials; his interest was concentrated upon their use. To that use of them he brought the appalling powers of his unrivaled genius."

After about 1800, Beethoven was clearly departing from Haydn and Mozart, and some influential critics objected. A critic for the *Allgemeine Musikalische Zeitung* wrote: "Herr von Beethoven goes his own gait; but what a bizarre and singular gait it is! . . . a heaping up of difficulties on difficulties till one loses all patience and enjoyment."

Meanwhile, Beethoven had exulted in the republican ideals of the French Revolution and was jolted both by the violent excesses and the severity of the reaction against it. The Austro-Hungarian Emperor jailed republican activists. "The soldiers are heavily armed," Beethoven warned a friend. "You must not speak too loud here or the Police will give you lodgings for the night."

Beethoven's first great work, the Third "Eroica" Symphony (1803), seems to have been inspired by struggles against tyranny. He used new combinations of instruments and harmonies which hadn't been heard before. Whether or not Beethoven originally dedicated this symphony to Napoleon, as legend has it, he was disgusted when Napoleon brazenly betrayed republican principles and became an emperor.

In 1805, Beethoven experienced tyranny firsthand as Napoleon unleashed the full fury of his Grand Army across the European continent. On November 13th, 15,000 French soldiers entered Vienna. They occupied private homes, seized food and any other valuables they could get away with. Napoleon demanded that the Viennese pay tribute of 2 million francs and cover the cost of maintaining several thousand French soldiers in the city. Beethoven suffered inflation, food shortages, and military rule like everyone else.

Beethoven was further distracted by poor health. Since 1799, he had suffered from chronic stomach trouble and diarrhea. Then came ominous signs of hearing trouble. "My ears hum and buzz all the time, day and night," he wrote. "I can truly say my life is miserable, for two years I have avoided almost all social gatherings because I can't possibly say to people 'I am deaf . . . in the theater, if I am a little way off I don't hear the high notes of the instruments or singers. . . ." By 1812, he could hear people only when they shouted at him. Four years later, he would endure silence.

The loss of hearing made clear that Beethoven's future would have to be as a composer, not a performer. Between 1803 and 1812, he created one masterpiece after another. Besides the "Eroica," Beethoven composed the Fifth Symphony (1808), which music critic Irving Kolodin noted is the most frequently performed of all orchestral works. During this period, Beethoven also produced his Fifth Piano Concerto (1809). Historians Will and Ariel Durant commented: "Of all his works, this is the most lovable, the most enduringly beautiful, the one of which we never tire; however often we have heard it, we are moved beyond words by its sparkling vivacity, its gay inventiveness, its inexhaustible fountains of feeling and delight." Beethoven created so much more at this time, including his G major Piano Concerto no. 4 (1806), Violin Concerto (1806), F minor "Appassionata" Piano Sonata (1806), F major Symphony no. 6 (1808), A major Symphony no. 7 (1812), and F major Symphony no. 8 (1812).

Beethoven often worked and reworked his ideas until he was satisfied. His most arduous creation was the opera *Fidelio*. In 1803, he was commissioned to write an opera which would be performed at Vienna's Theater an der Wien. Rather than do the fashionable light entertainment about the sexual escapades of aristocrats, he chose a serious subject—the liberty of ordinary people. He turned to a libretto by Josef Sonnleithner, based on *Leonore, or l'Amour conjugal*, a story by J.N. Bouilly. It was based on actual events during the French Revolution's Reign of Terror. To protect the living, the story was discreetly set in Spain.

It involves Florestan, imprisoned for telling the truth about corrupt tyrant Pizarro. He decides that Florestan must be murdered, but Florestan's wife, Leonore, becomes a prison assistant, stops the murder attempt and helps expose Pizarro.

Beethoven lacked dramatic experience, and although there was much inspiring music, the work was a mishmash. The first performance, on November 20, 1805, wasn't well received. Several months later, Beethoven met with his principal patron Prince Karl Lichnowsky who persuaded the composer to make a number of cuts. Beethoven, in turn, rewrote the overture, producing Leonore Overture No. 2, then the more ambitious Leonore Overture No. 3 which introduced the next performance on March 29, 1806. It was still a long way from satisfactory.

In 1814, three Viennese artists suggested that they perform *Fidelio* as a benefit for him. This stimulated him to again try resolving problems with the work. He had more experience and perspective on it. He enlisted a collaborator, Georg Friedrich Treitschke, a Viennese playwright who significantly strengthened the story and dialogue. Beethoven did a tremendous amount of rewriting—a single aria of Florestan's went through 18 revisions. The new *Fidelio* opened on July 18, 1814, and this time it was a hit.

French composer Hector Berlioz declared: "That music sets your insides on fire. I feel as if I'd swallowed fifteen glasses of brandy." Music critic Kolodin attributed some of the appeal to Beethoven's "enkindling response to human distress, his abhorrence of injustice, his compelling belief that rank is an accident of birth and superiority a condition of the person who demonstrates it."

Beethoven's most famous work, his D minor Ninth Symphony, marked a return to his heroic style after exploring more intimate themes. He drew on ideas going back more than 30 years. Musical lines in the chorale, for instance, originally appeared in the Joseph cantata of 1790. He had wanted to write music for Friedrich Schiller's poem "An die Freude" ("Ode to Joy") ever since he read it soon after publication in 1785. In 1812, he turned from writing the Seventh and Eighth Symphonies to note some ideas for the chorale movement of a D-minor symphony.

In 1822, Beethoven was commissioned by the Philharmonic Society of London to write a symphony. He began work in D minor. At about the same time, he started sketching a D minor "sinfonie allemande" with a chorale finale, probably with Schiller's "Ode to Joy." The projects merged somewhere along the line. During the first half of 1823, Beethoven struggled with the first movement, based on a melody he had sketched about six years before. Then he tackled the second and third movements simultaneously. By about August, he finished the second movement. After many revisions, the slow third movement was done in mid-October.

Meanwhile, perhaps in July, he had sketched a melody identified as "Finale instromentale." Scholars don't know when he set it aside—he later adapted the melody for the finale of his A minor Quartet, Op. 132—but he resolved that the fourth movement would reach a chorale climax with Schiller's "Ode to Joy." He edited the poem, cutting lines which made it sound a bit like a drinking song. The result was a simpler, more powerful affirmation of life. Integrating the chorale into the symphony proved to be Beethoven's toughest challenge. When finally he figured out how, he exclaimed to his assistant Anton Schindler, "Let us sing the song of the Immortal Schiller." All the sketching was done by year-end, and the score was written out in February 1824.

The first performance was set for May 7, 1824, at the Karnthnerhor Theater, a double-billing with his new Missa Solemnis. Around 12:30 p.m., Beethoven lifted his baton. Violinist Joseph Bohm recalled that the composer "stood in front of the conductor's stand and threw himself back and forth like a madman. At one moment he stretched to his full height, at the next he crouched down to the floor, he flailed about with his hands and feet as though he wanted to play all the instruments and sing all the chorus parts." The performance was interrupted by applause many times. Afterward, Beethoven was preoccupied with his score, and mezzo soprano Caroline Unger tugged on his sleeve, indicating that he should turn around to acknowledge the cheers.

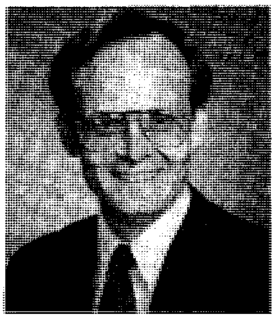
"The Ninth Symphony," noted Irving Kolodin, "possesses a cachet, an aura, an identity not commanded by any other work in the orchestral literature. It stands taller, strides longer, reaches higher toward the Infinite than any work even remotely like it."

As historian Paul Johnson observed, "There was a new faith, and Beethoven was its prophet. It was no accident that, about this time, new concert halls were being given temple-type facades, thus exalting the moral and cultural status of the symphony and chamber music."

In December 1826, Beethoven began suffering from a severe cough. Soon pains shot out from his liver and intestines. His feet became tremendously swollen. On March 26, 1827, he went into a coma. There was a violent thunderstorm, and for a moment Beethoven opened his eyes, raised his right hand and clenched his fist defiantly toward the heavens, then collapsed forever.

Three days later, an estimated 20,000 people lined the streets as eight musicians carried his coffin to Trinity Church of the Minorities, and afterward four horses took it to the cemetery at Wahring. Even the mighty royal house of Hapsburg honored this man who had created such inspiring affirmations of human life. The grave was marked by a pyramid inscribed with a single explosive word: "Beethoven."

More than a century and a half later, after restless Germans rebelled against Communist tyranny and pulled down the Berlin Wall, conductor Leonard Bernstein gathered musicians from East and West Germany for a performance of Beethoven's Ninth Symphony. He changed the word *Freude* ("joy") to *Freiheit* ("freedom") throughout the chorale, because Beethoven's work resonated with the spirit of freedom, and it was past time to make this explicit. Declared Bernstein: "If not now, when?" From Berlin, on Christmas Day 1989, the climactic "Ode to Freedom" was heard round the world. A joyous celebration of freedom goes on wherever people can hear Beethoven. □



The Quackery of Equality

"Free people are not equal, and equal people are not free."

I wish I could remember who first said that. It ought to rank as one of the great truths of all time, and one that is fraught with profound meaning.

Equality before the law—that is, being judged innocent or guilty based on whether or not you committed the crime, not on what color, sex, or creed you represent—is a noble ideal and not at issue here. The "equalness" to which the statement above refers pertains to economic income or material wealth.

Put another way, then, the statement might read, "Free people will earn different incomes. Where people have the same income, they cannot be free."

Economic equality in a free society is a mirage that redistributionists envision and too often, are willing to shed both blood and treasure to accomplish. But *free* people are *different* people, so it should not come as a surprise that they earn different incomes. Our talents and abilities are not identical. We don't all work as hard. And even if we all were magically made equal in wealth tonight, we'd be unequal in the morning because some of us would spend it and some of us would save it.

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To produce even a rough measure of economic equality, governments must issue the following orders and back them up with firing squads and prisons: "Don't excel or work harder than the next guy, don't come up with any new ideas, don't take any risks, and don't do anything differently from what you did yesterday." In other words, don't be human.

The fact that free people are not equal in economic terms is not to be lamented. It is, rather, a cause for rejoicing. Economic inequality, when it derives from the voluntary interaction of creative individuals and not from political power, testifies to the fact that people are *being themselves*, each putting his uniqueness to work in ways that are fulfilling to himself and of value to others. As the French would say in a different context, *Vive la difference!*

People obsessed with economic equality—egalitarianism, to employ the more clinical term—do strange things. They become envious of others. They covet. They divide society into two piles: villains and victims. They spend far more time dragging someone else down than they do pulling themselves up. They're not fun to be around.

And if they make it to a legislature, they can do real harm. Then they not only call the cops, they *are* the cops.

Examples of injurious laws motivated by egalitarian sentiments are, of course, legion. They form the blueprint of the modern welfare state's redistributive apparatus. A particularly classic case was the 1990 hike in excise taxes on boats, aircraft, and jewelry. The sponsors of the bill in Congress presumed that only rich people buy boats, aircraft, and jewelry. Taxing those objects would teach the rich a lesson, help narrow the gap between the proverbial "haves" and "have-nots," and raise a projected $31 million in new revenues for the federal Treasury in 1991.

What really occurred was much different. A subsequent study by economists for the Joint Economic Committee of Congress showed that the rich did not line up by the flock to be sheared: total revenue from the new taxes in 1991 was only $16.6 million. Especially hard-hit was the boating industry, where a total of 7,600 jobs were wiped out. In the aircraft industry, 1,470 people were pink-slipped. And in jewelry manufacturing, 330 joined the jobless ranks just so congressmen could salve their egalitarian consciences.

Those lost jobs, the study revealed, prompted a $24.2 million outlay for unemployment benefits. That's right—$16.6 million came in, $24.2 million went out, for a net loss to the deficit-ridden Treasury of $7.6 million. To advance the cause of economic equality by a punitive measure, Congress succeeded in nothing more than making almost all of us a little bit poorer.

To the rabid egalitarian, however, intentions count for everything and consequences mean little. It's more important to pontificate and assail than it is to produce results that are constructive or that even live up to the stated objective. Getting Congress to undo the damage it does with quackery like this is always a daunting challenge.

Last July, economic inequality made the headlines again with the publication of a study by New York University economist Edward Wolff. The latest in a long line of screeds that purport to show that free markets are making the rich richer and the poor poorer, Wolff's work was celebrated in the mainstream media. "The most telling finding," the author wrote, "is that the share of marketable net worth held by the top 1 percent, which had fallen by 10 percentage points between 1945 and 1976, rose to 39 percent in 1989, compared with 34 percent in 1983." Those at the bottom end of the income scale, meanwhile, saw their wealth erode over the period—if the Wolff study is to be believed.

Upon close and dispassionate inspection, however, it turns out that the study didn't tell the whole story, if indeed it told any of it. Not only did Wolff employ a very narrow measure that inherently exaggerates wealth disparity, he also ignored the mobility of individuals up and down the income scale. An editorial in the August 28 *Investor's Business Daily* laid it out straight:

> . . . Different people make up "the wealthy" from year to year. The latest data from income-tax returns . . . show that most of 1979's top-earning 20 percent had fallen to a lower income bracket by 1988.
>
> Of those who made up the bottom 20 percent in 1979, just 14.2 percent were still there in 1988. Some 20.7 percent had moved up one bracket, while 35 percent had moved up two, 25.3 percent had moved up three, and 14.7 percent had joined the top-earning 20 percent.

If economic inequality is an ailment, punishing effort and success is no cure in any event. Coercive measures that aim to redistribute wealth prompt the smart or politically well-connected "haves" to seek refuge in havens here or abroad, while the hapless "have-nots" bear the full brunt of economic decline. A more productive expenditure of time would be to work to erase the mass of intrusive government that assures that the "have-nots" are also the "can-nots."

This economic equality thing is not compassion. When it's just an idea, it's bunk. When it's public policy, it's quackery writ large. □

THE FREEMAN
IDEAS ON LIBERTY

Experiencing Socialist Britain

by Alastair Segerdal

On September 2, 1945, World War II ended. Yet, on the economic front, Britain had little cause for celebration. Six years of war had left the country's productive capacity in a state of near collapse. In a general election earlier that year, the majority of Britain's so-called working class shattered the election hopes of Winston Churchill and his Conservative Party and produced a landslide victory for Britain's Labour Party under its leader, Clement Atlee. When the final results came in, voters gave the Labour Party a majority of 145 seats over all other parties. Churchill, still flourishing his famous cigar, drove to Buckingham Palace and offered the resignation of his government to the King.

Why did the British people embrace socialism in such vast numbers? Why, for almost the next 30 years did they continue to vacillate between socialist and conservative administrations, albeit lukewarm conservatives who proved themselves incapable of breaking the power of the trade unions and the bureaucracy of Britain's cradle-to-grave welfare state? As one who worked in three widely differing occupations during this time period, two of which—coal mining and dentistry—became the targets of socialist doctrine by virtue of being nationalized, I should like to offer some insight into these questions.

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The new socialist government faced many critical tasks, and central to addressing these tasks was the doctrine of public ownership. Hence, the Labour Government's program was nationalization on a massive scale: hospitals, medical, and dental professions, the Bank of England, gas and electricity, iron and steel, road haulage, railroads, civil aviation, Cable & Wireless and, at the top of the list, Britain's coal mining industry. Coal production was the key to economic and industrial recovery. Therefore, as an alternative to conscription in the armed forces, young men had the choice of serving their country for two years by enlisting as coal miners. I decided to do just that. We were known as "Bevin Boys," named after the Minister of Labor and National Service, Ernest Bevin.

In the Mines

My personal tale of those shabby yet stimulating years begins in early 1946, in my hometown in Leicestershire, a county situated in Britain's semi-rural, semi-industrial Midlands. Despite its otherwise agricultural background and only one colliery in the town itself, the late Victorians gave it the somewhat misleading name of Coalville. There were, of course, other small collieries nearby, and one of these, Whitwick Colliery, was where I worked for two years. At that time, the views of the coal miner, though influenced by his own unique grievances, were those of most labor trade union leaders and, to a lesser extent, those of Labour voters in general.

Towards the end of the war, there was a vigorous, though subdued, word-of-mouth campaign directed at the millions of men and women in the armed forces (many of whom would be voting for the first time at war's end) urging them to "Vote Labour and keep out the Tories!" Furthermore, there was the convincing influence of the older population who had filled the minds of their offspring with pre-war memories of deprivation, hardship, and hunger under "the bosses" and "private enterprise." Working-class resentment of the upper class, overlooked during the war, reappeared with the collapse of Hitler's Third Reich in May 1945. To this day, many workers tend to resent financial success.

In the 1930s, times were certainly very bad for many (though not all) working people. For coal miners in particular, things were really grim. Miners constantly reminded me, the doctor's son, of their pitiful pre-war existence, though oddly enough, our Leicestershire coal industry was the one industrial region that suffered least of all, mainly due to its agricultural setting and the cultivation of small land allotments by the miners. Even so, my fellow workers were quick to point out the deplorable conditions of their "comrades" in the north of England, Scotland, and that dominant symbol of stagnation and distress, the coalfields of South Wales.

At my colliery, there was always some miner with enough perception of history to remind me of their lost hero—the "socialist" Duke of Windsor who, before he abdicated and married "that woman from Baltimore," visited the South Wales coal fields and uttered those memorable words: "Something must be done." This statement from the uncrowned Edward VIII bolstered the hopes of every coal miner in Britain. For a future king to talk like this in the 1930s was unheard of, not to mention a royal guarantee that things would improve.

There is no question that Britain's coal industry *had* been neglected over the years, and miners had endured far greater hardship than any other segment of society. Although a good number of incoming Labour Party parliamentarians held capitalism responsible for this sort of pre-war economic instability, it never dawned on any of their more philosophical brethren that maybe, just maybe, something on the other side of the Atlantic called the Smoot-Hawley tariffs might have had a hand in decimating world trade.

Against this backdrop of lost promise, the miners always cherished an enduring vision—nationalization of their industry. The Coal Mines Act finally fulfilled the miners' dream on January 1, 1948. The official transfer from private to public ownership was at 11 a.m. that day, and down below at Whitwick Colliery, the anticipation was like a countdown to a moon landing. Seconds before the hour arrived, the coal-carrying machinery and electric power stopped, and started again on the dot of eleven o'clock as miners cheered and placed colored bunting on the coal tubs on their journey on to the surface. Prime Minister Atlee said, "The day would be remembered as one of the great days in the industrial history of our country." At one colliery in South Wales, whole families were up before dawn as miners and their pit lamps formed a cavalcade of light over the Welsh valley. A brass band played the Last Post as the night shift arrived at the surface, and when the blue flag of the new National Coal Board was raised, the whole valley cheered as someone shouted into the microphone: "Private enterprise has had it!"

Similar celebrations took place all over Britain on that winter's day, and reveal, as no economic treatise could reveal, the commitment, not only of miners but of millions of other unionized workers to the socialist agenda. They also give a clue as to why Britain's coal industry was lifted out of the doldrums and into high production during the first few years of public ownership: it wasn't socialism that was working, but the miners' dedication to both their own success and that of the Labour Government. In striving to reach daily production targets, they would say to me, "Come on lad, we're doing this for Labour!"

Worker Shortages

In 1947, and for years afterwards, most of British industry was undermanned. With employment vacancies everywhere, one could leave one job and walk right into another, prompting *The Economist* to write that socialism and the welfare state had removed both "the stick and the carrot." The three most powerful and devoted Labour Party leaders of that time were Prime

Minister Clement Atlee, Ernest Bevin, and Sir Stafford Cripps. Ernest Bevin, who became the astute and perceptive Foreign Secretary, was markedly anti-Communist, and worked exceptionally hard, as did the church-going Minister of Economic Affairs and Chancellor of the Exchequer, Sir Stafford Cripps. Cripps, with his unbecoming stern features, unjustly nicknamed "Britain's Economic Dictator," was an extremely compassionate man with high moral values. In fact, looking once more at why so many Britons embraced socialism, it is important to realize that the post-war leaders of the movement nursed a sincere though misguided desire to improve the lot of working men and women in Britain. Unlike various politicians in other lands, they never sought self-aggrandizement or enrichment at the expense of the population. With its background of Nonconformist Methodism, corruption and greed were not hallmarks of the Labour Party.

The first post-war Labour government held office from 1945 to 1951, but by the end of this period people were starting to question socialist policies. I recall one little episode which poignantly symbolized the offensive and dreary nature of this doctrine. A very successful local haulage company had always proudly displayed the owner's name on the front of its building. The day after nationalization of all road haulage companies in 1947, a cheap-looking sign with the words "British Road Services" was crudely nailed over the company's elegant lettering, a melancholy message to capitalism that, in the socialist maxim of the period, "We are the masters now." Even so, with the exception of the extreme left, many in the Labour Party were concerned about Communist influence in the trade unions. Arthur Homer, for instance, as General Secretary of the National Union of Mineworkers was a prominent Communist Party member. Although there were only a handful of Communists in the Labour Party itself, Labour Members of Parliament always sang "The Red Flag" on official occasions! Due to funding of the Party by the unions (an arrangement legalized by the Trade Union Act of 1913), a unique institutional feature existed which, perhaps even more than Labour's inherent socialistic creed, was to inhibit Britain's economic growth for the next 30 years after 1945.

Health Care

Prior to the introduction of Britain's National Health Service on July 5, 1948, no one went without health care. Patients paid only a few pence per week for this benefit and, as the eldest son of a busy medical practitioner, I was able to observe decent care firsthand. For example, my father made house calls every day (as did other doctors) and during my late teens I would often accompany him on such visits. He would also be called out in the middle of the night, no matter what the weather, handling emergencies and delivering babies. Would faceless bureaucrats of a government-run scheme be likewise capable of delivering benefits superior to my father's service? They would not. Medical practitioners were dedicated, and often underpaid, but the system worked.

The medical profession had always supported the concept of health care for all, but the majority of its members did not like the restrictions outlined in the government-run scheme (such as a ban on the sale and purchase of practices).[1] They liked even less the scheme's overlord, the Minister of Health, Aneurin Bevan. In 1939, this former Welsh coal miner was expelled from the Labour Party for eight months for seeking a Popular Front with the Communist Party, and expelled from the Parliamentary Labour Party in 1955 for breaches of party discipline. Though self-educated, intelligent, and a very persuasive speaker, Bevan was so far to the left that many Labour MPs wanted him expelled from the Labour Party itself. Such was the nature of the man the British Medical Association had to reckon with, and they arranged several meetings in order to hear what he had to say. My father attended one of these meetings, and told me how members of his profession sat in silent contempt as Bevan waved his hands over the panorama of fine furnishings and silver tableware, boasting, "I'm going to do away with all of this."

The fiery Welshman may not have done away with fine furnishings, but he did pound into reality what was probably the most revolutionary social program ever undertaken in a modern democracy. With enormous public support for the health scheme, resistance from the medical and dental professions dwindled. Finally, the British Medical Association reluctantly recommended that its members deliver themselves into socialist bondage, and by the time the day of inception arrived, most doctors had signed up into the service. On that warm July Monday morning, Britain's top-selling *Daily Mirror* proclaimed: "The Day is here!" From this moment on, all adults had to pay their weekly National Insurance contribution which entitled them to free medical and dental treatment, hospitalization and surgery, artificial limbs, wheelchairs, hearing aids, and other medical appliances, eye-testing and spectacles, even free wigs! Doctors continued to work as they had always worked, but now they were doing so by permission of the government.

However, dentists in the National Health Service did not continue to work as before. There was an insatiable demand for both "free teeth" and "free glasses," and the rush for dental treatment was exceptionally great. By the time I graduated from dental school in 1955, and for many years afterwards, there was no let up in the demand for dental treatment. "The British are well known for their bad teeth," Hitler once said, a regrettable truism made worse by an ongoing shortage of dentists, a fact not unnoticed by young Australian dental surgeons who flocked to the mother country by the hundreds. I, like the rest of the dental profession, continued to be booked weeks in advance, and late night appointments were not uncommon. As servants of the state, we were also kept busy with form-filling, but unlike the medical practitioners who received a fixed salary for the maximum-allowed 4,000 patients, whether seen for treatment or not, dentists were paid per item of treatment completed. In fact, the government set no limit on the number of patients a dentist could take on.

As a result, dental incomes started to rise beyond the socialist acceptance level and by 1949, incomes over and above a certain sum per year were cut in half, and further fee-cutting continued well into the 1950s. When new dental innovations such as the revolutionary high-speed air-drill arrived, more dental restorations done in less time became grounds for cutting fees once again. Increased production lowers prices in a free market, but with the state ordering price cuts for all dentists, this was no free market.

When a patient arrived for examination, the dentist was required to fill out a chart detailing all treatment required, and this was then submitted to an official body, the Dental Estimates Board, for their approval. In other words, government-appointed officials would decide if a gold inlay was necessary or not. Unlike today, very few people chose to pay privately for dental or medical services. Administrated by regional Executive Councils, dentists were required to follow rules such as posting notices in their office telling patients how to complain about their dentist! Another factor which dentists had to endure was that of random inspections by a Regional Dental Officer. In signing for treatment, patients automatically agreed to possible inspection on completion of that treatment. The officers were dental surgeons themselves, of course, but if they decided a dentist's work was unsatisfactory, it had to be done again at the dentist's expense. However, the dentist could request a visit from the dental officer if he or she didn't agree with some aspect of the Dental Estimates Board's decision. Quality control is desirable in any type of work, but in the dental health service it was often used to question the clinical diagnosis of the dentist. In many cases, it forbade an operative procedure in favor of some cheaper, less expensive treatment which was not necessarily clinically sound. I remember one instance where a young girl was refused a porcelain crown, and though clinically required for this particular case, she was told she must make do with an acrylic crown. The dentist in question had his medical defense lawyer defend the case to a successful conclusion. This and similar cases were then presented to Parliament by the Medical Protection Society, resulting in favorable changes to the relevant regulations.

British hospitals and doctors' offices were dreary places, but up to the early fifties, most of British life was dreary anyway. Throughout that time, we envied the affluence on the other side of the Atlantic as socialism continued to inhibit an expansive private sector. Rationing of candy, clothing, and fuel continued for a varying number of years, and food didn't come off the ration until 1954, nine years after war's end. When complaints were made about the standard grade of rationed cheese, the Minister of Food, Dr. Edith Summerskill, retorted: "Cheese is cheese. What do *you* want with variety." I remember going on a day trip to Belgium in 1953, and was amazed at the unrationed availability of consumer goods. As for health care, it certainly improved, but I did not see socialism as the source of this betterment. Great strides were made in diagnostic and laboratory facilities, but this was the result of medical progress, not Labour Party embellishments. The dramatic fall in cases of diphtheria, pneumonia, and tuberculosis my father had to treat was due to the advance of science, not the advance of socialism.

Although the Conservative Party was elected to office in 1951, they only had a 17-vote majority, not enough to dismantle the vast implementations of socialism, many of which had become an integral part of British life. In 1953, they did succeed in denationalizing iron, steel, and road transport, and in 1955 the Conservatives won again by a slightly larger margin. From here on, alternating with Labour governments under Harold Wilson, the Conservative Party tried to dismantle socialist programs, but tended to assume that their legislation might be dismantled by the next Labour government. However, by the late sixties, damage to Britain's economy was less to do with the Labour Party, and everything to do with the trade unions who were now initiating strikes on the slightest pretext. Because of the geographic nature of the British Isles, a rail strike, a coal strike, a fuel strike, a dock strike, any one of these could, and did, bring the country to a halt. The Conservative administration of Edward Heath from 1970 to 1974, had to call an election in order to offer the Labour Party the chance of winning and thus handling the devastating "three-day week" which the unions had brought about. One essential service after another was shut down as employees in one industry were intimidated by the unions to strike in support of strikers in another industry. If workers didn't oblige, noisy unemployed youths were recruited as "pickets" and rushed to wherever they were needed.

Unemployed youth? Socialist doctrine had established a new category in Britain's class system, namely thousands of overwelfared and under-educated youngsters from which was spawned a subculture of untalented youth, personified at their worst by beer-swilling soccer hooligans. And by the early seventies, we had another fad to contend with, the so-called "New Left," a strange amalgam of hippies, nihilistic intellect, political crackpots, and their cult-like guru, Herbert Marcuse. Endless protest marches for vague, undefined causes created traffic chaos week after week in London.

By 1979, the British electorate had had enough. Margaret Thatcher was elected on a platform that promised privatization and the reversal of most Labour's policies. The lessons of socialism must have run deep in the minds of the electorate, for they have continued to elect Conservative administrations to this day. What of the Labour Party? Under their new leader, Tony Blair, they have decided to drop the party's constitutional commitment to nationalization, thus affirming their claim that they have finally broken away from their traditional socialist past, a past now lost on the winds of history. □

1. Ed.: See the interesting discussion by David Green, *Reinventing Civil Society: The Rediscovery of Welfare Without Politics* (London: IEA, 1993), pp. 88–120, on the crowding out of private-sector medical institutions and medical aid because of government policies in Britain.

THE FREEMAN
IDEAS ON LIBERTY

Economics of Russian Crime

by Yuri Maltsev

Introduction

The issue of crime is of the utmost importance for Russia and other formerly Soviet republics undergoing transition from a centrally administered economy to a market economy. Today the mafia is a prominent feature of a Russia in transition.[1] The shocking 1994 murders of Duma deputies Andrei Aizderdsis and Valentin Martemyanov attracted public attention to the inability of the State to cope with the crime. Gangland slayings, daylight robberies, hostage-taking, rape, and bribery of officials have all become part of life in the new Russia.

Calling Russia a crime "superpower," President Yeltsin has declared that he will make law and order his top priority. Leaders of opposition from "democrat" Grigory Yavlinsky to ultranationalist Vladimir Zhirinovsky are calling for harsher measures and more resources for law enforcement. While many pundits point to the rise in crime as evidence of the social cost wrought by the transition to the market, it is more appropriate to focus our attention on the institutional incentives that resulted in this rise of criminal activity.

Dr. Yuri N. Maltsev, Associate Professor of Economics at Carthage College, Wisc., and a Peace Fellow of the United States Institute of Peace, held, over a 15-year period, various teaching and research positions in Moscow, Russia. Before coming to the U.S. in 1989, he was a member of a senior team of Soviet economists that worked on President Gorbachev's reforms package and a Chief Consultant of the USSR Bank for Foreign Trade.

With the collapse of the USSR in 1991 there was little, if any, change in the organization of the criminal justice system in Russia.[2] The Russian criminal code is so oppressive and pervasive that "one must virtually retire to hermitage in order to avoid committing a crime."[3] Russia's prisons, probably the worst in the world, are still filled with over 100,000 entrepreneurs, most of whom were convicted for commercial and business practices absolutely legal in civilized countries. Private production and exchange—the most natural of human activities—are still criminalized through a confiscatory tax system and monstrous regulatory mechanism.

If businesses expect future profits to be taxed away, they usually choose not to become profitable in the legal economy. In Russia today too few people understand that property rights cannot exist without stability and legality in taxation. Onerous tax laws and pervasive regulation contribute to over 600,000 convictions per year.[4]

In a speech last year, Jeffrey Sachs, a Harvard economist and a former adviser to Yeltsin's government, dismissed the "excess focus" on the supposed corruption in Russia, arguing that "many of those who are called mafia are simply traders."[5] Economic crime in Russia is the result of the absence of legal remedy and arbitrary bureaucratic power.

Economic crime has been a way of life and survival for a large segment of the Soviet population. With the collapse of the oppressive machinery of the State (and the failure of a liberal regime of property and contract law to emerge) economic crime remains a rational response to the incentives.

A recent survey of people in Tatarstan who regularly travel abroad to purchase goods—a group of people generically called "shuttles"—found that half of them have to pay off local officials and more than 40 percent are controlled by criminal gangs. Most of those engaged in this activity are highly educated (82 percent have at least a secondary degree) and many are women (80 percent). Four out of five of those involved said they engaged in such purchases to feed their families. By criminalizing these activities the Russian government is opening the door for the organized crime.

The suppression of economic freedom and individual initiative has led to widespread apathy and a complete lack of individual responsibility, as well as emergence of black market entrepreneurship. Decisions concerning economy were of pure political character. Assumed orientation of these decisions and corresponding propaganda on "the Communist civilization of tomorrow," "world victory of socialism," "complete satisfaction of societal needs," "scientific and technological revolution," and other abstract goals undermined entrepreneurship and initiative, made people helpless in dealing with the Leviathan state.

The widespread frustration with the failure of perestroika and so-called "shock therapy" reforms of Yeltsin's government have led to the situation when every new announcement of impending reform causes perverse public responses, every new law passed, ostensibly to increase freedom, only increases opportunities for fines and bribes. All economic and fiscal legislation in this period has been absolutely inconsistent with legality. Every law that has promised stability in taxation and established rules of economic conduct has been overtly revoked to the preservation of the willful government expropriations. As popular Russian journalist Victor Kopin assesses the present stage of the "Capitalist Revolution" in Russia: "The White Guards' attack on socialism failed. We have gotten the quasi-democratic society with quasi-market, quasi-legality, quasi-morality. The predominant conclusion out of it is that freedom leads to the devastation of spirituality, crime, pauperization of masses, and emergence of a class of fat cats."[6] But this reality of Russian life is not new. Rather, it is a continuation of the "bureaucratization" of life, and the corruption endemic of such a system, that characterized Soviet rule.

Corruption

Corruption is usually defined "as behavior of public officials which deviates from accepted norms in order to serve private ends." It was assumed by the socialist ideology that the Communist Party officials being altruistic servants of the "public good" were acting selflessly with the right answers provided by the "scientific approach" of Marxism-Leninism. They could and would in the long run solve all social and economic problems inherited by the socialist society from capitalism. The reality was different: party and government functionaries have come to believe that state property belongs to them. The belief that factories and plants belonged to their managers was enforced after the collapse of the USSR and by the proclaimed goal of privatization and establishment of the market economy.

Unlike most East European countries where Communism was viewed as an alien ideology imposed by force by the occupying power and local Communist officials as collaborators with this power, in Russia former Communists are occupying over 60 percent of senior positions in local governments and close to 90 percent in the central government. The number of these bureaucrats in 1994 in Russia alone was around 10 million. Given that such people "plan" and manage state property and economic life in general in their own interest, it is not surprising that bureaucrats became the most powerful economic elite in Russia.

There are different types of bureaucratic corruption:

1. Extortion, or the "black market bureaucracy," which refers primarily to pre-

miums paid to get the bureaucracy to do, or to do promptly, what it is supposed to do anyway is ubiquitous in Russia.

2. Nepotism—being another typical pattern of bureaucratic behavior in Russia—is the appointment of relatives, friends, or academic colleagues whom you trust in order to assure control over subordinate personnel. Nepotism is usually widespread in the public sector everywhere due to the absence of the profit motive. In Russia there are "family dynasties" of plant managers, government officials, and other types of administrators.

3. Nepotism and bureaucratic extortion start the hard core of corruption which consists of "deliberate theft, bribery, and tax evasion to divert public resources to private benefit, or to avoid paying taxes legally owed in the first place. It also includes the use of influence to skew the allocation of resources to programs, cities, or projects in violation of regime goals as represented in official plans."[7]

A new class of Russian entrepreneur is on its way to becoming a private bureaucracy. The source of bureaucratization of private enterprise in Russia is the same as everywhere else—the destruction of the profit motive by government regulation and taxation.

This elite of government apparatchiks and new "entrepreneurs" want to maintain their economic and political power. Nobel laureate James Buchanan has observed that "rent seeking"—that is, competition for government largess and protected profits—emerges as a significant social phenomenon as institutions move away from ordered markets toward the near chaos of direct political allocation.[8] According to a report, presented by expert Vladimir Ovchinsky, in 1993 law enforcement agencies investigated 15,500 cases of corruption and abuse of public office. Among corrupt personnel, about 43 percent were federal and regional officials; 25 percent law enforcement officers, including members of the Federal Counterintelligence Service; 4 percent officials from presidential and federal oversight bodies; and 2 percent members of federal and regional legislatures. (In contrast to the practice in Western democracies, Russian deputies are immune to prosecution for criminal offenses.)[9] "Corruption," exclaimed Boris Yeltsin last year, "is devouring the state from top to bottom."[10]

Corruption is widespread in the law enforcement agencies. Interior Minister Viktor Erin told the State Duma that 500 law enforcement officers had been arrested in the first nine months of 1994 on corruption charges.[11] Major-General Igor Shilov, Deputy Chief of Criminal Investigation Directorate of the Ministry for Interior of Russia was arrested together with his son—a cadet of the Russian Police Academy, and seven other senior officials of the Ministry. They are accused of corruption, hoarding of arms, and links with the mafia.[12]

Inhibiting Foreign Investment

Widespread corruption resulting from an overregulated economy is often cited as a major obstacle for Western investors in Russia.[13] Foreign investors complain that bribes are being sought and taken on all levels of Russian bureaucracy. Without bribes, nothing can be done in banking, construction, transportation, and other vital businesses. In 1992 there were 7,820 cases of crimes with foreign visitors as victims.[14] The crime situation is one of the most discouraging aspects of Russian reality perceived by foreign investors. As Annelise Anderson points out: "A full-fledged mafia can . . . have serious consequences for the economic growth of the legitimate economy. The mafia may create monopolies in local enterprises, control entry, and maximize revenue by extracting monopoly profits as protection payments. New investment may be discouraged and old investment driven out. Risk-averse investors are likely to seek localities less arbitrary and dangerous."[15]

Russia today has over 240,000 arbitrary trade laws and regulations that are special-interest transfers through the corruption of central and local governments. It has 111 different federal and local taxes with the tax codes that no one can understand except those bureaucrats who drafted them. The Russian tax police can violate every right "guaranteed" by the new Russian Constitution to collect more revenue. So, it is no surprise that *Euromoney* has rated Russia 138th in favorability for foreign investment.[16] Widespread economic cheating involves such things as over-reporting and double counting.

Economic decisions of the Russian government are frequently based on deliberately falsified reports of state enterprises, which are inclined to report economic indices in a way which is beneficial to them. Very often cheating is done by the Goskomstat itself as it was recently proved by the Russian economist V. Yuryev, who used as an example the Goskomstat report on economic padding and stealing.[17] Moreover, it has been argued that the falsification of production figures has intensified since perestroika and the subsequent collapse of socialism—largely because of the poor discipline and tax-evasion motives at the enterprise level.

Russian government economic statistics paint a bleak picture of the further decay of the Russian economy in 1994: a 16 percent decline of the GDP, a budget deficit of 9.8 percent of GDP, inflation of 209 percent, an interest rate of 242 percent, and meager average wages of $88 per month.[18] The evolving crisis in the Russian economy can be explained by the fact that, despite the surfeit of laws and decrees, the Yeltsin government has made little or no progress in establishing economic legality, and no effective market mechanism has replaced the one based on the political allocation of resources.

The recently adopted "radical economic reforms" of Chernomyrdin's cabinet seek to create favorable conditions for the bureaucratic and technocratic elite to become the new owners of the state property. "Spontaneous privatization" takes the most ugly, uncivilized forms. Moscow *Kuryer* reported that the top officials of the former Council of Ministers of the USSR "privatized" their state-owned dachas (out-of-town residences) for less than 10 percent of their nominal and 3 percent of their market value.[19] V. Davituliani, President Yeltsin's former representative in the Tambov oblast in Russia's European heartland, painted a gloomy picture of "reforms" in Tambov. The local government, he wrote, "consists 99.9 percent of former party and factory nomenklatura, who continue to take bribes and build houses for themselves just as they did before."[20]

Obviously, Yeltsin's economic reforms started from the wrong end. The new "free market" sales tax amounts to 28 percent. The absurdity of the "new economic thinking" in Moscow led to the new Export Tax which levies heavy duties on anything (not much!) being exported from Russia. This tax served as a cold shower for the Western businesses who are closing their offices in Russia. It is also explicitly serving the corrupt foreign trade officials in Moscow. Bureaucratic networks are so deeply rooted that the *ancièn régime* is still largely in place, protecting a status quo that has been bolstered in large part by geopolitical interests of the Western bureaucratic establishment. The current Economic Minister of Russia Yevgeni Yasin admitted that "the influence of politics on economy have reached now its greatest possible dimension."[21]

Yeltsin's government has chosen the least daring, least radical of the reform options available. Bureaucratic networks are so deeply rooted that the old order is still largely in place. The new political leaders of Russia may alter policy priorities but the widespread organized crime and bureaucratic corruption will inevitably retard the effectiveness and duration of their policies. The economic consequence of this status quo is to further the fundamental problem of a fully bureaucratized society.

What Should Be Done

A comprehensive program to combat crime in Russia should include legal reform, the privatization of industrial and agricultural property, provisions of free trade in shares at newly created stock exchanges;

denationalization of land; creation of labor markets through the elimination of existing restrictions on the freedom of labor to contract; immediate demunicipalization of housing; drastic cuts in military and other government spending; monetary reform aimed at achieving the convertibility of the currency in international money markets; and liberalization of foreign trade.

"One of the most basic insights of political economy is the need for rules to govern economic activity,"[22] states Peter J. Boettke. A stable market economy cannot function without a legal structure that is consistent with its underlying institutions of private property and freedom of contract. F.A. Hayek wrote 50 years ago that "It is the Rule of Law, in the sense of the rule of formal law, the absence of legal privileges of particular people designated by authority, which safeguards that equality before the law which is the opposite of arbitrary government."[23] Any reform of the Russian economy must be undertaken in concert with the institutionalization of the traditional understanding of the rule of law where the legal code is primarily directed toward defending person and property against invasion, either by the state or private parties.

The rule of law is central to any political and economic reform in Russia and the other republics. Governmental decisions must be rooted in the consensus of the governed, acting through structures designed to prevent individual oppression or political tyranny, and procedures are subject to appraisal by an independent judiciary rendering judgments based on law. It stands in contrast to decisions based on arbitrary fiat of power, political rent-seeking or personal gain. But most meaningfully the rule of law encompass fundamental conditions for creating a modern constitutional state:

- protection of the property rights and provision for civil legal remedy and contract enforcement;
- separation of powers and checks and balances;
- representative democracy and constitutional limits on governmental action against the individual and minorities;
- federalism; and
- review by an independent judiciary for constitutional enforcement.

Thus, government maintains a framework of security and order within which liberty can be secured. Individual rights of person and property are treated as normatively prior to government, as standards that take precedence. Governments are instituted among people so as to secure and protect those rights. Yeltsin's government is far from having embarked on meaningful legal reforms in this direction. Legal protection of private property, including the ability to assign, sell, and alienate, is still prohibited unless the law allows exceptions. Perestroika did not change this. The August Revolution of 1991 declared the necessity of the rule of law but failed to deliver any meaningful measures in this direction.

The Need for Radical Reform

The transition to a legal state requires a radical overhauling of the present system. These reforms require a full consensus of the population: "Constitutional change becomes meaningless, however, unless it is accomplished by constitutionalist procedure, which, in the practical sense, means generalized assent on the part of most if not all citizens."[24] Reform also requires some means for individuals to redress grievances against government officials; some means for protecting the rights of minorities against the will of the majority; some means for separating the powers of government offices; and some means of checks and balances to prevent one unit of the government from encroaching on the functions of another. Perhaps most importantly, the rule of law requires some means for the peaceful overthrow of unacceptable rulers. Without these measures, all legal reforms, and economic reforms for that matter, are not likely to succeed in the long run.

Due to the urgent need to create a stable, orderly society based on an effective market, it is important to enact reforms as soon as possible. Gradualism should be eschewed in favor of a radical and immediate overhaul.

The Soviet situation teaches that "without effectively signaling and establishing a binding and credible commitment to liberalization, the behavior of the government simply destabilizes the situation."[25] One of the least desirable unintended consequences of this destabilization is a rapid and abrupt rise in economic crime in Russia. To prevent its further spread in Russia and beyond, the required legal and economic reforms should be implemented as quickly as possible. □

1. See Annelise Anderson, "The Red Mafia: A Legacy of Communism," in *Economic Transition in Eastern Europe and Russia: Realities of Reform*, ed. by Edward P. Lazear (Stanford, Calif.: Hoover Institution Press), 1995, p. 340.

2. "Criminal justice" is usually defined as a combination of "all the means used to enforce those standards of conduct which are deemed necessary to protect individuals and to maintain general community well-being." In the Soviet Union the major goal of the criminal justice system was protection of the socialist state and public property. Individuals and their property were considered as residual claimants for the protection. Penalties for crimes against the state and its property were more severe than that against individuals and their property.

3. David M. Gordon, "Capitalism, Class, and Crime in America," in *The Economics of Crime*, ed. by Ralph Andreano and John J. Siegfried (New York: John Wiley and Sons, 1980), p. 94.

4. *Moscow News*, No. 34, August 26–September 1, 1994, p. 14. It is virtually impossible to make any quantitative comparisons of the dynamics of criminal activity; reliable statistics of crime are not existent. Propaganda officers would doctor criminal statistics without any relevance to reality. "We do not fake it—we make it," a senior statistician of the MVD (Ministry of Interior) in Moscow told me. Statistics were and still are a weapon in ideological war with the West, as well as in political battles for power inside the country.

5. *Newsweek*, November 14, 1994, p. 40.

6. Victor Kopin, "Totalitarnaya Demokratiya," *Stolitsa*, No. 37, 1992, p. 1.

7. Robert T. Daland, *Exploring Brazilian Bureaucracy Performance and Pathology* (Washington, D.C.: University Press of America, 1981), p. 235.

8. "Rent Seeking and Profit Seeking," in *Toward a Theory of the Rent-Seeking Society*, ed., James Buchanan, Robert D. Tollison, and Gordon Tullock (College Station, Texas: Texas A&M University Press, 1980), pp. 3–15.

9. RFE/RI, *Daily Report*, No. 218, 17 November 1994.

10. Claire Sterling, "Redfellas," *New Republic*, April 11, 1994, p. 19.

11. RFE/RI, *Daily Report*, No. 218, 17 November 1994.

12. "Razvitie skandala v MVD Rossii," *Nezavisimaya Gazeta*, May 11, 1994, p. 1.

13. See, for example, "Pray for the Russians, But Don't Invest There," *Milwaukee Sentinel*, October 31, 1994, p. B1.

14. *Militsiya*, No. 4, 1993, p. 20.

15. Annelise Anderson, *op. cit.*, p. 343.

16. *Nezavusunata Gazeta*, April 9, 1994, p. 4.

17. V. Yuriev, "Yesli verit Goskomstatu . . . ," *Ekonomika i zhizn*, No. 28, July 1990, p. 12.

18. "Estonia: In a bear's paw," *The Economist*, November 19, 1994.

19. *Kuryer* (Moscow), June 1991.

20. *Crossroads. A Monitor of Post-Soviet Reform*, Vol. III, 1994, p. 3.

21. *Birzhevye Vedomosti*, No. 1, January 1, 1992, p. 1.

22. Peter J. Boettke, "Credibility, Commitment, and Soviet Economic Reform," in *Economic Transition in Eastern Europe and Russia*, p. 268.

23. F. A. Hayek, *The Road to Serfdom*, Fiftieth Anniversary Edition (Chicago: The University of Chicago Press, 1994), p. 87.

24. James M. Buchanan, "Constitutional Imperatives for the 1990s: The Legal Order for a Free and Productive Economy," in *Thinking About America in the 1990s*, ed. by Annelise Anderson and Dennis L. Bark (Stanford, Calif.: Hoover Institution Press, 1988), p. 257.

25. Boettke, *op. cit.*, p. 269.

THE FREEMAN
IDEAS ON LIBERTY

In Praise of Train Wrecks

by Doug Bandow

While most Americans were going about their lives, denizens of the nation's capital were scrambling to avert a "train wreck"—a deadlock over the budget that would force a government shutdown. In fact, members of the administration and Congress alike couldn't seem to think of anything worse than closing the federal bureaucracy.

One of the reigning principles in Washington for the past half century has been that government must play a pervasive role in managing our complex society. Of course, there have been disagreements on marginal questions—should spending on a particular program rise two or ten percent?—which have regularly generated histrionics on Capitol Hill. But disputes about the basic role of the state have been rare. Despite mass public dissatisfaction in recent years, presidents and legislators of both parties have kept alive hundreds of federal zombies, agencies and programs that have long outlived their purposes, assuming they ever did fulfill a legitimate need. Even some supposed conservative critics of Washington long accepted the status quo with barely a whimper of protest, choosing instead to help raise taxes to fund an endless soup-line for Washington's well-heeled interests. In recent years proposals for old-style pork barrel programs have been advanced in the name of "investments," like an expensive public employment program under the guise of "national service."

The federal government currently consumes $1.6 trillion worth of national wealth, which is far too much. Yet every major proposed balanced budget plan will significantly increase that number. After decades worth of similar initiatives, it should be obvious that budget "reform"—small, incremental changes and slight cuts in growth rates of federal outlays—is no answer.

Rather, policymakers need to end programs, lots of them. And the only way to do that is to decide that some functions do not belong with the government. The best way to enforce serious cuts, in the face of continued resistance by important members of both parties, would be to welcome a "train wreck." Defenders of the status quo would then face a choice: either accept the end of at least a few programs, or shut down the government, killing every federal agency.

Of course, members of the Washington establishment quail at the thought of defunding Uncle Sam. Whatever would helpless citizens do? Typical is the American Federation of Government Employees (AFGE), which warns against "attempts to slash important government programs" that "threaten to diminish the scope of services the American public demands and expects." AFGE President John Sturdivant cites the potential horrors: "The protection of the elderly and the environment, the disabled and downtrodden, the safety of our food, products, transportation and workers and countless other responsibilities of the federal government would be severely disrupted under proposals to eliminate jobs and programs." His words echo along the Potomac.

There's no doubt all of these goals are

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important. But why the near-universal assumption that such goals can only be accomplished by the federal government? Consider protection of the elderly. Uncle Sam does little to guarantee seniors' physical safety—that is a responsibility of local police. Washington does provide Social Security and Medicare, but these programs are hurtling towards insolvency, threatening to drag the entire federal budget down with them. Moreover, they discourage individual saving for retirement and purchase of long-term health care insurance, creating mass dependency by the aged. Genuine "protection of the elderly" requires rethinking, not reaffirming, government's role.

This failure to confront basic principles is also captured by the comments of columnist Mike Causey, who covers the federal government. He criticized one writer who asked who would notice a shutdown: "He is known to eat food (Agriculture Department) and drink water (Environmental Protection Agency), among other things. He also drives (Department of Transportation) and sometimes takes prescription drugs (Food and Drug Administration). If there were a government shutdown, he would be among the first to know—and to demand that those useless bureaucrats resume taking care of him."

But all of these examples prove the opposite point. In none of these areas is the government "taking care" of people. Americans ate food before the Department of Agriculture; this agency simultaneously wastes taxpayer funds and drives up prices. Farmers paid to grow rice in the California desert, not average citizens, would be upset if the Department disappeared. Clean water has also been available for years without the EPA. Federal regulatory dictates in this area have been unduly cumbersome and expensive, exhibiting the usual flaws of national management of local problems. Private companies, localities, and states all constructed roads before the creation of the Department of Transportation in 1966. Why should taxpayers send money to Washington for Congress to parcel out, based on political clout, to fund local projects? And the FDA does not help provide drugs. Rather, it works overtime to prevent people, even those who are dying, from acquiring needed pharmaceuticals. In fact, thousands of people have suffered and died from delays caused by unnecessary federal rules when the very same safe substances were available in other industrialized nations.

None of this is to suggest that cutting spending won't cause genuine hardship among employees dedicated to fulfilling their missions, however inappropriate. "I don't feel as confident right now," admitted a Labor Department employee who helps manage the Department's Davis-Bacon program. "I've been in the government 24 years and never lost a day of pay, but this year seems to be different."

And it should be. Again, it is time to ask basic questions about the role of government. The Davis-Bacon Act is Uncle Sam at his worst, mandating union-scale wages in construction projects receiving federal money. That not only costs taxpayers more; it also prevents lesser-skilled and often minority labor from competing for government-funded projects. In fact, as a new study from the Center for the Study of American Business relates, the law was originally passed earlier this century for the explicit purpose of barring blacks from competing with whites for work. Congress should eliminate the program and, yes, employees running the program should have to find work that doesn't harm the public.

Instead of fearing a budget train wreck, people should welcome it. It is time to ask the sort of question rarely considered in Washington: do we wish to remain a free society? Uncle Sam is too expansive and expensive. Yet over the years would-be revolutionaries in the nation's capital have found out how hard it is to kill even the smallest program, like federal tea-tasting. So shut down Washington. Then people will realize that they don't need the Department of Agriculture for food, the EPA for water, the DOT for roads, and the FDA for pharmaceuticals. Then people will better understand the value of freedom. □

THE FREEMAN
IDEAS ON LIBERTY

No Thanks, Uncle Sam

by Elizabeth Larson

Today's businesswoman needs affirmative action like a fish needs a bicycle.

With two important developments in the affirmative-action battle this past summer—the Supreme Court's decision in *Adarand v. Pena* and the vote by the University of California Board of Regents to discontinue affirmative-action policies for student admissions—an optimist might assume this last universal barrier to women's advancement in the workplace is finally about to topple. Yet victories over policies that are not just misguided but morally wrong must be won at the intellectual level as well as the practical.

Until now, the framework for discussing women in the workplace has been set by feminists—activists who will not be silent until 51 percent of every job classification is filled by women. These same radicals are willing to wave aside the achievements of the individual for the collectivist utopia of group success. Hence the urgency of the struggle over affirmative action at the intellectual level. Though they profess to—and perhaps believe it as well—these activists do not voice the beliefs and interests of most American women. It is time to reclaim the debate, reminding ourselves of the costs women have borne because of affirmative action as well as its danger to liberty.

The American working woman pays a high price for the position or promotion she receives from affirmative action: the unspoken assumption that she was not the "best man" for the job. At a recent teach-in on affirmative action at the University of California-Los Angeles, one of the participants *defending* affirmative action provided the best example of how the policy foments these very questions about competence.

Ellen DuBois, a full professor of history at UCLA and the author of such books on women's history as *Feminism and Suffrage: The Emergence of an Independent Women's Movement in the U.S., 1848–1869*, and the co-author of *Unequal Sisters: A Multicultural Reader in U.S. Women's History*, began her comments by describing herself to the audience as "an affirmative-action baby—and proud of it." She explained how her first job after graduate school was at the State University of New York, thanks to the school's new affirmative-action policy, and continued with: "When I was first listening to the claims of the Civil Rights Initiative people, my parents were with me, and I said to them, 'You know, *I* was an affirmative-action appointment.' And they said, 'Oh! But you *deserved* your job.' And I thought that that sort of captured everything—the assumption that I, the one they know, deserve *my* job, but all the rest of these people who have affirmative-action positions don't deserve their jobs. It's just an accident that their dear daughter did."

Miss Larson, a writer in Los Angeles, has written about women in the workplace for Investor's Business Daily, Reason, Insight, *and other publications. A shorter version of this article was presented at a teach-in on affirmative action at the University of California-Los Angeles on May 4, 1995.*

Suspicions about the merits of those who receive affirmative-action jobs are often undeserved, and thus all the more insidious. When the suspicions are held by one's colleagues, rather than the general public, it is particularly divisive. Resentment against an individual case of hiring by quota ferments into resentment against all members of the privileged group. Intended to reverse discrimination, affirmative action eventually breeds it. The supporters of such a perverse system must answer the question of how successful—and more importantly, how *moral*—a system is that harms the very individuals it purports to help.

Unfortunately, concrete concerns and real-life reservations about affirmative action are commonly dismissed as anecdotal—and, indeed, it is difficult to quantify such arguments with numbers. So let us turn to the actual statistics used to "prove" the need for affirmative-action programs.

The Wage Gap

It turns out that supporters of affirmative action would have us level the playing field in all areas except the reporting of statistics. The infamous wage gap is so common a refrain that it approaches cliché. On closer inspection, however, the gap shown by all the "data" is neither as wide nor as unbridgeable as it is portrayed. Once you stop lumping all women of all ages in all fields together and using that resulting dollar figure as representative of the average American working woman, the gap narrows.

Comparing the wages of women and men of the same age, with similar experience, training, and years of uninterrupted time in their field yields a much more optimistic picture of how women fare today. Women under age 20 earn 92 percent as much as their male counterparts, women 21 to 24 earn 85 percent, and women 25 to 34 earn 78 percent. The younger the group, the slimmer the difference, suggesting that the wage gap will eventually disappear.

According to a report from the U.S. Civil Rights Commission, the gaps that do still exist are likely due to the fewer continuous years women have been in the workforce. Women who have never interrupted their careers for any reason now earn at least 98 percent as much as their male counterparts.

In addition to painting a picture using tendentious numbers, many feminists labor under assumptions about the workplace and the meaning of success that are both unreasonable and unrealistic. They seem to believe that making an attempt at her job in and of itself guarantees a woman success. Yet the free market that has given women opportunities to work outside of the home that are unparalleled in history is the same free market that does not hand out "A's" for effort. Just because a woman wants to be the first female CEO of her company does not mean she is entitled to the position, or that if she fails to make it that far up the corporate ladder it is someone else's fault. Luck, drive, brains, connections, education, and, yes, looks, can all play a part in the promotions any worker—male, or female—receives.

A look at the role of physical attractiveness in determining wages exemplifies just how unrealistic feminists are when it comes to success in the workplace. Using American and Canadian subjects, economists Daniel Hamermesh and Jeff Biddle found that, even after adjusting for education and other factors, very attractive men and women earn about 5 percent more per hour than their merely average-looking colleagues. Plain women earn 5 percent less than the average-looking workers, and plain men 10 percent less.[1] It seems that when the beauty myth becomes economic reality, men have even more to complain about than women.

Free-Market Success Stories

If feminists truly cared about women succeeding rather than constructing a social utopia, they would herald individual women who have genuine, free-market success stories to tell. These women are not running to government for affirmative-action privilege because they are too busy running companies.

Jane Hirsh is one such woman. Today one of the country's wealthiest businesswomen, Hirsh founded Copley Pharmaceutical Inc. more than two decades ago because she wanted to be able to bring her children to work. After 21 years spent building her company into a generic-drug powerhouse, Hirsh sold a 51 percent stake in Copley to the German company Hoechst for $546 million in cash two years ago, retaining 37 percent of the shares for her family. Starting her own company "was the only way I could have a crib in my office," Hirsh recalled.[2]

Edith Gorter of Gorter Express Company has her own hard-work success story to tell. She was one of seven female entrepreneurs that author and businesswoman Joline Godfrey chose to highlight in her book on businesswomen, *Our Wildest Dreams*. Gorter took over the trucking company when her brother-in-law who had been running it died. (Her husband, who had no head for business, had wanted to sell the family company, founded by his father in 1910 with a horse and wagon.) When Edith Gorter took the company's reins in 1972, Gorter Express had just one client, two trucks, and little else. Today, the company has hundreds of clients and about $2 million in rolling stock. Her daughter Lori seems the likely candidate to take over the company from her mother.[3]

Little Caesar's pizza chain, Mrs. Field's Cookies, and Ruth's Chris Steakhouses are a few of the better-known companies founded or run by women, but there are literally thousands of great free-market success stories like these. In fact, more than 6.5 million American businesses are owned by women. As a recent Associated Press story reported: "From 1991 to 1994, woman-owned businesses in the transportation, communications, wholesale trade, real estate and financial services grew nearly 20 percent, while construction firms grew 19 percent and manufacturing firms 13 percent, according to the National Foundation for Women Business Owners."[4] Since women start their own companies with half as much capital as men do, these entrepreneurs do not have the luxury of free time to complain about perceived workplace inequalities.

Some might argue that while entrepreneurial women have the opportunity to pick their field, most female workers are still forced to do "women's work." Although about two-thirds of working women still enter traditionally female fields such as nursing, teaching, and social work, a study from the Population Reference Bureau found "striking gains" for women in such traditionally male fields as medicine and law during the 1980s.[5] The number of women lawyers more than tripled, and the number of female doctors doubled. Since the "decade of greed" was supposedly even worse for women than for men, this is good news.

Group versus Individual Rights

It is important to note that the debate about affirmative action is not a debate about the existence of individuals who discriminate on the basis of sex, nor should it be. Like the poor, the misogynist will always be with us. What differentiates the sexist society from a free society in which there is sexism is whether that prejudice is sanctioned by legislation and government policies or whether it is forced to the margins of society by general condemnation.

The affirmative-action debate is ultimately an argument about group versus individual rights. Affirmative action's opponents understand that it is wrong, and not merely impractical, to restrain the individual for the sake of the group. They know from history that to ignore or denigrate the achievements of the individual is to head society down the road to chaos. The factional fighting that ensues is not of the beneficent type described by the Founders, wherein special interests jostle amongst themselves creating a balance from which everyone's rights emerge intact. It is a splintering of communities born of contempt and resentment. Liberty has no friends in a world where success is seen as an entitlement, for the politically strong do what they

Ruth Fertel, founder and chairman, Ruth's Chris Steak Houses.

can to obtain this "right" while the politically weak suffer what they must.

Feminists ought to be particularly attuned to the dangers of relying on a central force or figure for support and protection. Women struggled far too long to free themselves from paternalism to hold the hand of Uncle Sam now. An eagerness to rely on the government is an affront to what feminism *should* stand for. It betrays a lack of confidence in women's abilities to achieve financial and personal independence, and it undermines the real gains women have made in the workplace in recent decades.

As with any group that considers itself the vanguard of a brave new world, feminists want immediate change—and affirmative-action programs with the force of bureaucratic edict promise it to them. Yet utopias are malleable things. Just as the dream of a color-blind society has become the reality of a color-coded one since the passage of the 1964 Civil Rights Act, the goal of equal opportunity has become the mirage of equal outcome. A system in which less than 5 percent of construction jobs are held by women—even though women *own* almost as many construction companies as men—is a system which, to many feminists, has failed the fairer sex.

But try telling that to someone like Edith Gorter—who hasn't just made it in a "man's world"; she's made it in a man's field, trucking. Where are the feminists to praise strong, independent women when you need them? Running after yet another gift from the government sugar daddy. □

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2. Suzanne Alexander, "Jane Hirsh Saw The Future, and It Was Generic," *The Wall Street Journal*, September 12, 19093, p. B1.
3. Joline Godfrey, *Our Wildest Dreams: Women Entrepreneurs Making Money, Having Fun, Doing Good* (New York: HarperBusiness, 1992), pp. 187ff.
4. "Women work way into male bastions," Bridgewater (N.J.) *Courier News*, September 25, 1995.
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THE FREEMAN
IDEAS ON LIBERTY

Liberty and Immigration

by Thomas E. Woods, Jr.

The extraordinarily high rate of immigration, legal and illegal, into the United States is an indication that our country is doing something right. The United States, while far from boasting a pure free market, clearly offers enough economic liberty to attract the migration of peoples from all over the world. Currently, half the world's immigrants come to the United States.

Libertarians have generally welcomed immigration, and on very simple grounds. According to the "non-aggression axiom," it is wrong to aggress against the person or property of anyone who has not himself committed such aggression. To restrict the free movement of peoples across borders is thus to engage in unjustified aggression, and is therefore anathema.

Upon further reflection, however, it is puzzling why so many libertarians have so enthusiastically and uncritically accepted the "open borders" position. It leads, in fact, to an infringement on the property rights of millions of homeowners, and a tremendous increase in state power.

In a 1993 address before the Mont Pelerin Society, the late Murray N. Rothbard suggested an alternative libertarian approach to immigration. Imagine the pure private-property, or "anarcho-capitalist" model, in which all property, from streets to parks, is privately owned. There is no such thing as a "public space" under such an arrangement, and therefore no "immigration problem." Individual property owners or contractual communities would be able to set their own immigration policy, and determine for themselves who would or would not be allowed to enter their private property.[1]

The situation becomes muddied when we insert public property into the equation. Cultural cohesion is a value cherished by many, but it is gravely compromised by distant levels of government which force localities to allow "universal access" to local public property. It is hopelessly misleading to describe this state-enforced policy as "free immigration"; rather, as the libertarian philosopher Hans-Hermann Hoppe points out, it is a flagrant case of "forced integration."[2]

Libertarians and Public Property

The issue boils down to how libertarians should think about public property. Some libertarians hold that as long as a road or any other property is public, no restrictions can be placed on its use. If a nudist colony decided to march, *au naturel*, down the middle of a well-traveled area of Manhattan, such a libertarian would have no objection. (That chastened New Yorkers would be unlikely to notice is another matter.)

Clearly, no private road proprietor would dream of subjecting his patrons to such an

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environment. But until all roads are private—a situation unlikely to obtain anytime soon—on what grounds should the most basic civilizational norms not be observed on public property? There is no reason why the mass of the public, already looted and oppressed by the state, should also be forced to endure offensive behavior or dreadful squalor every time they set foot on state-owned property.[3]

The same analysis can be applied to immigration policy. Must people be forced to surrender to the state-imposed multiculturalism that is current immigration policy, or can they at least attempt to approximate the demographic patterns that would obtain under private-property conditions?

It is hardly unwarranted to assume that the vast majority of Americans, if control over immigration were devolved to the most local level possible, would freely choose to sort themselves according to very different demographic patterns from those which the state, through its invasive immigration policy, foists on them today. To allow our present immigration policy to continue, therefore, is to hand the state an enormous victory over the private property owners who must live with the forced integration of which the present system consists.

Many advocates of "open borders" contend that the real culprit is the welfare state, and not immigration per se. But this will not do. We all would like to see an immediate end to the welfare state, but with "welfare reform" another Beltway hoax and the rest of the New Deal/Great Society entitlement programs alive and well, this is no answer at all to those who are concerned about the unprecedentedly high infusion of immigrants, legal and illegal, into the United States.

A Unique Crisis

The current crisis is indeed unique in American history. As Peter Brimelow points out, previous waves of immigration were followed by long pauses during which the country was able to absorb and acculturate its new citizens. Not so today. The

Immigration and Naturalization Service estimates the arrival of 12 to 13 million legal and illegal immigrants into the United States over the course of the 1990s, the overwhelming majority of whom will hail from radically different cultural environments from what they will find here. And there is no end in sight.

We must also ask ourselves seriously whether we will be more or less free after even two more generations of immigration of the size and composition of recent decades. That immigrants and the American bureaucracy that serves them will become yet another pressure group, clamoring for privileges and benefits in Washington, can scarcely be doubted. The overwhelming majority of current immigrants is eligible for affirmative action and the myriad other benefits that accrue, at others' expense, to the protected classes.

Yet there is a more subtle reason to be wary of the kind of radical heterogeneity that a continuation of current policy promises. In order to destroy the cultural and ethnic cohesion that acts as a bulwark against its expansion, the state has a history of engaging in deliberate demographic scrambling. When this forced integration inevitably produces animosity, the state is all too eager to impose order on a chaos of its own creation.

Massive migration of ethnic Russians into Estonia, for example, was deliberately en-

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Love and Envy

Love and envy probably are the most bewitching of all emotions. Love blinds all men alike, both the wise and the foolish. Envy sharpens our eyes although it is a timid and shameful passion to which we dare not confess. Being unequal in ability, industry, and the rewards of our labors, we let the vice of envy creep into our hearts and make us miserable. If envy were a fever, many people would be ill.

Man is a social being who seeks protection and comfort in society. He takes care of his own with the help of others, working together in what economists call "division of labor." It springs from individual inequality in inborn ability and acquired capability which permit individuals to perform different tasks. Individual inequality does not contradict the "self-evident truth" that "all men are created equal, that they are endowed by their Creator with certain unalienable Rights." It is self-evident that innate inequality calls for equal individual esteem, regard, and respect, assuring social peace among unequal men. Social harmony and cooperation depend on the equal treatment of all members of society before the law.

Many reformers frown upon this political and legal equality as being inadequate; they would extend the scope of equality to economic life through political distribution of income and wealth. They would forcibly reduce economic inequality through taxation and outright confiscation, seizing income from productive members, giving some to unproductive or less productive individuals, and keeping some for the regulators, tax collectors, and confiscators. They would use force continually and relentlessly because people continue to differ in capacity, skill, strength, industry, training, and experience. They love force which breeds more force. They easily enslave servile natures; freemen seek to escape.

A policy designed to bring about economic equality opens the door for demagogues. It invites politicians to stir up the resentment of the poor against the rich so that they may elect those demagogues to positions of power and largess. Demagogues are agitators who ask why anybody should be permitted to earn millions while honest people linger in want and despair. Always ranting against the greed, lust, and corruption of the rich, they promise much but perform only evil. In the end, they incite the envious mob to plunder the rich.

The quest for economic equality breeds a new race of politicians: hunters after popularity, they are men of ambition who seek the profits of office rather than honor and service, orators who wax eloquent of principle, having none themselves. They do not pursue what is right but rather what brings vulgar applause. While in the possession of political power, they lead a nation straight into despotism. Even if we were to surrender all our freedoms to them, there would be no equality of position and income. The taskmasters would take the place of the rich, and political power would triumph over economic productivity.

In an economic order not guided by resentment and envy, the people are preoccupied with their own problems. Every individual faces the challenge of earning enough income to satisfy his needs and wants. He may contribute to the process of production and thus earn an income or be supported by others who do participate. Infants, the aged, and the handicapped obviously must depend on their supporters, while all others face the challenge of earning an income and providing for themselves and the persons who rely on them. He who refuses to contribute to production does not earn his keep, but is free to remain idle. In a command system, he has no such choice; the government forces him to participate in any way the officials see fit. The police, judges, and jailers exact everyone's contribution to the joint effort.

An envy-free society is clear of political power and coercion. It imposes restraints only on criminal acts that inflict harm on persons and their property. There are no economic commands, rather merely indirect pressures on individuals to cooperate in the process of production. The market order allocates income in accordance with the services rendered and contributions made to social well-being. It rewards individual effort according to the value of the service rendered, which creates an incentive for everyone to apply his abilities to the utmost. Free societies enjoy great productivity, high individual incomes, and commensurate standards of living.

Welfare states pursue a relentless policy of income equalization. Driven by the envy of voters, they seek equality through confiscatory taxation of incomes and estates. But a policy of confiscation is always short-lived; it may succeed once only when it is not expected. As a continuing policy it is rather ineffective as the owners prefer to consume their capital instead of saving it for the tax collectors and expropriators or, if such capital is liquid, send it abroad to invest in foreign enterprises. Countries that lose capital suffer economic stagnation and decline; countries that attract capital enjoy rising labor productivity and wage rates. After all, saving and investing determine the productivity of labor and provide the means for the improvement of future conditions.

Confiscatory taxation is not the only method of capital consumption; deficit spending and banking regulation have the same desolating effects. Legislators and regulators like to channel the people's savings to government, which promptly consumes them. All the funds of Social Security and large funds of private trusts and investment companies consist of government IOUs, which are certificates of capital consumption. While individual savers and investors are providing goods and services for the future, government is committed almost exclusively to the enjoyments and pleasures of the moment. While individual saving and investing make for peaceful cooperation and social division of labor, political spending invariably generates bitter conflict not only between the beneficiaries and victims but also the generations. Deficit spending tends to consume both — capital accumulated by past generations and the seed corn for future generations. It is difficult to imagine a policy more destructive than deficit spending.

Love makes all hearts gentle except those touched by envy. Most of the economic and social misery which welfare states bring upon the world is inflicted by demagogues stirring up the resentment of voters. Unable to attain the income of the rich, they rail at it. All kinds of problems are solvable except those which spring from envy.

Hans F. Sennholz

couraged for the purpose of destroying Estonian culture and nationalism. In Yugoslavia, Tito enforced a policy of forced mixture and resettlement of Serbs, Croats, and Slovenes, exploiting the resulting animosities to justify further expansion of state power. A population thus divided against itself at the local level can pose no threat whatsoever to the central state. And this, of course, is the point.

Barring the establishment of a pure private-property system, the only sound libertarian approach to immigration is thus a radical devolution of power from the central state to the local level, and to allow individuals and communities to decide the issue for themselves.

A facile advocacy of "open borders" gives the central state exactly what it wants: the chance to supersede the preferences of property owners, and to provide the pretext for further encroachments on local and individual liberty. Such a system, in short, will make America less free. That's a good enough reason for libertarians to rethink it. □

1. Murray N. Rothbard, "Nations by Consent: Decomposing the Nation-State," *Journal of Libertarian Studies* 11 (Fall 1994), pp. 1–10.

2. Hans-Hermann Hoppe, "Free Immigration or Forced Integration?" in Thomas Fleming, ed., *Immigration and the American Identity* (Rockford, Ill.: The Rockford Institute, 1995), pp. 212–20.

3. See Murray N. Rothbard, "What To Do Until Privatization Comes," in *Making Economic Sense* (Auburn, Ala.: The Ludwig von Mises Institute, forthcoming), pp. 144–47.

4. Peter Brimelow, *Alien Nation: Common Sense About America's Immigration Disaster* (New York: Random House, 1995), p. 5.

Coming to America: The Benefits of Open Immigration

by Thomas E. Lehman

For centuries, the American culture has been a beacon of hope to the oppressed peoples of collectivist economies and authoritarian or totalitarian governments throughout the world. Why then do the American people—descendants of immigrants, beneficiaries of open and unregulated immigration, whose culture, economy, government, and way of life are so deeply tied to open borders—exude such a passion against free immigration? Why do they wish so desperately to deny late twentieth-century immigrants the benefits to which their own eighteenth- and nineteenth-century ancestors were privileged? What do Americans have against open borders?

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American immigration policy is a labyrinth of regulations and barriers to free travel and migration. One wishing to enter this country must possess all the legal and "proper" documentation in order to be permitted entry. The poverty-stricken and homeless foreigners who expect to benefit most from immigrating into the American economy rarely possess resources adequate for legal entry. Hence, they are denied. Such immigration policy is based upon a xenophobic confusion regarding economics, the mobility of labor, the American welfare state, and cultural diversity.

Immigration and Labor

Many Americans argue that free immigration would destroy "working class" Americans' ability to earn a living. They claim that allowing free and open borders to any and all immigrants would put decent, hard-working Americans out of work. Perhaps what these Americans really fear, however, is that someone will emerge from the "immigrant class" who would be willing to work for less than they while producing equal or greater output.

The present immigration policy of the United States amounts to nothing less than a tariff or barrier to entry on the commodity of labor, and harms American consumers in the same manner as tariffs and trade barriers on other capital or consumer goods.

A policy of open immigration would indeed force unskilled American laborers to compete for their jobs at lower wages. However, far from being an evil, this is a desirable outcome, one which should form the basis for a new immigration policy. By inviting competition into the American labor markets, artificially inflated labor costs could be eliminated and a greater level of labor efficiency could be achieved.

As the cost of labor (itself a cost of production) decreased, entrepreneurs and producers could produce more efficiently, enabling them to offer products and services at lower prices as they compete for consumers' dollars. Lower prices in turn increase the purchasing power of the American consumer, and thus enhance living standards for everyone. This is happening even now as some small business owners use "illegal" immigrant labor to lower their operating costs and thus lower consumer prices: ". . . small-business executives do agree that some of their competitors who knowingly or unknowingly hire illegal immigrants use the cheap labor to undercut prices of business owners who play by the rules."[1]

This is good for both consumers and the economy at large. As immigration makes the American labor market more competitive, costs of production are reduced and prices decline. In the long run, even the domestic laborer who is forced to lower his wage demands is not any worse off, since what he loses in terms of lower nominal wages he may well regain in terms of lower prices on the goods and services he purchases as a consumer. Meanwhile, everyone else benefits, and no one is privileged at the coerced expense of anyone else.[2]

Immigration and Welfare

Another argument used in favor of immigration controls concerns the American welfare system and its potential abuse by immigrants who migrate into America merely to feed at the public trough of social services. The claim is made that the welfare system, not potential economic freedom, is the lure which draws immigrants into the American economy. Immigrants—unproductive, slothful, and indigent—constitute a dead-weight loss on the American economy, and further increase the tax burden on productive Americans. Therefore, we must police our borders and keep out the undesirables.

This argument is statistically and theoretically flawed. Contrary to prevailing public opinion, current immigrants do not "abuse" the public welfare system, even in the areas where immigration (legal or illegal) is most concentrated. In fact, immigrants have little effect on the current system of taxation and wealth redistribution. As Julian Simon relates:

> Study after study shows that small proportions of illegals use government services: free medical, 5 percent; unemployment insurance 4; food stamps, 1; welfare payments, 1; child schooling, 4. Illegals are afraid of being caught if they apply for welfare. Practically none receive social security, the costliest service of all, but 77 percent pay social security taxes, and 73 percent have federal taxes withheld. . . . During the first five years in the United States, the average immigrant family receives $1404 (in 1975 dollars) in welfare compared to $2279 received by a native family.[3]

Some may disagree with these statistics. Others would no doubt argue that if immigration controls were eliminated and borders completely unpoliced, a massive number of immigrants would enter the United States and overload the welfare system, causing taxes and the national debt to skyrocket. Certainly this is a possibility. But, even if we grant this argument the benefit of the doubt and concede that unrestricted immigrants would indeed flood the welfare system, the answer to the problem lies not in closing off the borders or "beefing up" border security. The answer lies in eliminating the American welfare state, and prohibiting anyone, native or immigrant, from living at the coerced expense of another.

Immigration and Culture

A final argument against immigration comes surprisingly from those generally supportive of liberty and the philosophy of the limited state. These critics are concerned for the preservation of what they see as a distinct American culture and its traditional heritage of European-style limited government and market economies.[4] Their fear is that this traditional culture is being sabotaged by an influx of immigrants who are unfamiliar with and perhaps even hostile toward its institutional framework. They contend that immigrants of the late-twentieth-century variety do not possess the same ethnic characteristics of earlier immigrants, and therefore do not have an appreciation for the "American way of life." Such an argument suggests that recent immigrants who hail from Third World nations controlled by regimes of despotism have no understanding of the traditional institutions that have made America great. Allowing these immigrants of vastly different culture and ethnic heritage into the United States will result in a grave polarization of our society into racial enclaves that will run roughshod over our most sacred political and economic institutions.

To political conservatives, and even some libertarians, this argument may appear compelling at first blush. However, it is flawed. First, preserving "tradition" merely for the sake of tradition is pointless. The idea of tradition is meaningless unless we define the essence of that tradition in terms of the ideas that comprise it. Tradition alone is not what has made America great. Rather, it has been the reciprocal relationship between a limited state and economic and social liberty that has made the American way of life so coveted—in other words, the philosophy of liberty underlying the American tradition.

Expanding the power of government in order to preserve tradition is a sure path to the destruction of liberty. Americans ought to be particularly aware of this fact since the American tradition is bound together so tightly with the philosophy of freedom and limited government.

Yet, it is not the first time Americans have been down this road. U.S. public education began as a concerted effort to preserve the Protestant "traditions" of the American culture against the perceived threat of Catholicism. By subjecting the education establishment to the decisions of legislators and bureaucrats in local, state, and eventually national governments, Protestants hoped to stem the tide of Catholicism flowing into America on a nineteenth-century wave of immigration. As Samuel L. Blumenfeld relates,

> There was another reason why the Protestant religionists decided to join the secularists [socialists] in promoting the public school movement. They shared a common concern with, if not fear of, the massive Catholic immigration to the United States during that period. . . . [It was] argued that Protestants had to put aside sectarian differences and unite to defend Protestant republican America against the "Romish designs."[5]

By making schools public rather than private, Protestants sought to use the power of the state to exclude the teachings and influence of Catholicism on their children, thereby preserving the Protestant "tradition" in America by way of majority vote. In retrospect, the bankruptcy of the American public education system ought to serve as a somber reminder that expanding state power to preserve "tradition" is a sure path to statism.

There is another flaw lurking in the argument that open immigration leads to the decline of a nation's cultural and institutional framework. Contrary to the anti-immigration position, the American traditions of limited government and free market economies are not based upon ethnic or racial origins. They are based upon ideas. Western cultures cannot suppose themselves to have a monopoly on the philosophy of liberty, nor can Americans argue that the political values of the limited state cannot be inculcated in non-American immigrants. The ideas of freedom that have created the American tradition can apply to any ethnic or racial make-up.

But what happens if, over time, America absorbs so many immigrants that, through their influence, the ideas of limited government and the free market economy become diluted? What happens when our political system falls victim to immigrant forces that seek to expand government power? These are good questions. The fact remains, however, that these fears are now being realized, and the foes of liberty in America are largely home-grown. Twentieth-century Americans have turned their backs on the philosophy of the limited state.[6] They have generally refused to acknowledge the advantages of a laissez-faire market economy. It is not the foreign element, but rather the domestic element that we should fear. Before we begin to castigate potential immigrants for the damage they may do to our freedoms, we need to acknowledge the damage we have already done on our own.

The answer is to return once again to a government "of laws and not of men." In other words, the state must be radically limited in power and scope, with only minimal duties which are explicitly defined. This will put state power beyond the reach of those individuals or voting blocs that would seek to exploit it for personal gain. We then would have no reason to fear immigrants, regardless of their ideological or political persuasion. Their ability to "sabotage" our freedoms would be removed not because we expand state power to keep them out, but because we diminish state power in all areas and allow them in.

Immigration and Freedom

Immigration policy should not be viewed differently than trade policy: free, unregulated, unpoliced, open borders, devoid of taxes, tariffs, or any other barrier to entry. This is the policy of freedom to which America owes her heritage. Unilateral free trade, free immigration, and free emigration, where individuals possess unobstructed and unregulated mobility and trade, is a cornerstone of a free society. In fact, the free movement of peoples is no less important than the freedoms of speech, expression, and association. Liberty is indivisible; the laws of economics apply equally to all peoples.

Americans must begin to accept the fact that free trade and open borders are to their utmost benefit. By embracing the philosophy of free immigration and free labor mobility, we benefit from the productivity, ingenuity, and entrepreneurship not only of those within are borders, but also of those from without. Expanding the division of labor into the international marketplace makes available a vastly enlarged array of resources, thus enhancing the living standards of everyone. □

1. John S. DeMott, "Immigration Policy's Double Impact," *Nation's Business*, December 1994, p. 28.
2. See the compelling example offered by Jacob G. Hornberger in "The Case for Unilateral Free Trade and Open Immigration," *Freedom Daily*, November 1994, p. 6.
3. Julian L. Simon, *Population Matters: People, Resources, Environment, & Immigration* (New Brunswick, N.J.: Transaction Publishers, 1990), p. 265.
4. Perhaps the most developed argument from this position can be found in Peter Brimelow, *Alien Nation: Common Sense About America's Immigration Disaster* (New York: Random House, 1995).
5. Samuel L. Blumenfeld, *N.E.A.: Trojan Horse in American Education* (Phoenix, Ariz.: The Paradigm Company, 1984), p. 27.
6. For those who would argue that the decline in American liberty during the twentieth century is related somehow to immigration and open borders, the reality is otherwise. Twentieth-century America has never practiced open immigration to the extent I am suggesting. Further, twentieth-century Americans have become more nationalistic than their eighteenth- and nineteenth-century ancestors, thus reflecting, at times, an extreme degree of suspicion or even hatred toward foreign peoples.

THE FREEMAN
IDEAS ON LIBERTY

Thinking Carefully About Macroeconomics

by Steven Horwitz

Most people who believe in a free society have some knowledge of economics. After all, the case for economic freedom is usually the most difficult one to argue, and if one is going to defend the idea of freedom, one must be prepared to discuss economic issues. However, this strategy can sometimes face two differing problems.

The first is that economics is not a homogeneous entity—there are different schools of thought with different approaches to the subject matter and different policy conclusions that emerge from these approaches. Knowing some economics isn't enough. One must be careful about what it is one knows and what economics others might know. This point by itself suggests those who wish to make the case for the market need to be as aware as they can be about developments in economic theory and policy.

Even beyond the issue of policy, a second complication comes into play. There are a number of different theoretical arguments for the free market. It would be easy to simply dismiss these differences as irrelevant, since all seem to wind up with the same conclusion. However, some of those arguments may be better than others, and some may be more convincing to particular audiences. Here, too, it pays for defenders of the market to be as informed as possible about these differences and the various arguments each group presents.

What I would like to do in this essay is to lay out the Austrian school's approach to some fundamental issues in macroeconomics, and, in so doing, address both of the issues noted above: how does this approach differ from more interventionist schools of thought, and how does it differ from other market-oriented approaches?

Macroeconomics and Microeconomics

One of the issues that spans both of these questions is the relationship between macroeconomics and microeconomics. Prior to John Maynard Keynes in the 1930s, there was not really a distinct system of analysis known as "macroeconomics" which was concerned with establishing direct causal relationships among aggregates such as inflation, unemployment, and gross domestic product (GDP). Keynes was interested in determining the "level of output as a whole," and he argued that economists before him had ignored this crucial question. A great deal of Keynesian economics from the 1930s to the 1960s was solely concerned with these macroeconomic aggregates, never asking what the relationship between them and the choices made by individual persons and firms in the economy might be.

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An important accomplishment of economics in the 1960s was to begin to ask precisely this kind of question. Milton Friedman's work, in particular, sought to explain inflation and unemployment more in terms of the choices made by individuals who were smart enough not to be fooled consistently by government policy. Later developments of those themes have extended the assumption of individual rationality to the point where individuals in many recent models cannot *ever* be fooled by systematic government policies. The work of the so-called New Classical economists, such as recent Nobel Prize winner Robert Lucas, was important in reminding economists that people do not behave the same way no matter what policies governments adopt. If governments inflate, for example, individuals will have an incentive to recognize that inflation and take steps to neutralize its effects on themselves and their families or firms.

As important as these contributions are, they remained the victim of one central flaw. They were couched in terms of more and more abstract models that assumed that observed macroeconomic outcomes had to be the result of perfect utility- and profit-maximizing behavior by individuals and firms. The central assumption was that the economy was in equilibrium and that observed macroeconomic outcomes had to be compatible with microeconomic equilibrium. The problem with this strategy is that first, the conditions necessary for equilibrium to hold never exist in the real world, and second, it suggests that major macroeconomic difficulties (such as 25 percent unemployment during the Great Depression) are just the result of optimal decisions by individuals. Although it concluded from this analysis that government policies will be unable to improve on market outcomes, this strategy does shift the analyst's focus away from the role that government intervention might play in *causing* those outcomes.

Of course the Keynesians did not sit still for these developments. They recognized and accepted many of the counterarguments made by Friedman and the New Classicals. However, the general strategy of the so-called New Keynesians was to point out that various informational limitations and rigidities inherent in real-world markets prevent markets from achieving the equilibria that the New Classical models were built upon. As a result, argued the New Keynesians, government intervention might improve upon the free market by virtue of government's supposedly superior information and ability to take advantage of those rigidities and push the economy closer to that equilibrium. So New Keynesians share many of the same underlying assumptions as the New Classicals, they simply believe that in some (if not many) cases markets alone are unable to reach the equilibrium that the New Classicals believe they can.

An Alternative Perspective on Macroeconomics

It might surprise people who know a little bit about Austrian economics to read an essay about why macroeconomics matters. Austrians are presumed to reject the whole concept of macroeconomics as being inconsistent with the individualism that has long defined their approach. To the extent that macroeconomics is understood as only being about the direct relationships among economic aggregates, then it would be wise to reject such an approach. However, all economists are still interested in explaining phenomena such as unemployment, inflation, and economic growth and their effects, so we do need some way of analyzing those issues. As noted earlier, a sound approach to macroeconomics would insist that such explanations (and the effects of changes in aggregates) have to be understood in terms of the microeconomic choices made by individuals and firms.

One alternative way to explore these issues is to reject the equilibrium orientation of the major mainstream schools of thought and see what difference that might make in the analysis. Specifically, where these schools see market prices as equilibrium signals to perfectly rational actors (they simply differ on how well prices perform this function), we might, by contrast, see market prices as *disequilibrium* signals that guide imperfectly informed individuals about what to do and how well they do it. For example, if you assume markets are always in equilibrium, then any given price is fully reflective of all of the knowledge and preferences of market actors. If so, then whatever results is optimal. This is how an equilibrium-oriented macroeconomics can shrug its shoulders at 25 percent unemployment. It's an equilibrium outcome, hence it is optimal.

If, however, we argue that equilibrium never actually exists, then the existing prices of goods and services in the market are not perfect reflections of people's preferences and correct knowledge, but rather indicate the imperfect information conveyed by individuals making choices in a complex economy. Prices then have multiple roles in the market. First, prices help to inform market actors about what choices they *might* make next. Suppose I make t-shirts. In deciding how to make my product I would want to know the prices of my various options for raw materials and labor in order to decide how much labor, what kind of shirt material, and what kind of dye or screening process I might use. Prices help to inform these decisions. Second, after having made my choices about inputs, I sell (or can't sell) my t-shirts at some price in the market. After the fact, the difference between the price I receive for my output and the combined prices of my inputs (including time), tells me whether what I have *already done* was the right thing to do.

These roles of prices are perhaps obvious. But when one assumes equilibrium, only the first role is emphasized and even then prices are assumed to be the right prices from the start. If one starts by assuming markets are always in disequilibrium, a third role for prices emerges. Our first two roles assumed that we already knew that we wanted to make t-shirts and that therefore we had some perception that a market for such t-shirts existed. But what makes such realizations occur? As Israel Kirzner's work has long emphasized, this recognition of previously unseen opportunities is known as entrepreneurship and it is essential to the discovery process of the market. This third role of prices is to alert us to such opportunities that would otherwise be missed. I might currently produce t-shirts, but in looking at various input prices and by imagining what price I might get if I began to produce shorts with cartoon characters or sports logos on them, I might be led to see an opportunity I would not have without prices. The disequilibrium prices of the market are central to alerting people to entrepreneurial opportunities.

Inflation

How does all of this relate to macroeconomics? What an alternative approach to macro might look for are the ways in which government policies, which are designed to affect broad aggregates like the price level or rate of unemployment, affect these individual disequilibrium prices and undermine their ability to lead to market coordination. Take inflation, for example. Mainstream discussions of inflation generally emphasize the problems created by variations in the *aggregate price level*. Inflation is bad because it is hard to, for example, write contracts if the parties cannot be sure of what the overall level of prices will be in the future. Alternately, inflation is bad because it means that sellers have to remark their prices more frequently, and these ongoing changes in prices require the use of resources that would otherwise go toward production directly. Although both of these are indeed problems caused by inflation, they seem relatively minor when compared with what a view that takes the market process seriously suggests.

Rather than worry about the overall level of prices, economists could instead look at the way in which inflation affects the individual prices in an economy. As excess supplies of money work their way through the market, they cause differential effects on prices. Some go up by a lot, some only by a little. These price effects divorce prices from the underlying preferences of producers and consumers and in so doing *undermine all three informational roles of prices discussed above.* When the informational role of prices is damaged, economic coordination is more difficult and economic growth suffers as a result.[1] The real effects of a macroeconomic disturbance like inflation are the ways in which it undermines the *microeconomic coordination process* by disrupting price signals. If the analyst begins by assuming this coordination has already occurred, as do equilibrium models, then these effects of macroeconomic disturbances will be overlooked.

These price effects cause further effects throughout the economy. Of special interest is the way changes in the prices of consumer goods lead to distortions in input markets and the capital structure as they respond to the constantly changing signals coming from consumer goods. The changes in capital equipment or job training that result as firms react to the temporary effects of inflation are generally not completely reversible and thus involve economic waste. Once again, this perspective illuminates an aspect of macroeconomics not captured by mainstream approaches, including those, like Friedman's, which are sympathetic to economic freedom.

In addition, this approach differs from the New Keynesians because of this stress on the role of prices in stimulating entrepreneurial discoveries. The New Keynesian argument that governments can overcome information problems in markets is almost always put in terms of the information necessary for reaching equilibrium. Even if governments were capable of doing so (a dubious assumption at best), it still ignores the discovery role of prices. As market process economists have long stressed, achieving equilibrium is not the standard by which to judge a capitalist economy. Rather, the comparison is between what really-existing market competition can achieve in comparison to really-existing (not what get drawn up on a blackboard or computer) government intervention that suppresses the market.

Macroeconomics does indeed matter and it is important to understand both the mainstream and non-mainstream approaches to the subject. The differences between these approaches are important for how we understand macroeconomic phenomena, how we assess their costs, and what we might do to reduce those costs. Austrian-type arguments are not just one more weapon one can pick up along with those of other economists. They reflect a distinct perspective on political economy which needs to be understood both on its own terms and in comparison to other such perspectives. It is important for those who value freedom to be reasonably aware of these differences and their implications. □

1. I have discussed these issues in much more depth in my, "The Political Economy of Inflation: Public and Private Choices," *Durell Journal of Money and Banking*, 3 (4), November 1991; and also "Inflation" in Peter J. Boettke, ed., *The Edward Elgar Companion to Austrian Economics* (Aldershot, UK: Edward Elgar), 1994.

THE FREEMAN
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Why Economists Need to Speak the Language of the Marketplace

James C. W. Ahiakpor

Ask a group of economists whether saving is necessary to promote investment and economic growth, and you will get a variety of responses. Some would claim that the answer depends on whether the economy is operating at "full employment," since outside of full employment their answer is no. Others would simply say no, it is rather investment which makes savings possible. A minority however would say definitely, without saving there can be nothing to invest. Indeed, a debate last summer among historians of economic thought on the internet well illustrates this amazing state of confusion among economists over an issue so fundamental as the primacy of saving to make investment possible. So how did economists get into this state of affairs?

Trace it to the publication of Keynes' *General Theory* (1936), in which he argues what is now called "The Paradox of Thrift." Keynes' claim is that saving at the national level is bad for an economy because when people decide to save more rather than consume, they deprive producers of market demand. As a result, production contracts, fewer people are hired, less income is generated, and the community becomes poorer. And with lower incomes, people will actually save less than they initially intended—so the argument goes. But a community in which people decide to consume more than save would create more demand for producers who will hire more workers, and thus create more income from which more savings will flow. And interest rates are not supposed to react to the changing desires of the public to save. Through this reasoning, Keynes believes he found "an explanation of the paradox of poverty in the midst of plenty," namely, the problem of wealthy communities making themselves poorer by their inclination to save.[1]

Keynes' argument defies sound logic, although many economics textbooks teach it as if it were valid. Even some of the few who cast doubt on the empirical validity of Keynes' claim, nevertheless insist that the proposition is theoretically sound.[2] Modern dissenters from Keynes' fallacy, especially Henry Hazlitt, have had little luck dissuading a majority of the academic economics community from teaching the doctrine that increased saving is a public vice.[3]

Some students who go on to fields such

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as development economics or finance are taught that the public's saving in the form of purchasing (private) financial assets is conducive to economic growth. But many still get stuck in a state of ambivalence, never being sure whether saving is logically prior to investment. Such is the state of economics education that Axel Leijonhufvud calls Keynes' paradox of thrift "one of the most dangerous and harmful confusions ever taught as accepted economic doctrine," but this critique has had little effect in eradicating its teaching.[4]

The key to this dilemma for economists is their continued use of the term saving as Keynes defines it in his *General Theory* (e.g., pp. 81, 166–67) such that it could mean the hoarding of cash, which is inconsistent with language of the marketplace as well as the teachings of economists before him, including Adam Smith, David Ricardo, and Alfred Marshall. Indeed, when people think of saving, they do not plan to accumulate in cash portions of their monthly paychecks under their mattresses or in their stockings. Rather they think of putting such funds in a bank account, savings or credit union to earn interest, or play the stock market (for capital gains or dividends), or buy bonds for interest income (or capital gains, should they sell them before bond the redemption date). Thus, as Marshall states in his *Money, Credit and Commerce*, ". . . in 'western' countries even peasants, if well to do, incline to invest the greater part of their savings in Government, or other familiar stock exchange securities, or to commit them to the charge of a bank."[5] This is why the act of saving is not "the *negative act* of refraining from spending the whole of [one's] current income on consumption" as Keynes claims it is in his *Treatise*.[6] But rather, saving is spending on future income-earning assets.

Another way to clarify the active, rather than passive, act that saving really is, is to note that it is not the same thing as hoarding one's income in cash. Henry Hazlitt's criticism of Keynes on the paradox of thrift proposition focuses on the fact that hoarding is occasioned by government's disturbance of the people's confidence which leads to their preference not to hold financial assets. In *The Failure of the "New Economics,"* Hazlitt also quotes David Ricardo's correct criticisms of Malthus for the latter's concerns over excessive saving which could (in Malthus' mistaken mind) be injurious to effective demand.[7] But Malthus' firm statement of the meaning of saving, in which he declares that "No political economist of the present day can by saving mean mere hoarding," better helps to illustrate the error of Keynes' association of hoarding or non-spending with saving.[8] Similarly, John Stuart Mill's clarification of the meaning of saving in his *Principles* helps a great deal. He says:

> The word saving does not imply that what is saved is not consumed, nor even necessarily that its consumption is deferred, but only that, if consumed immediately, it is not consumed by the person who saves it. If merely laid by for future use, it is said to be hoarded; and while hoarded, is not consumed at all. But if employed as capital, it is all consumed [spent]; though not by the capitalist.[9]

Understood as the classical economists taught, and the general public means in common usage in the marketplace, increased saving does not depress total spending, but only shifts the composition of spending more towards investment or producers' goods and less towards immediate satisfaction of consumption demand. Such understanding helps easily to set aside the analytical fable called the paradox of thrift, promoted to a great extent by Paul Samuelson's best-selling textbook, *Economics*, by which increased saving depresses aggregate demand or total spending and causes a fall in subsequent level of income.

The great teachers of economics sought to communicate ideas in the language of the marketplace. Indeed, Alfred Marshall urges economists to do the same, arguing in regard to the term "capital" that "economists have no choice but to follow well-established customs as regards the use of the term capital in ordinary business, i.e. trade-capital."[10]

Keynes is known to have made up his own meaning for terms in ordinary usage, much to the confusion of his audience. And many of Keynes' modern-day followers continue with his distortion of language, as in the case of associating saving with the hoarding of cash, and hence a refusal to spend or "a withdrawal from the spending stream." Accordingly, modern Keynesians derive some surprising conclusions, e.g., Samuelson and Nordhaus' warning against "President Reagan's tax cuts put forth as a means of promoting [private sector] saving" in the United States, and that governments should promote consumption, not saving.[11]

But saving is not hoarding. It is what most people understand it to be: buying or investing in financial assets issued by banks and other borrowers or investors. This is why savings promote economic growth, as the classical economists taught before Keynes changed the language of modern economics so drastically to the detriment of meaningful dialogue or communication between economists and the rest of the public. □

1. John Maynard Keynes, *The General Theory of Employment, Interest and Money*, paperbound ed. (London and Basingstoke: Macmillan, 1974 [1937]), p. 30.

2. See, for instance, J. Vernon Henderson and William Poole, *Principles of Economics* (Lexington, Mass.: D.C. Heath, 1991), pp. 279–81, and Michael Parkin, *Macroeconomics*, 2nd ed. (New York: Harper and Row, 1993), pp. 224–25.

3. See Henry Hazlitt, *The Failure of the "New Economics"* (Princeton, N.J.: Van Nostrand, 1959) and *Economics in One Lesson* (Westport, Conn.: Arlington House, 1978 [1962]). Also see Mark Skousen, *Economics on Trial* (New York: Irwin, 1991), ch. 5, and *Dissent on Keynes* (New York: Praeger, 1992), ch. 5.

4. Axel Leijonhufvud, *Information and Coordination* (New York: Oxford University Press, 1981), p. 197.

5. Alfred Marshall, *Money, Credit and Commerce* (New York: Kelly, 1960 [1923]), p. 46

6. John Maynard Keynes, *A Treatise on Money* makes a similar claim in his *General Theory* (London: Macmillan, 1930), vol. 1, p. 172, emphasis in original. Keynes makes a similar claim in his *General Theory* (p. 210).

7. Hazlitt (1959, p. 218) makes the point that "people in a modern economic community do not simply hoard money in a sock or under the mattress," but does not focus on Keynes' distortion of saving as defined by the classics.

8. Quoted in Mark Blaug, *Economic Theory in Retrospect*, 4th ed. (Cambridge: Cambridge University Press, 1986), p. 166.

9. John Stuart Mill, *Collected Works*, vol. 2, ed. by J. M. Robson (London: University of Toronto Press, 1965), p. 70.

10. Alfred Marshall, *Principles of Economics*, 8th ed. (London: Macmillan, 1964 [1920]), p. 64/. See James C. W. Ahiakpor, "On Keynes's Misinterpretation of 'Capital' in the Classical Theory of Interest," *History of Political Economy*, Vol. 22, Fall 1990, pp. 507–28. Ahiakpor explains how Keynes' failure to follow this meaning of "capital" led to his inability to recognize Marshall's explanation of the theory of interest, that is, the rate of interest is determined by the supply and demand for "capital." In place of that valid explanation, Keynes then substitutes the supply and demand for liquidity (cash) as being the determinants of interest rates, a confusion which continues to plague economists.

11. Paul A. Samuelson and William D. Nordhaus, *Economics*, 12th ed. (New York: McGraw-Hill, 1985), pp. 171–74.

The Stagnation Thesis is Back!

". . . the economy cannot on its own generate enough steam to provide our full potential of growth."

—*Alvin H. Hansen,* *"The Stagnation Thesis"* (1954)[1]

". . . we no longer have a fertile frontier to exploit or a monopoly on the fast-growing mass-production and distribution industries that spearheaded growth."

—*Jeffrey Madrick,* *The End of Affluence* (1995)

Remember Alvin Hansen's "stagnation thesis"? The Harvard economist first proposed this quasi-Keynesian proposition in the late 1930s when the U.S. economy was "stuck" in a never-ending depression. Unless the government engaged in massive federal spending, he asserted, the economy was doomed to lackluster performance due to declining population growth, the disappearance of labor-saving technology, and the closing of new frontiers.

Fortunately, Hansen's stagnation thesis was repudiated both in theory and practice.[2] A booming population, advanced technology, and new frontiers (computers, electronics, telecommunications, etc.) propelled the U.S. economy to a period of rapid economic growth following World War II.

Now, a generation later, a prominent economic journalist has declared that the U.S. is going through another round of stagnating growth. According to Jeffrey Madrick in his new book, *The End of Affluence,* the nation's economic growth has slowed to 2.3 percent a year on average since 1973. Before that, it grew at an average annual rate of 3.4 percent. The decline of 1.1 percentage points represents $12 trillion in lost wealth since 1973. "Twelve trillion dollars is more than enough to have bought each of America's homeowners a new house, or paid off all our government, mortgage, and credit-card debt, or replace all of our nation's factories, including capital equipment, with new ones."[3]

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Not only does Madrick paint a bleak picture of falling real wages, eroding markets, closed factories, and rising poverty, but, worse, he contends that there is virtually no way for America's economy to regain its old ways of high performance.

Madrick blames a new form of global capitalism, not government, for this disastrous "slow growth" development. "The main reasons for this decline are not inflation, government budget deficits, low levels of investment, faltering education, the irresponsibility of Democrats or Republicans, excessive spending on the military, the aged, or the poor. . ." (p. 3). Rather, the cause is the permanent loss of America's capacity for mass production, which has been replaced by "flexible" production by the Asians, Europeans, and other foreign competitors. No longer do companies produce a single mass product, but a wide variety of products in a single factory. This new intensive form of international competition has made economies of scale and big business obsolete. The result is a sharp curtailment in productivity growth, which is both permanent and worldwide. According to Madrick, even higher education and training don't pay like they used to. In short, we are doomed to slower growth, both here and abroad.

Of course, Madrick's fatalistic argument is as fallacious as Hansen's old stagnation thesis. There is no reason why the United States can't grow 3 percent or 4 percent or even 5 percent a year over the next decade—if the right actions are taken. To suggest that fiscal and monetary policy has little to do with economic performance is preposterous. And to assert that increasing competition and innovation reduce productivity is absurd. But that's the kind of thinking that comes from a former NBC economics reporter and graduate of Harvard Business School.

Recent evidence contradicts Madrick. In fact, the day I bought his book, *Business Week* (Oct. 9, 1995) came out with a cover story on U.S. productivity. Due to restructuring and innovative production methods, U.S. productivity posted a remarkable 3.5 percent gain over the past year, higher than all other industrial nations. "Technology is transforming the American economy into the most productive in the world," the magazine reported. "The result: higher living standards seem inevitable."

Moreover, American business could do even better if the government adopted the right kind of macroeconomic policies. What Joseph Schumpeter said about the stagnation thesis could well apply to Madrick's theory: "Though there is nothing to fear from people's propensity to save, there is plenty to fear from other factors. Labor unrest, price regulation, vexatious administration and irrational taxation are quite adequate to produce results from income and employment that will look exactly like a verification of the stagnationist theory."[4]

Imagine the favorable effects the following policy recommendations would have on American industry and wage growth:

—reducing or eliminating the capital gains tax;

—adopting a flat tax with generous exemptions for low-income workers;

—replacing Social Security with a genuine private pension system;

—curtailing wasteful spending, selling off federal assets, and privatizing government services, resulting in a budget surplus.

Despite Madrick's claims to the contrary, such macroeconomic policy changes would cause a sharp drop in real interest rates and a dramatic increase in economic growth and productivity.

Skeptics who question the benefits of a "supply side" revolution should take a look at the recent success story of Peru. For decades, Peru experienced a form of secular stagnation, suffering from high taxes, hyperinflation, bureaucracy, and corruption. Then unexpectedly an outsider, Alberto Fujimori, was elected president. His administration transformed the economy. Inflation was cut from 7,650 percent in 1990 to 13 percent this year. Peru imitated Chile by creating its own alternative private Social Security pension plan. It engaged in extensive privatization, including Telefonicas del Peru. Even better than Chile, it abolished taxes on capital gains, dividends and inheritance. The maximum tax rate on income was cut to 30 percent. And there are no foreign exchange controls.

Not surprisingly, stagnating Peru became the fastest growing economy in the world, with a real economic growth rate exceeding 13 percent this past year. President Fujimori was re-elected recently with 64 percent of the vote.

The United States could see a dramatic rise in its fortunes if it followed a similar path. Its growth rate may not reach 13 percent, but it could easily double to 5 percent or more. To paraphrase Adam Smith, there is much potential in a nation. Don't sell America short. □

1. Alvin H. Hansen, "The Stagnation Thesis," *Readings in Fiscal Policy*, ed. by Arthur Smithies and J. Keith Butters (Irwin, 1955). Hansen first raised the specter of secular stagnation in *Full Recovery or Stagnation?* (Norton, 1938).

2. Hansen's theory was dealt a deathblow by George Terborgh's *The Bogey of Economic Maturity* (1954). Economists as diverse as Paul Samuelson and Mark Blaug agree that Hansen was proven wrong.

3. Jeffrey Madrick, *The End of Affluence* (Random House, 1995), p. 6.

4. Joseph Schumpeter, *Capitalism, Socialism and Democracy* (Harper & Row, 1950), p. 398.

BOOKS

The Foundations of American Constitutional Government

Compiled by Robert D. Gorgoglione
Introduction by Clarence B. Carson

The Foundation for Economic Education • 1995 • 294 pages + index • $14.95 paperback

Reviewed by Daniel F. Walker

We've all heard the abominations which pass for popular political discourse throughout America today.

"The American way is the way of democracy; the majority rules."

"Human rights obviously are more important than property rights."

"Rights are given to us by the government."

"The 'general welfare' clause of the Constitution justifies our welfare state and the redistribution of wealth."

Admittedly, current times offer some hope for a re-birth of appreciation of fundamental constitutional values. At the Clarence Thomas hearings, Richard Epstein's *Takings* was waved around by a Joseph Biden terrified at the prospect of the national government being required to compensate citizens when federal regulations diminish individuals' rights to property. The U.S. Supreme Court has, albeit meagerly, begun to recognize constitutional protection of property rights. This year the Tenth Amendment, too, was rediscovered by the Supreme Court, the federal legislative branch has been informed that there are limits beyond which statutes cannot go. State legislatures are passing "10th Amendment Resolutions" as shots across the bow of the Beltway leviathan.

Still, the rediscovery of the Constitutional design has a long way to go. Several years ago, Robert Bork referred to the Ninth Amendment as an "inkblot." Few conservatives expressed any dismay at Bork's commentary. Even in the midst of a so-called Congressional "revolution," block grants from Washington to the states, with fewer Federal conditions, are considered an indication of "federalism," as if under that concept the states are only quasi-administrative units of the national government—but with more "freedom" to craft programs, freedom "allowed" by Congress.

When an overwhelming majority of legislative "revolutionaries" and movement "leaders" fail to exhibit a sound, complete grasp of our primary, foundational document of governance, it is all the more important for the citizenry itself to grasp the essence of that document—to understand its principles, its historical context, the guiding presuppositions and beliefs of those who drafted the Constitution and those who ratified it.

FEE's most recent collection of essays, *Foundations of American Constitutional Government*, is just the publication for anyone who wants a thorough grounding for understanding our Constitution and applying it to our political life. This collection of previously published *Freeman* essays spans 30 years, including contributions from historian Clarence Carson; the late M. E. Bradford, the noted "Southern agrarian" conservative; philosopher John Hospers; historian Robert Higgs; and economist Dwight Lee, among others. The book is marketed as a primer, but be assured that the person who absorbs this book's lessons will gain a sober grasp of the intellectual ground from which the Constitution grew, its historical context, what the Founders intended it to accomplish, the permissible reach of government powers, and how profoundly "undemocratic" our government was structured to be—and why that's so. (The primary drawback of this book is the appendix; while it contains for reference the original Constitution and the first ten amendments, the other 17 amendments are not included. Also, the absence of the Articles of Confederation, predecessor to the Constitution, is regrettable.)

Several essays stand out. George W. Nilsson's essay, "Not in the Constitution," carefully examines the context and meaning of the "general welfare" clause, oft-cited and terribly misunderstood. This essay should be read by every political science undergraduate student, every first-year law student, and every public official in America. The gist of the essay? There is no grant of plenary power to the national government; as Nilsson wrote, "Knowing what led up to the war, and reading the charges in the Declaration of Independence, can anyone for a minute think that the colonists generally, and the members of the convention specifically, would have adopted a constitution which granted general welfare powers to the federal government?" Clarence Carson's essay on "The General Welfare" nicely complements the Nilsson essay.

Robert Higgs' essay regarding individual rights and the nature of government is a reality-based summary which should be widely read.

Higgs destroys the false dichotomy between "human rights" and "property rights," but not before reminding us that "[e]very government, ultimately if not immediately, relies on physical violence to enforce its rule."

Professor Dwight Lee's piece on "The Political Economy of the U.S. Constitution" offers a particularly good review of the U.S. Supreme Court's economic jurisprudence through 1986. Lee's likening the government to the role of a referee in a football game is just the sort of illustration appropriate for those who seldom or never have thought through the implications of Constitution-related discussions they've heard before.

M. E. Bradford's contribution, "Not So Democratic," is an outstanding essay regarding the profoundly "undemocratic" beliefs of the framers of the Constitution and the numerous anti-majoritarian mechanisms within the document. The Constitution is no mere blueprint for populist, majoritarian government; the super-majority votes required for amending the Constitution obviously are structured and required to prevent tinkering by bare majorities. Consider the Senate, where the least populous and most populous states are represented by the same number of Senators: two. A simple majority is not sufficient to override a Presidential veto; two-thirds of the House and two-thirds of the Senate must vote accordingly. Other examples of anti-majoritarian mechanisms abound. One cannot read Bradford's essay without a deeper appreciation for the "anti-democratic" measures in our Constitution which passionate, fleeting majorities on given issues cannot ignore, measures which safeguard us from the tyranny of the majority.

Clarence Carson's essay on "The Meaning of Federalism" is an excellent survey of the topic, highly recommended. A point particularly appreciated by this reviewer is Carson's attention to the phrase of states' rights: "states have powers (as do all governments), not rights. . . . Rights belong to individuals in the American constitutional system." Amen. The less semantic confusion over rights and powers, the better.

Finally, John Hospers' essay concerning "Freedom and Democracy" cleanly picks apart the mythology of democracy as "self-government." "[W]hen people speak of democracy as self-government, they are not speaking about each person governing himself; they are speaking of a process in which a majority of voters, or a majority of members of a legislature, make decisions which have the force of law for everyone, including those who are opposed to what is enacted." Participating in decision-making is one thing; living with the consequences of collectively made decisions is entirely another. Hospers' piece is a solid companion to Bradford's essay; together, they force the worshippers of "democracy" and "the will of the people" to reconsider the ramifications of their beliefs.

Overall, *The Foundations of American Constitutional Government* is a refreshing and provocative review of historical context, the substance, and the political theory infused within the Constitution. Students and non-students alike would do well to arm themselves with this book before confronting those "modern interpreters" who twist the Constitution to justify the intrusive, belligerent "Nanny State" we know as the federal government. □

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Leviathan at War

edited by Edmund A. Opitz

The Foundation for Economic Education • 1995 • 191 pages • $14.95 paperback

Reviewed by Robert Higgs

Perhaps the most valid justification of government is its defense of citizens against foreign aggressors. But when governments wage war, a thin line separates defense and offense. And even in a defensive war, governments typically deprive their own citizens of many liberties. Historically, war has done more than anything else to enhance the power of governments and to diminish the liberties of the people. Classical liberals have always recognized the dangers of war and supported policies, such as free international trade, that reduce the likelihood of war.

The Foundation for Economic Education has stood squarely in this classical liberal tradition, and over the years its monthly publication, *The Freeman,* has presented many articles alerting readers to the domestic dangers of war and espousing policies that promote peaceful international relations. *Leviathan at War,* edited by Edmund A. Opitz, reproduces many of those articles as well as several other commentaries. The longest essay in the collection, Wesley Allen Riddle's "War and Individual Liberty in American History," is a previously unpublished contribution.

In a chapter on "The Roots of War," Ayn Rand succinctly states a major theme of the book: "If men want to oppose war, it is *statism* that they must oppose. So long as they hold the tribal notion that the individual is sacrificial fodder for the collective, that some men have the right to rule others by force, and that some (any) alleged 'good' can justify it—there can be no peace *within* a nation and no peace among nations."

In an excerpt from *Human Action,* Ludwig von Mises expresses similar ideas. "Aggressive nationalism is the necessary derivation of the policies of interventionism and national planning. While laissez faire eliminates the causes of international conflict, government interference with business and socialism create conflicts for which no peaceful solution can be found." Mises describes how the engagement of governments in "total" war led them inexorably to extend their controls over economic life.

Perhaps the starkest wartime deprivation of liberty is the conscription of men to serve as soldiers. The United States first conscripted men during the Civil War. In World War I nearly 3 million were drafted, in World War II some 10 million, and the draft persisted until 1973. In "The Conscription Idea," written in 1953, Dean Russell lamented that "the principle of conscription is now fearfully close to becoming a permanent American institution." Russell, who had served in the Air Corps for five years during World War II, rejected the standard defense of the draft, which maintains that the end justifies the means. Said Russell, "Those who advocate the 'temporary loss' of our freedom in order to preserve it permanently are advocating only one thing: the abolition of liberty." He believed that if the United States were genuinely menaced from abroad, volunteers would come forward in sufficient numbers to defend the country.

The book reprints Daniel Webster's stirring speech opposing conscription when it was proposed in 1814. "An attempt to maintain this doctrine upon the provisions of the Constitution," declared Webster, "is an exercise of perverse ingenuity to extract slavery from the substance of a free Constitution." Anyone would be struck by reading Webster's speech alongside the unanimous decision of the U.S. Supreme Court upholding the constitutionality of the draft in 1918. Then, Chief Justice Edward White found himself "unable to conceive" how anyone could regard conscription as involuntary servitude—obviously, America's effective constitution had changed enormously since 1814. In an excerpt from a 1944 book, the British military historian B. H. Liddell Hart criticizes conscription, calling it "a decisive step towards totalitarianism."

In "How to Finance a War," Willard M. Fox exposes the fallacy that the costs of war can be shifted to future generations by debt financing. He observes that "the real cost of waging war is borne by the living who are deprived of things that in the absence of war could be produced and consumed in ordinary peacetime life. No amount of fiscal hocus pocus can change that reality." He also shows how the U.S. government has resorted to inflation to help finance its wars, and he explodes the myth of wartime prosperity. He concludes that "by a combination of persuasion, appeals to patriotism, veiled threats of coercion, and bidding a high enough price, government can get what it wants in the market" for most wartime purposes.

Nothing displaces sound morality quicker than warfare. Soldiers are lionized for indiscriminately killing people and destroying property—actions that would ordinarily bring moral censure. Government propaganda encourages citizens to dehumanize enemy populations, so that mass murder can go forward without moral restraint. Leonard E. Read's contribution, "Conscience on the Battlefield," challenges the herd mentality underlying the savagery that attends the waging of war. Mark Twain's classic "War Prayer" hits the same target.

James Madison spoke wisely when he warned that "of all the enemies to public liberty war is, perhaps, the most to be dreaded." It is inconceivable that, absent the wars of the past century, the government of the United States—and probably many others as well—could have grown nearly so powerful. From its participation in wars, the U.S. government gained, for example, high income-tax rates and income-tax withholding, the system used to finance the voracious modern welfare/warfare state. Even more importantly, victory in the world wars convinced Americans that the federal government has the ability to achieve great social objectives in the public interest and can be trusted to do so. A clear progression leads from wartime economic planning to the massive contemporary government meddling in economic affairs.

Edmund Opitz deserves much credit for compiling an excellent collection of commentaries on a subject of the greatest importance. No matter how much Americans may wish to throw off the shackles of the welfare state, recover their lost liberties and live in peace, they stand little chance so long as the government can divert them by engaging in war. As Opitz wisely observes, "while many people say they want peace, few know or want the things that make for peace. . . . When men rely on political privilege to acquire economic goods, they have already embraced the near end of a principle whose far end is war." □

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Alien Nation

by Peter Brimelow

Random House • 1995 • 327 pages • $24.00

Reviewed by Gregory P. Pavlik

Peter Brimelow, a journalist and senior editor at *Forbes* and *National Review,* has written a stimulating and illuminating discussion of the morass that passes for U.S. immigration policy. Brimelow argues, correctly, that current immigration regulations are part of a wider trend that seeks to change the face of America: that is, the official policy of the federal government is part and parcel of the domestic social engineering efforts that aim at a radical transformation of American society from its European mores, folkways, and culture. Hence, along with the elevation of Third World lifestyles under the leftist rubric of "multiculturalism," current supporters of U.S. immigration laws and so-called open borders, are buttressing anti-Western trends by importing masses of largely unassimilable minorities.

Contemporary libertarian critics of open borders contend that immigration serves to bolster the cost and size of the welfare state, a point that Mr. Brimelow demonstrates conclusively. It is also important to note that the current shape of immigration is politically determined: it actively limits the immigration of skilled Europeans who are more likely to assimilate—as well as add to the economy.

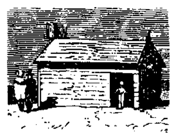
In his book, Mr. Brimelow addresses the economics of immigration directly. He shows that the economic benefits from recent immigration have been almost unnoticeable. In fact, there would have been virtually no loss of economic growth if the current massive immigration wave had never occurred. Brimelow also shows that the quality, in terms of economic potential, of current immigrants is much lower than that of the current American work force, the long-range effects of which have yet to be felt.

Mr. Brimelow also provides a provocative demonstration that free trade can replace immigration in public policy, allowing us to enjoy the benefits of the international division of labor without the social dislocations and destructiveness of mass immigration. As an example, "[t]he Japanese have factories in the Philippines rather than Filipinos in Japan." A similar situation existed in Victorian England. In Britain, the period of "splendid isolation" was characterized by almost unlimited free trade and virtually no immigration. In other words, the international division of labor and the mobility of capital tends to eliminate the need for large-scale immigration.

Alien Nation is a hard-hitting rebuttal of the positions embraced by advocates of open borders in other ways. Supporters of mass immigration obscure the dangers that continued immigration from the Third World presents to America's European civilization. The basis of this obfuscation rests in part on what has been called the Myth of Economic Man—the fallacious world view that boils all of human society and interaction down to economics and materialism. There are values, ways of life, and aspects of civilization that are extrinsic to economics, and motivations for human behavior that are determined by longstanding cultural practice—and even biological urges—that a purely economic worldview is unable to address, understand, or explain. It's worth noting that the Myth of Economic Man also underlies classical Marxism, whereas it is decidedly *not* a part of the free market view of the Austrian School which teaches that human actions are motivated by human values which may be entirely unrelated to material concerns.

Mr. Brimelow also makes an important corollary point: freedom and free markets do not—in fact, cannot—emerge from a vacuum. Freedom is a political category that emerges from a particular history that lends itself to a particular political disposition. If this were not the case, free political institutions would be the hallmark of world politics. Mr. Brimelow's contention is that the supporters of our current policy, and their apologists in the open borders corner, are in the process of overhauling the character of America. No honest person can believe that this will be without political ramifications. □

Mr. Pavlik is Assistant Editor of The Freeman *and Director of FEE's Op-Ed program.*



The Case for Free Trade and Open Immigration

edited by Richard M. Ebeling and Jacob G. Hornberger

The Future of Freedom Foundation • 1995 • 143 pages • $17.95 cloth; $9.95 paperback

Reviewed by Robert Batemarco

Should a free country's freedom stop at its borders? Libertarians have long answered this question with a resounding "No!" Yet in recent years, some staunch friends of a free and open economy have come to see open borders as a threat to domestic freedom rather than a complement to it. Peter Brimelow, whose provocative *Alien Nation* is reviewed in this issue, is a case in point.

The contributors to *The Case for Free Trade and Open Immigration*, however, see freedom as indivisible. They are of one voice in blaming any adverse consequences of our most recent wave of immigration on our domestic welfare state. They view calls to restrict immigration as confirmation of Mises' claim that any hampering of the market economy creates problems which are used to "justify" further intervention. Co-editor Richard Ebeling blames, "licensing restrictions, . . . heavy tax burdens, . . . welfare programs, . . . government schools with their mandatory bilingual programs," as opposed to immigration *per se*, for any threat immigration poses to our economy and our culture.

Ultimately, their advocacy of free immigration rests on the sanctity of property rights. As Sheldon Richman points out in his piece, "There is nothing inherently coercive about a foreigner's move to the United States. He pays for transportation. He rents or buys living quarters. He works for a consenting employer or starts his own business." If he does not, he is an invader rather than an immigrant and should indeed be repelled. Those anti-immigrationists who, in the heat of argument, treat all immigrants as an invading army, however, seem to have lost sight of this distinction.

One important libertarian pro-immigration argument this book fails to include is the nature and magnitude of the new powers we must hand over to our government if we are really serious about sealing our borders. The power already granted to disrupt operations and levy fines on employers of illegal immigrants seems to have had minimal effect. Can seizing those employers' assets or putting them in prison be far behind?

While the immigration issue is currently stirring up controversy among free-marketeers, it only constitutes half of this book. The rest deals with free trade, where among libertarians consensus still reigns. As in the chapters on immigration, the contributors exhibit a knack for getting down to first principles. James Bovard, for instance, succinctly captures the essence of what distinguishes fair trade from free trade by posing the query: "Is coercion ever fairer than voluntary agreement?" Discussions of managed trade, U.S. protectionist policies, and Friedrich List's role in promoting protectionism round out this section of the book.

The contributors to this volume should be quite familiar to readers of *The Freeman*, most having served as FEE staff members, lecturers, or writers for *The Freeman*. In addition to editors Hornberger and Ebeling, contributors include Leonard E. Read, Ludwig von Mises, Bettina Bien Greaves, W. M. Curtiss, Lawrence W. Reed, and Gregory F. Rehmke. For those interested in understanding the classical liberal view that both people and goods should be permitted to cross borders freely, this book is an excellent place to start. □

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Simple Rules for a Complex World

by Richard A. Epstein

Harvard University Press • 1995 • 375 pages • $35.00

Reviewed by William H. Peterson

America broods over laws and lawyers, as witness:

Q. Why didn't the shark eat the lawyer?

A. Professional courtesy.

Q. What are 500 lawyers at the bottom of the ocean?

A. A good start.

Q. How can a single lawyer in town without enough to do succeed?

A. Get another lawyer to move into town, and both will thrive.

Witness more. In 1936, at the height of the New Deal, the *Federal Register* had 2,411 pages of myriad rules and regulations; in 1991 it came to 67,716 turgid fine-print pages, a 28-fold increase, a sort of Full Employment Act for Attorneys. The United States, with a population of 260 million, has some 800,000 lawyers; Japan, with half that population, has 15,000. In the 15-year-span between 1972 and 1987 the number of *Washington* lawyers increased fourfold, from 11,000 to 45,000.

What gives in this lawyerization of America with its ten million laws trying to emulate the Ten Commandments? Richard A. Epstein, the James Parker Hall Distinguished Service Professor of Law at the University of Chicago and the author of the 1985 classic, *Takings: Private Power and the Power of Eminent Domain*, rejects the conventional wisdom that so many laws and so many lawyers are but a natural outgrowth of an increasingly complex society. Like a fresh breeze, he harks back to Jefferson-Thoreau: That government is best which governs least.

To Professor Epstein, government works best when it sets the rules of the road, not when it tries to determine the composition of the traffic. He likens the breakdown of numerous forms of U.S. regulation to the breakdown of socialism in Eastern Europe—in both cases public officials can't overcome disincentives and critical informational gaps. Moreover, many regulators avoid or evade legal rules to "constrain their [own] self-interested behavior," engaging in "rent-seeking," catering to special interests. Such becomes a vast shadowy, shoddy business of the modern regulatory state.

Like Henry Thoreau, the Epstein solution is simplify, simplify. His rules include individual autonomy, private property rights, freedom of contract, and protection from aggression or inadvertent harm against person or property. That protection supposedly covers, per the Fifth and Fourteenth Amendments, just compensation for public takings of private property. Supposedly, for that protection has waned since the New Deal.

Waned until recently, as Professor Epstein illustrates in reviewing the seminal case of *Lucas v. South Carolina Coastal Council.* Developer David Lucas bought two beachfront properties only to find state authorities charging him *ex post facto* with harming tourism and unobstructed ocean views. They then took away his right to develop his two properties with no compensation whatsoever. In 1992 the U.S. Supreme Court in effect ordered South Carolina to fork over $1,500,000 to Mr. Lucas—and his lawyers. South Carolina thereby took title to the lots, and promptly, and most ironically, resold them for development of single-family beachfront homes.

Professor Epstein hails the resurrected take-but-pay idea. He sees it as a blow for liberty since government demands less when it has to pay more.

Similarly the author applauds the flat tax. He sees a progressive tax allowing the government too much political leeway on the level of taxes and their incidence, especially on "the rich." Also, rent-seeking special interests pressure lawmakers for concessions on deductions and income exclusions, all adding to complexity and administrative costs. So the 10,000-page Internal Revenue Code hardly stands as a monument to simplicity. Too, progressive rates spur income redistribution and warp incentives to work, save and invest, thus setting back economic growth.

Richard Epstein, like Thomas Jefferson, recognizes that a legal system should be anything but a complete social system. He sees that the private sector under the rule of law can better advance the interests of society without the social engineering in interventionist statutes like the Fair Labor Standards Act of 1938, the Endangered Species Act of 1973, and the Americans with Disabilities Act of 1990. He comments: "Complex rules for a complex world are an invitation for disaster."

Postscript. Unlike so many attorneys hiding behind circumlocution and legal gobbledygook, this law professor has the added virtue of writing directly and—what else?—simply. □

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Liberty and the Great Libertarians

edited and compiled, with Preface, Introduction, and Index by Charles T. Sprading. With a new Foreword by Carl Watner

Fox & Wilkes • 1995 • 362 + xiv pages • $24.95 cloth; $14.95 paperback

Reviewed by Daniel Klein

I was at Powell's bookstore in Portland and saw the aged print on the binder-edge of the yellowed dust-jacket: *Liberty and the Great*

Libertarians—Sprading—$1.50. Very curious, I thought. The Preface began with a definition from *Webster's: "Libertarian:* One who upholds the principle of liberty, especially individual liberty of thought and action." This "Anthology of Liberty" collected the most libertarian passages from the writings of Burke, Paine, Jefferson, Godwin, von Humboldt, Mill, Emerson, the abolitionists, Josiah Warren, Thoreau, Spencer, Spooner, Ingersoll, George, Tucker, Auberon Herbert, and many others. In all it was 540 pages, "published for the author," in Los Angeles. I marvelled at the publication date: 1913.

When I arrived back home the new catalogue from Laissez-Faire Books was waiting, with a re-edition, newly typeset, of this remarkable volume featured on the cover.

The new dust-jacket contains information provided by Carl Watner about Charles Sprading (1871–1959). As a convert to Benjamin Tucker's individualist anarchism, Sprading moved to Los Angeles soon after the turn of the century. In that city he spoke frequently for the Liberal Club. He was active in the Libertarian League and served as contributing editor of its journal: *The Libertarian* (1922–1924). During the 1920s Sprading wrote several tracts and short books which were published by The Libertarian Publishing Company. The Libertarian League in Los Angeles "petered out during the 1930s, as its main participants passed from the scene."

It is apparent from the care and judgment that went into the selection, as well as from Sprading's Introduction, that the libertarian spirit was alive and well in Los Angeles in 1913.

Spading shows a delight in aphorisms and short pithy passages. There are ample pages of selected "Laconics of Liberty," representing scores of thinkers, famous and obscure. The volume serves as a libertarian sampler permitting easy acquaintance with insightful and passionate lovers of liberty.

To me the special significance of the book is Sprading's resolute usage of the term "libertarian." There is no reason to think that Sprading fancied the thought of having a definitive characterization of The Good in all political matters. The wide-ranging material might suggest that Sprading was aware of ambiguities and incompleteness of the idea of individual liberty, even in its specifically libertarian sense. It is a growing awareness today of limitations of the paradigmatic libertarianism of the late, great Murray Rothbard, I believe, that has prompted leaders of the movement to promote alternative names for the party of liberty—"neoliberalism," "market liberalism," "classical liberalism," "postlibertarianism." These are efforts to project a less brittle philosophy which nonetheless affirms the worthiness of radical anti-state reform. I've been gathering a file of material that shows that long before Rothbard, diverse writers saw the trouble of the term "liberal" and employed "libertarian." Spading's book is a landmark that assists one in maintaining that the family name is *libertarianism.* □

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Public Policy and the Quality of Life: Market Incentives versus Government Planning

by Randall G. Holcombe

Greenwood Publishing Group • 1995 • 190 pages • $55.00

Reviewed by Jane M. Orient

This book asks a lot of the right questions. On general issues, it is a primer on free-market solutions. It considers how private regulatory mechanisms might work. It shows how market incentives could be harnessed to protect the environment and reduce pollution. It highlights important political insights: "political victories are never permanent . . . with government ownership, there is no way to prevent those with political power from using it to gain access to publicly owned resources."

When it gets to specifics, however, the book is a real disappointment, and in fact could be detrimental to the cause. The author is apparently not very well informed about either medical or environmental issues and thus discredits the very solutions that he favors.

The American Medical Association is *not* the answer to regulation of the medical profession. The AMA is allied with the government in preserving a medical cartel. Because of the AMA's help, destructive governmental interference, such as the price controls called the "Resource-Based Relative Value Scale," gain a credibility they otherwise could never earn. The AMA would indeed like to be involved in "policing" the profession by coercive governmental means. It would like to have absolute immunity for establishment "peer reviewers." In fact, California does grant absolute immunity, even for actions taken in bad faith for anti-competitive motives. When "private" regulators can tell malicious lies with impunity, the resulting House of Peers can become at least as corrupt as the government.

This is not to say that private regulation could not work. It already does, to some extent. The bulwark against bad doctors is informed patients. And patients should inform themselves not by asking the AMA but by asking a nurse, another doctor, a malpractice lawyer, or family and friends.

The author gets even further off track when he states that Health Maintenance Organizations offer "improved" incentives. Actually, HMOs put physicians and patients in an automatic conflict of interest. Furthermore, the author confuses "traditional fee for service" (in which the patient paid most bills directly) with prepayment for consumption (most bills paid by third parties), erroneously called "insurance."

On environmental issues, the book gets the principles right but the technical details wrong. For example: "the elimination of lead and asbestos from the environment is a legitimate public health goal because those substances have been linked to noncommunicable health problems." First, it is impossible to eliminate these natural substances from the environment. Second, efforts to reduce the amounts to lower and lower levels have led to absurdities that actually increase risk, if by no other mechanism than wasting money that might have been spent in a productive way.

This book may help to balance an academic reading list. But its dry professorial prose is unlikely to inspire the layman. The majority of *Freeman* readers could better invest both their time and their money in reading the classics. □

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A Trade Policy for Free Societies: The Case Against Protectionism

by Robert W. McGee

Quorum Books, Westport, Conn. • 1995 • 197 pages • $55.00

Reviewed by Joseph T. Salerno

For over two centuries, economists have argued that protectionism is a policy designed to "protect" not consumers and workers at large but special interests, namely, inefficient domestic firms and their often highly paid and unionized labor forces. "Protecting the American economy" from cheap foreign imports of agricultural products, apparel, and pharmaceuticals, for instance, means creating a greater scarcity and increasing the prices of food, clothing, and medicine in the United States.

Robert McGee's book clearly and concisely drives home the point that protectionism is a species of monopoly privilege that benefits special interest groups at the expense of the average American. The first section, the "Philosophy of Protectionism," ruthlessly exposes and refutes the web of misconceptions and fallacies that lie at the heart of the protectionist case. McGee not only sets forth and then demolishes, one by one, 17 of the most common arguments in favor of protection, but also presents the positive arguments for free trade. Unlike most economists writing on the subject, McGee does not limit himself to expounding the "utilitarian" or efficiency aspects of the free trade case, as important as this task obviously still remains. He also emphasizes its ethical dimension, in particular the fact that "The moral basis of free trade is property rights."

In Part II of the book, McGee undertakes an assessment of the crushing "Cost of Protectionism" borne by American consumers and workers. He provides a useful summary of recent studies that have attempted to estimate the monetary costs of protectionist policies, in the form of higher prices and misallocated resources, both for the economy as a whole and for individual industries. For example one study estimated that, in 1986 alone, protectionist policies cost U.S. consumers about $65 billion in higher prices. Another study reckoned that Reagan's "voluntary export restraints" on Japanese auto manufacturers cost American car buyers $14 billion in 1984 alone. Various analyses have also indicated that protectionism raises the price of clothing to American consumers by between 39 and 76 percent for imported items, which in turn facilitates a 19 to 46 percent increase in the price of domestic apparel. Perhaps the most egregious example is sugar. Protection of this industry has forced Americans at times to pay up to four times the world price for sugar. Nor does the author overlook the nonmonetary costs of protectionism in terms of lost jobs, the social conflict and squandered resources involved in lobbying for or against various protectionist measures, the reduction of consumer choice, and the attenuating of individual rights of property and contract.

The third and final part of the book is devoted to an analysis of "Antidumping Policy." Especially enlightening is McGee's exposé of the shocking arbitrariness inherent in the administration of the antidumping laws.

Concluding a blistering and well-deserved critique of the intellectually bankrupt philosophy of antidumping policy in chapter 10, McGee writes:

> Antidumping laws cannot be justified by any theory of liberal democracy. They are not utilitarian because they do not result in the greatest good for the greatest number. Indeed they provide good for the minority (producers) at the expense of the greatest number (consumers). They reduce rather than enhance social cooperation and harmony. They violate rights. Even redistributionists would argue against them because they redistribute income in the wrong direction—from the poor and the middle classes to the rich. There is no rational reason why antidumping laws should exist.

There are a few minor flaws in the book. For example, McGee's novel accounting analysis of the trade deficit, presented in chapter 2, is not well grounded in economic theory: it attempts to quantify and interpersonally aggregate the gains from trade and conceives these gains as dependent on the gross profit rates of the participating firms, which are arbitrarily assumed to be equal. Without this unrealistic assumption, similar hypothetical arithmetic examples could easily be constructed that purport to prove that "trade deficits are bad" for the United States. Overall, however, this book is well worth a read by anyone, including the professional economist, seriously interested in understanding and possibly contributing to the intensifying debate over what constitutes an economically optimal—and ethical—trade policy for the United States. □

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Discovering a Good Society Through Evolution and Design

by Martti Vihanto

Turku School of Economics and Business Administration, Turku, Finland • 1994 • 262 pages • $47.00 paperback

Reviewed by Kyle S. Swan

Martti Vihanto's *Discovering a Good Society Through Evolution and Design*, is an interesting and new approach to Austrian welfare economics and social philosophy. Vihanto's treatment consists of first, an extended essay explaining the main tenets of Austrian economics and their historical development. He reviews the Austrians on methodology, how theorists in the Austrian school have historically approached economics, and introduces the concepts of human ignorance and entrepreneurial discovery.

The six remaining previously published essays elaborate on the various elements introduced in the first by bringing into the picture contributions from different disciplines. For example, Vihanto borrows from public choice theory for his critique of contemporary welfare economists who develop fancy social welfare functions to justify the unlimited government action they recommend. These economists' models assume benevolence in government officials when James Buchanan, among others, has demonstrated that people in government are self-interested like everybody else and tend to misuse public power for personal gain. Abandoning the assumption of benevolence paints a more realistic picture of political phenomena and strengthens Vihanto's criticism of the use of unrestrained government action to enhance welfare.

Discovering a Good Society's strongest area is the discussion of the spontaneous order. The pursuit of one's own interests results in an unplanned harmony of interests. As spelled out by the Physiocrats of eighteenth-century France and echoed by Classical economists such as Adam Smith, the spontaneous order always referred to a state of affairs where individuals utilized given information to coordinate their ends, clearly a static concept. The subtle refinements made by Austrian economists Ludwig von Mises and F. A. Hayek implied a spontaneous ordering and evolution of the market highlighting the inevitable possibility that competitive forces would push individuals to discover as yet unforeseen possibilities with unknown results. Such are the workings of a truly spontaneous order.

Vihanto broadens this analysis to apply to social theory in general. He explains that deliberate search for unforeseeable discoveries is impossible. The best social, political, and legal institutions for the maintenance of society must be discovered. Says Vihanto, in a liberal order "we should create favorable conditions for such discoveries rather than be content with the institutions we currently happen to know."

These institutions affect all members of society and thus must in the minds of all members be agreeable not to just a few privileged members of society, a majority of elected officials, or a bureau of planners. Unanimity is a necessity. Austrian economists have shown that you can only know individual subjective preferences through a person's actions. As Mises said, preferences cannot even be said to exist outside individual acts of choice. By rational reconstruction of their actions we interpret their goals, desires, preferences, etc. Vihanto argues that there are only two ways for individuals to reveal their preferences for or against institutions. First, by popular referendum. However, the unanimity criterion makes this option unlikely. Second, by moving to or remaining in a society where the institution exists. Vihanto calls this group competition and argues that good institutions will be discovered as an unintended consequence of this process. Moreover, as individuals move from societies with "bad" institutions to those with "good" ones, these latter societies will have survived the natural selection process and potentially prosper. The process may also lead societies with "bad" institutions to adopt the institutions that have proved successful for more prosperous societies.

Vihanto's discussion is really teaching us the importance and benefits of decentralization, by echoing the classical liberal stance on toleration and experiments in living. His seems an excellent argument for states' rights advocates or even secessionist movements. The impetus for change lies in these decentralized units. The United States potentially has 50 different models to discover the best ways of doing things. Further investigation into the implications of Vihanto's study may yet bear fruit. □

Mr. Swan is a member of FEE's staff and a graduate student at New York University.