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Cover: Detail from *The Sower* by Vincent van Gogh

PERSPECTIVE

Pragmatic Collectivism

Do we individualists exaggerate when we condemn our ideological opponents as collectivists? That word isn't merely a term of abuse. It is a spot-on label for the political philosophy of those who would give government a prominent economic and social role. The philosophy holds that society (or some other group) is superior to the expendable individuals who comprise it and that government should act on its behalf. Government carries out the social will, which has little or nothing to do with the will of persons, since that only reflects narrow self-interest.

Collectivism can be detected in certain views on property and wealth. While much variation is possible, today's pragmatic collectivists are willing to permit a semblance of private property, until it clashes with their lofty aspirations. Few people today favor outright and total collectivization of the means of production. But all collectivists are ready to summon the constabulary when a nominal property owner does something they don't like. Ultimately, all property belongs to the collective.

You can spot a good collectivist by his choice of words. Recently, former New York Governor Mario Cuomo, the quintessential pragmatic collectivist, was defending President Clinton against his critics who favor impeachment or resignation. Cuomo said that although Clinton had done wrong, he's doing a good job as president. "The job of the president is to run the United States of America," Cuomo said. Not just the *government*, mind you. The whole United States.

A few minutes later he pressed his point: Who cares that we can't believe the President on a certain personal matter? The important thing is that "we do believe he knows what to do with the wealth of this country."

That's collectivism.

* * *

There is no longer a legal entitlement to welfare, and almost everyone now acknowledges that America's long experience with handouts for the poor was a failure. James Payne explains why the $5 trillion war on poverty had no chance of success.

State and local governments spend a significant amount of cash trying to get doctors to set up practices in rural areas. Is this a good idea? William Pike says it's not only unnecessary, it's especially bad for the residents of those areas.

The government's offensive against tobacco is well known. But as Aaron Lukas reminds us, the feds for over 30 years have waged a war against one particular kind of tobacco: the kind grown and rolled into cigars in Cuba.

Can the arts flourish under capitalism when writers, painters, and composers have to worry about mundane things like making a living? Critics of the market have long answered no. A new book by economist Tyler Cowen, excerpted herein, says the arts can and do flourish in such circumstances.

A new move is afoot to amend the U.S. Constitution to permit prohibition of the burning of the American flag. Andrew Cohen surveys the standard arguments pro and con before asking the overlooked question: whose flag is it?

Advocates of quotas, set-asides, and other government-mandated discrimination don't seem to realize that those measures assume that the targeted groups can't succeed on their own in the free market. Burton Folsom says history disputes that assumption and offers two cases of entrepreneurial determination to prove his point.

When the government required air bags in all automobiles some years ago, the regulators and "consumer advocates" said the mandate would save lives. They didn't say it would also take lives—but that's what happened. Loren Lomasky takes a philosophical look at this episode of Government Knows Best.

The publication in Japanese of *Libertarianism: A Primer* gave David Boaz the opportunity to contemplate the universality of liberty in a new introduction to that edition of his book. We are pleased to reprint it here.

There are two ways to provide goods: the market (consent) and the government (coercion). Hugh Macaulay compares the two methods in his mission to discover which is superior.

For many years the Swiss had no rivals among watchmakers. Then along came the quartz revolution in timekeeping. The entrepreneurial Swiss were down, but they didn't give up. Anthony Young has the story.

Government is often petitioned to compensate individuals and groups for injuries inflicted at the hands of bureaucrats and politicians. But as Karen Selick points out, whenever a victim is compensated, a whole new set of victims is created.

In this month's columns, Lawrence Reed sets the record straight on America's "overconsumption," Doug Bandow sees hope for education in the growing private scholarship movement, Dwight Lee argues that laws against profiteering during natural disasters are a form of censorship, Mark Skousen takes a look at financial markets, and Walter Williams takes a fresh look at the War Between the States. To Robert Kuttner's complaint that the world economy suffers from "market worship," Russell Roberts says, It Just Ain't So!

Our reviewers dissect books on John D. Rockefeller, radical legal philosophy, natural law, democracy, environmental entrepreneurship, and the twentieth-century battle between capitalism and socialism.

—Sheldon Richman

THE FREEMAN
Ideas On Liberty

Market Worship? It Just Ain't So!

As we approach the millennium, the pace of economic change quickens. Consumers have always wanted better products at lower prices. But in today's economy, the market delivers "better and cheaper" more quickly than at any time in human history. The time between product improvements gets shorter and shorter. Competition drives prices lower.

It's a wonderful time to be a consumer. For entrepreneurs and business leaders, it is feast and famine at the same time. The opportunities are unprecedented, but the risks are formidable. Even Bill Gates doesn't sleep well. Today's genius can be out of business tomorrow because of technological advances we cannot dream of. New business starts are at extraordinary levels, but more of these ventures fail than succeed. Competition is fiercer and more unforgiving than ever before.

Two fundamental forces drive the pace of economic change. The first is technological innovation, particularly in handling and disseminating information. Computers get more powerful, smaller, and cheaper. The Internet expands the reach of customers in ways that are just beginning to be explored. And in traditional markets such as retailing, the application of information technology pushes prices down and pressures those who do not keep pace.

The second fundamental force driving change is the increasing accessibility of global markets. The increase in international opportunity means new markets for products and workers and greater economies of scale.

We like the wealth and opportunity that come from technological change and globalization. Alas, there is no free lunch. Innovation displaces established firms. A factory opens in Malaysia and one in the United States closes. Financial markets in Asia swirl with rumor and speculation affecting our markets as well. Russia teeters on the edge, it seems, of chaos.

Who is in charge here? The desire to take control, to improve the system via some "third way" is always tempting. Chaos and uncertainty are never pleasant. The natural response is to try and hold back the forces of innovation or reduce the sway of global markets. After all, are these not the cause of the confusion?

"Market Worship"

In a recent piece in the *Washington Post*, economics writer Robert Kuttner blames the chaos on a naïve worship of free markets. He blames speculators for the problems of Asia. He blames the United States for encouraging capitalism in Russia then failing to help out when capitalism fails. Kuttner is not alone. Numerous commentators see the current state of world markets as an indictment of capitalism and free markets.

Yet much of the chaos comes from previous government attempts to meddle with the system or control it. In Asia, government tinkering with capital markets is endemic. Special interests get favors, and markets react. Speculation is not the cause of Asia's economic problems; it's the result. Government policy cannot stand in a vacuum; speculation is the market's judgement of the wisdom of the policymakers.

In Russia, policymakers have partially dismantled socialism without putting property rights in place to allow markets to work. You cannot buy and sell land freely. Banks cannot enforce mortgages, so home equity cannot be converted into capital for new businesses. The tax code is capricious. Too many people still work in government-controlled firms where wages are determined by politics rather than market forces.

Many of the current problems in Asia and elsewhere come from the government's inexorable urge to cushion the hardship that results from bad economic decisions. We see the same problems in the United States. We implicitly bailed out banks that made bad investments in Mexico. And we had the Federal Reserve pressuring private investment banks to bail out the Long-Term Capital hedge fund lest it fail. These maneuvers only encourage future investors to take more risk unwarranted by potential returns.

Security Through Protectionism?

But what about the changes in the marketplace that are due not to poor public policy but to the market forces of innovation and global competition? As we get wealthier, it is natural that we think of ways to reduce risk and uncertainty. One way is to limit the role of global competition via protectionism in its many forms. Or to soften the blows of competition, we can support businesses that fail in the marketplace. Should the government intervene to reduce the chaos that comes with competition?

The simple answer is that competition and free markets make us rich, which surely beats the alternative. But wealth creation is not the only reason for allowing free markets to work their magic. Free markets maximize the menu of opportunities available to us as individuals. Whenever I speak to high school students or college freshmen, I like to ask them whether they want the same careers as their parents. Inevitably, only a few want to pursue the careers of either of their parents. The next generation has its own skills and dreams. The incredibly vibrant marketplace that we live in today allows it to live out those dreams.

Dealing with the menu of opportunity presented by free markets is a challenge. It means preparing for those opportunities by investing in knowledge and skills. It means embracing some opportunities and forgoing others. It means living with the consequences of our decisions. The marketplace is not kind to all people at all times. But coping with the challenge of opportunity is what allows us to feel fully alive.

There are two ways to cope with the uncertainty that comes along with economic opportunity. One is to lobby the government for special treatment to insulate your industry, your job, your lifestyle from market forces. Whenever this is an option, men and women divert energy and resources from the world's business and instead devote their skills to influencing government. This diminishes the human enterprise. Using government to protect one industry always means punishing another.

It is far better to prepare for the economic adventure that lies before us by investing in skills and knowledge that can be used in the increasingly competitive marketplace. Coping with the market's challenge enhances the lives we lead and, through our efforts, the lives of others.

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Why the War on Poverty Failed

by James L. Payne

Well, it's now official: the war on poverty was a costly, tragic mistake. Ordinary people have suspected that for decades, of course, but we had to wait for the *New York Times* to decide this news was fit to print—which it finally did on February 9, 1998. In a front-page story on poverty in rural Kentucky, Michael Janofsky detailed the failure of this effort in the one region that was supposed to be the centerpiece of reform. "Federal and state agencies have plowed billions of dollars into Appalachia," he wrote, yet the area "looks much as it did 30 years ago, when President Lyndon B. Johnson declared a war on poverty, taking special aim at the rural decay."[1]

Janofsky visited Owsley County, Kentucky, and found a poverty rate of over 46 percent, with over half the adults illiterate and half unemployed. "Feelings of hopelessness have become so deeply entrenched," he reported, "that many residents have long forsaken any expectation of bettering themselves." For years, the government has been trying to treat the despair with welfare programs: two-thirds of the inhabitants receive federal assistance, including food stamps, AFDC, and SSI disability payments. This, it now appears, is part of the area's problems.

"The war on poverty was the worst thing that ever happened to Appalachia," Janofsky quotes one resident as saying. "It gave people a way to get by without having to do any work." Local officials told him that "many parents urge their children to try to go to special education classes at school as a way to prove they are eligible for [SSI] disability benefits." (The senior class at the local high school picked as its motto, "I came, I slept, I graduated.")

Why did the war on poverty fail? What was wrong with the programs under which the nation spent over $5 trillion attempting to solve the problems of the poor, only to come up empty? It's an important question to ask in these days of welfare reform. The first step toward a sound policy ought to be to identify the errors of the past.

Perhaps the best way to answer the question is to take a close look at the book that inspired the war on poverty, Michael Harrington's *The Other America*, published in 1962. (Harrington died in 1989.) Possibly the most influential policy book in history, *The Other America* was cited again and again by the politicians, activists, and administrators who set up welfare programs in the 1960s. In it we find the fallacies that sent reformers down dark and tangled paths into today's social tragedies.

Curing Poverty Through Algebra

Though social workers and welfare administrators embraced Harrington's account, neither he nor they realized how distinctive, even

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bizarre, was the theory of poverty that it contained. Harrington's premise was that poverty is a purely economic problem: the needy simply lack the material resources to lead productive, happy lives. Supply these resources, the theory runs, and you will have solved the problem of poverty. "The means are at hand," declared Harrington, "to fulfill the age-old dream: poverty can now be abolished."[2] This theme was repeated up and down the welfare establishment. Sargent Shriver, the administration's leading anti-poverty warrior, told Congress that the nation had "both the resources and the know-how to eliminate grinding poverty in the United States." President Lyndon Johnson echoed the claim. "For the first time in our history," he declared, "it is possible to conquer poverty."

To most people, these claims seemed incredibly naïve. While the state of neediness we call poverty does involve a lack of material resources, it also involves a mass of psychological and moral problems, including weak motivation, lack of trust in others, ignorance, irresponsibility, self-destructiveness, short-sightedness, alcoholism, drug addiction, promiscuity, and violence. To say that all these behavioral and psychological problems can be "abolished" seems a denial of the common-sense Biblical teaching that the poor will always be with us.

Abolishing poverty did not seem far-fetched to the activists, however. Indeed, one book from that era boldly challenged the Biblical wisdom with its title: *The Poor Ye Need Not Have With You.* This 1970 volume was written by Robert Levine, who had served in the Office of Economic Opportunity, the federal government's anti-poverty agency. His book was also supported by the Ford Foundation and the Urban Institute, two principal backers of the war on poverty. Levine adhered to the simple materialistic view of poverty. "Even a quick look can convince us that poverty as it is currently defined in the United States is a completely solvable problem," he wrote. "If we were to provide every last poor family and individual in the United States with enough income to bring them above the level of poverty, the required outlay would be less than $10 billion a year."[3] In this perspective, curing poverty was simple algebra: add government's x dollars to the poor's y dollars and the result would be the end to poverty.

It was a perspective that led to intolerance. Since poverty was so simple to remedy—the activists reasoned—it was unethical not to act. "In a nation with a technology that could provide every citizen with a decent life," Harrington thundered, "it is an outrage and a scandal that there should be such social misery."[4] For the activists, welfare programs did not involve complex relationships and intractable problems about which honest people could disagree. They were simple moral imperatives, and anyone who opposed them was seen as selfish and insensitive. (This dogmatic view has by no means disappeared from so-called liberal circles.)

The Ideology of Handouts

The simple economic theory of poverty led to a single underlying principle for welfare programs. Since the needy just lacked goods and services to become productive members of the community, it followed that all you had to do was give them these things. You didn't have to see that they stopped engaging in the behavior that plunged them into neediness. You didn't have to ask them to apply themselves, or to work, or to save, or to stop using drugs, or to stop having babies they couldn't support, or to make any other kind of effort to improve themselves. In other words, the welfare programs the war-on-poverty activists designed embodied something-for-nothing giving, or what we usually call "handouts."

The handout feature characterized not only the programs that gave away cash and material resources like food and housing; it was also incorporated in programs that provided training, education, and rehabilitation. Recipients did not have to make any significant sacrifice to be admitted to them, and they did not have to make any significant effort to stay in them. Swept up by the rhetoric of the day, program organizers simply assumed that all that recipients needed was "opportunity," especially the opportunity to learn a trade and to get a job.

Alas, this was mainly untrue. One of the first things the needy lack is motivation; that is, they lack the ability to sacrifice and to discipline themselves, to defer present gratification for future benefit. Most of the recipients in the anti-poverty training and education programs were poorly motivated, and their lack of commitment meant that they couldn't make good use of the opportunities put before them. Worse, they dragged down the morale of teachers and those recipients prepared to apply themselves. What were administrators to do? If they required a strong commitment to the task of self-improvement, this would mean turning away most of the applicants—and watching their welfare empires collapse. Not surprisingly, officials were inclined to relax standards and let education and training programs become giveaways.

For example, in the early 1980s, the Manpower Development Research Corporation (MDRC) ran a number of "supported work" programs for disadvantaged youths financed by the federal government. The aim, as an MDRC vice-president told a Senate subcommittee, was a program "for instilling positive work habits and attitudes."[5] To implement this goal, attendance standards were announced: no more than three unexcused absences or five unexcused latenesses in the first ten weeks of training class. Reporter Ken Auletta attended one of these courses in New York City and discovered that even these modest rules were not being applied. Students were allowed to come and go as they wished, even to sleep or read the newspaper in class.[6] The trainer in charge explained that if the rules were applied, "we'd lose just about everyone in the class."[7] The overall effect of this indulgent approach in job training programs has been to "train" participants in irresponsibility: they learn that the world will keep rewarding them even when they don't live up to their obligations.

Head Start is another case where the giveaway approach has undermined the effectiveness of the program. The original idea behind Head Start was to give poverty-level preschoolers social and educational enrichment that would help them succeed in school. Since the children are in class only a few hours a week, it is vital that anything learned be reinforced at home by parents. That means, as Head Start's own promoters insist, that parent participation is crucial to the success of early intervention.[8] Logically, then, parental involvement should be required as a condition of the program. Unfortunately, the idea of a requirement goes against the agency's handout principle. "Head Start cannot threaten to dismiss a child for non-performance of either parent or child," says one pamphlet extolling the program. "It can only offer to help."[9]

This indulgent approach has meant that most parents have no significant involvement with the Head Start program, and for them and their children it is little more than a babysitting service. In the Head Start office in Sandpoint, Idaho, I asked a teacher how often parents volunteered to be in the classroom with their children. "We'd *like* them to come in once a month," she replied. The emphasis she put on "like" indicated that she understood even this minuscule level of parental involvement was an unrealistic hope. I happened to see the roll and time sheet for one class: it showed that not one parent of the 18 children had volunteered in the entire month.

The Healthy Way to Give

In adopting the handout approach for their programs, the war-on-poverty activists failed to notice—or failed to care—that they were ignoring over a century of theory and experience in the social welfare field. Charity leaders of the nineteenth century had lived with the poor and had analyzed the effects of different kinds of aid. They discovered that almsgiving—that is, something for nothing—actually hurt the poor. First, it weakened them by undermining their motivation to improve themselves. If you kept giving a man food when he was hungry, you undermined his incentive to look for a way to feed himself. Second, handouts encouraged self-destructive vices by softening the natural penalties for irresponsible and socially harmful behavior. If you gave a man coal who had wasted his money on drink, you encouraged him to drink away next month's coal money, too. Finally, the nineteenth-century experts argued, handouts were self-defeating. People became dependent on them, and new recipients were attracted to them. So this type of aid could never reduce the size of the needy population. With handouts, the more you gave, the more you had to give.

The correct way to help the needy, they said, was to expect something of recipients in return for what was given them. Instead of giving poor people what they needed, the charity leaders organized programs that enabled the needy to supply their own wants. They weren't given money, but were counseled to find employment; they weren't given apartments, but were rented, at cost, healthy dwellings managed by charities; they weren't given food, but learned to grow their own food at garden clubs developed for that purpose. The great English charity leader Octavia Hill, who worked all her life among the poor, summed up the nineteenth-century social workers' position on handouts: "I proclaim that I myself have no belief whatever in the poor being one atom richer or better for the alms that reach them, that they are very distinctly worse, and that I give literally no such alms myself."[10]

Failing in the Field

The war-on-poverty activists not only ignored the lessons of the past on the subject of handouts; they also ignored their own experience with the poor. The case of Harrington himself is especially revealing.

In the early 1950s Harrington worked at the St. Joseph's House of Hospitality, a shelter for the homeless in New York's Bowery district. The philosophy of the shelter was pure handout. Beds, food, and clothing were given out, as Harrington proudly reported, on a "first come, first served" basis. The shelter didn't require anything in return: not small amounts of money, not work, not any effort at self-improvement. In *The Other America* Harrington described at length the tragic lives of the alcoholics served by the shelter, the degradation, exposure, disease, theft, and violence that made up their lives. Yet he didn't report having any strategy to uplift them, and didn't report rehabilitating a single one. Though he became friendly with some of the street alcoholics, he never saw his friendship as a platform for mentoring them, as a way of guiding them to recovery. He simply watched these suffering men go in and out of their drunks, and gave them handouts as they went along. Summarizing his experience, he concluded that alcoholic poverty was not an economic problem but "deeply a matter of personality." In a revealing aside, he added, "One hardly knows where to begin."[11]

For someone so ready to hector others about how easily poverty could be "abolished," Harrington was astonishingly unreflective about his own performance. His failure as a social worker among the homeless never led him to question his handout approach, and his personal knowledge that poverty was *not* an economic problem never shook his ideological conviction that it was. The rest, as they say, is history. The man who "hardly knew where to begin" in treating the problems of poverty—and who failed when he tried—became the guru for a massive array of government handout programs that, as even the *New York Times* now concedes, only deepened the culture of poverty.

The Road Back to Common Sense

In the 1996 welfare reform, the nation began to undo the damage caused by the war on poverty's misguided approach. Most lawmakers finally grasped the point that handout programs are harmful and self-defeating. They began to see that welfare programs need requirements, that recipients have to be asked to take steps toward self-improvement and self-sufficiency.

It has not been easy to implement this concept, however. Lawmakers have yet to discover that government agencies are ill-suited to carry out the subtle task of personal uplift. This mission requires helpers who become personally involved in the lives of their clients. It requires that helpers be mentors who project healthy values. It also requires treating each client as an individual, subject to a different set of expectations and rewards. All this runs against the grain in government, where the pressures of law and regulation push agencies toward behaving in an impersonal, value-free, and uniform manner. In the long run, this leads to handout programs, because handouts are impersonal, value-free, and uniform.

The nineteenth-century charity leaders were familiar with the drawbacks of government assistance. Mary Richmond, one of the founders of American social work, condemned public relief in no uncertain terms: "The most experienced charity workers regard it as a source of demoralization both to the poor and the charitable. No public agency can supply the devoted, friendly, and intensely personal relation so necessary in charity. It can supply the gift, but it cannot supply the giver, for the giver is a compulsory tax rate."[12]

The 1996 welfare reform was therefore just a first step in undoing the harmful antipoverty policies of the 1960s. It did introduce the idea that handouts are wrong. But it missed the deeper point that, in the long run, government agencies aren't very good at anything but handouts. It remains for future generations to lay the government programs entirely aside and to promote the personal, voluntary arrangements that make for truly effective social assistance. □

1. Michael Janofsky, "Pessimism Retains Grip on Region Shaped by War on Poverty," *New York Times*, February 9, 1998, p. A1.

2. Michael Harrington, *The Other America: Poverty in the United States* (New York: Macmillan, 1969 [1962]), p. 174.

3. Robert A. Levine, *The Poor Ye Need Not Have With You: Lessons from the War on Poverty* (Cambridge, Mass.: M.I.T. Press, 1970), p. 6.

4. Harrington, p. 17.

5. Quoted in Ken Auletta, *The Underclass* (New York: Random House, 1983), p. 23.

6. Ibid., pp. 57, 120, 121, 122.

7. Ibid., p. 65.

8. Edward Zigler, Sally J. Styfco, and Elizabeth Gilman, "The National Head Start Program for Disadvantaged Preschoolers," in Zigler and Styfco, eds., *Head Start and Beyond: A National Plan for Extended Childhood Intervention* (New Haven: Yale University Press, 1993), p. 4.

9. Tim Nolan, *What Really Makes Head Start Work?* (Milwaukee: Institute for Innovation in Human Services, 1991), p. 8.

10. Octavia Hill, *The Befriending Leader: Social Assistance without Dependency*, ed. James L. Payne (Sandpoint, Idaho: Lytton Publishing Co., 1997), p. 57.

11. Harrington, p. 94.

12. Mary E. Richmond, *Friendly Visiting Among the Poor: A Handbook for Charity Workers* (Montclair, N.J.: Patterson Smith: 1969 [1899]), pp. 151–52.

THE FREEMAN (Ideas On Liberty)

Recruiting Rural Physicians: Small-Town Socialism

by William E. Pike

As the supreme defender of the status quo, the state often feels a necessity to react whenever a broad market or social change is taking place. Lawmakers and bureaucrats are rarely satisfied to let new trends work themselves out for the public good in a free-market society. Such has certainly been the case with health care in America over the last decade.

Through the 1980s and into the 1990s, as health-care costs grew, society saw a shift in provider demographics. Two conflicting things occurred during this period. First, rising physician salaries in specialties such as radiology and anesthesiology drew more and more medical students away from traditional general practice. Second, managed care became increasingly prominent. Managed care, of course, relies on general practitioners, or primary care physicians, as gatekeepers between patients and more expensive specialized care.

As the ranks of primary care physicians grew smaller, such doctors began to get lucrative offers from large urban managed care organizations. These trends left an obvious void—a shortage of rural primary care physicians. A survey of medical school seniors taken in 1979 showed that only 59 percent preferred a large or moderate city practice. By 1989 that number had grown to 80 percent.[1]

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Government Response

Local, state, and federal government agencies moved to check this shortage by spending tax dollars and manipulating the market. Now most states maintain some sort of program, at a cost of millions of dollars a year, to recruit and retain rural physicians. Politically, such programs are easily defended as absolutely necessary, in the words of Tennessee's rural health office, "to improve and enhance the accessibility, availability, and affordability of quality health care." Few voters, and certainly few legislators, are willing to argue with such a mission. However, are such agencies really efficient in the face of free-market alternatives?

How do government agencies recruit physicians for rural communities? The foremost device is money. Many states lure doctors to rural practice by paying all or part of the cost of their medical education. In some cases the state contracts with new physicians to work in a rural area for a specific amount of time in return for payment of debts at the end of that service. In other, less effective programs, students sign agreements promising to work in a rural area after completion of medical school, which the state pays for in the meantime. Obviously, this arrangement is prone to exploitation by students who, their education paid for and degrees in hand, decide not to practice rural medicine, or at least not to fulfill their entire obligation. In either case, citizens pay heavily.

Other recruitment methods also exist. States have sponsored programs to interest rural high school students in medical careers. They have also set up residency training programs in rural hospitals to give medical students the chance to experience rural life firsthand. Some of these programs have succeeded in bringing doctors to rural areas. In 1971 the University of Minnesota opened the Rural Physician Associate Program, a nine-month elective available to third-year medical students. According to the university, "Students live and train in non-metropolitan communities under the supervision of family practice and other physicians called preceptors." Over 800 medical students have participated, and of those, 65 percent now practice in rural areas. Eighty-two percent of the participants chose primary care.[2]

In addition, state-sponsored recruitment agencies attempt to lure practicing physicians to rural hospitals and communities. For instance, Oregon sponsors the Healthcare Experts for Rural Oregon (HERO) program, which works with rural communities to attract compatible physicians, offering bonuses such as a state income tax credit of $5,000 for up to ten years.

Is State Recruitment Necessary?

Government-sponsored recruitment is certainly a departure from free-market principles. However, it is not the kind of government intervention that is likely to draw much criticism. The state would respond that it is fulfilling its proper role by helping rural communities find the physicians they need for quality care. The subject isn't quite that simple, however, and the outcomes aren't always so rosy.

The emphasis placed on recruiting physicians helps contribute to a dangerous culture of dependence among residents of rural areas. Rural communities come to see themselves as "charity cases," unworthy of having a physician except at the start of his career and not able to support or attract a physician without state help. That culture subverts the free-market principle of voluntary exchange for *mutual* benefit that rules other aspects of our economy, urban and rural. Consider the advice of one publication written as a guide for those working in the field of rural physician recruitment:

> Develop a recruitment fund with donations from the hospital, businesses, and community events, e.g., cake sales and high school car washes. Be prepared to spend several years of hard work developing the fund.
>
> Consider developing a community finance plan to help new doctors purchase equipment or repay their educational debts.[3]

Imagine a community accepting such advice for the recruitment of bankers or lawyers. It wouldn't happen. We do not hear of severe shortages of bankers or lawyers in rural America, not because there are necessarily too many of them, but because the free market offers a place for practitioners of these professions in small towns as well as in large cities. Advocates of state-sponsored rural physician recruitment are bound to argue that physicians cannot be compared to bankers or lawyers. But in fact, none can exist without the others. All three, along with grocers, custodians, restaurateurs, teachers, carpenters, and a host of other workers and entrepreneurs are intertwined into any local economy, and none should be singled out for special treatment. When special treatment is accorded to one occupation, the population is bound to suffer through both the cost and quality of the service offered. Lopsided dependence is no base on which to build any segment of an economy.

Just as government interference creates a culture of dependence among rural residents, it also creates a culture of transience in the rural health-care community. In the free market, physicians take up practice in a community because they want to live there and because they feel that good opportunities exist for them. Some are bound to move on, but many will stay and pursue their dreams. When physicians are lured to a community through state loan repayments, tax breaks, and other perks, a sense of transience is almost expected. One North Carolina study found that 19 percent of newly recruited rural physicians planned to leave, even when they first arrived. Fewer than half planned to stay.[4] Though some physicians will remain in an area for a long time, others will move on to still greener pastures when their obligations are fulfilled or when they realize that their personalities and dreams do not fit the community in which they were placed. Such transience is detrimental to quality health care in small communities and merely perpetuates the recruitment problem by opening up a vacancy not long after it has been filled.

Market Alternatives

Nevertheless, primary care physicians are few and far between in much of rural America, and access to medical care there is often a real problem. But this situation must not drive us to conclude that free-market solutions don't exist. Indeed, trends that have drawn so much discussion over the past decade may be reversing themselves. The growth of managed care organizations, which drew so many general practitioners to urban areas over the last several years, is slowing. Profits are shrinking. Consumers are clamoring for more choice.[5] The shortage of primary care physicians nationwide may very well be turning into a surplus, as medical students realize where their best opportunities for work might be in the future.[6] Some of these physicians will turn to rural communities on their own, realizing that markets there are open.

In the meantime, rural hospitals and communities should be encouraged to use private recruiting agents or cooperative recruiting efforts, rather than state-supported recruiting mechanisms. Such efforts are more realistic and efficient—and more satisfying in matching a doctor to a community.

In short, we must be careful not to pass off any state-sponsored program as helpful or even as harmless without a full analysis of the free-market alternatives. Though wide-ranging government health-care initiatives, such as the 1993 Clinton plan, are likely to raise the eyebrows of voters, few people will even notice something as seemingly innocuous as government-sponsored rural physician recruitment. On its surface that mission, like so many others, seems to be a proper use of tax dollars, a beneficial action on behalf of those with little political or economic power. Yet it is in exactly such cases that citizens lose freedom and independence to the state, a trend that is hard to reverse. □

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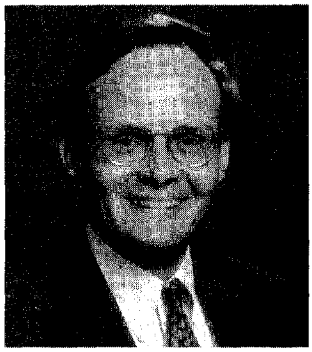

The Poverty of the United Nations

Twenty years ago, a United Nations report listed the United States as consuming 115,540 kilowatt-hours of energy per person per year. At the same time, each person in the tiny central African nation of Burundi was using up just 120 kilowatt-hours. My guess is that today, the average American is still consuming about a thousand times as much energy as the average Burundian. It's also a safe bet that the "experts" at the United Nations want Americans to feel just as guilty about the disparity today as 20 years ago.

Is this something about which Americans should flog themselves in unremitting guilt? Does Burundi use less energy because America uses too much? Is world energy a fixed pie, with America greedily hogging more than its quota at the expense of the Burundis of the planet? Would Burundi be better off if America impoverished itself? Questions like these were answered definitively by free-market economists decades ago, but like a nagging mother-in-law, the questions just never go away.

You've heard this international class warfare stuff before, from many sources besides the United Nations. A few years ago, the mantra of the international statist community—repeated endlessly in the media—was this: "Americans are only 6 percent of the world's population but they consume 40 percent of the world's energy." Greed was supposed to be the explanation for this disparity, and the solution offered was for America to spread its wealth in foreign-aid gifts to the less fortunate countries of the world.

Energy, of course, wasn't (and still isn't) the only thing of which America consumes more than its share of global population. We also eat more than 6 percent of the world's potato chips and broccoli. We enjoy more than 6 percent of the world's indoor plumbing, hearing aids, and baseballs. We operate more than 6 percent of the world's cars, trucks, hang gliders, tricycles, and skateboards. We listen to more than 6 percent of all lectures and read more than 6 percent of the world's books. And we probably put up with more than our share of nonsense too.

The fact is that Americans *consume* more because Americans *produce* more. That's right—more than 6 percent of the world's potato chips, baseballs, skateboards, and countless other things. If we didn't first produce, we wouldn't have it to consume or to trade for what we really wanted. How can such an elementary point, such a basic principle of life and economics, be lost on anyone who doesn't have to sign his name with an "X"?

Unfortunately, the U.N. is at it again. Last September it issued a document called "The Human Development Report 1998." The richest fifth of the world's nations, declares the report, accounts for 86 percent of private consumption. Never mind the inherently dubious nature of adding up "private consumption" in almost 200 different countries.

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The report is yet another lamentation about how the rich have it and the poor don't: the richest fifth purchase nine times as much meat, have access to nearly 50 times as many telephones, and use more than 80 times the paper products and motorized vehicles than the poorest fifth. While two billion people worldwide supposedly go without schools and toilets, self-indulgent Americans are painting themselves with $8 billion in cosmetics and Europeans are feasting on $11 billion in ice cream. To reduce these horrid inequalities, the report recommends that "consumption levels among the poor" be increased to "basic" levels.

Think about that. The poor nations don't consume much now, and the U.N. tells us that the answer is for them to consume more. How are the poor nations to get more? Change their ways? *Produce* more, perhaps? If the U.N. thinks that poor nations' low productivity is at fault here, there's little sign of it. As the *New York Times* revealed, "the report only skirts the issue of what role the poorest nations themselves play in this predicament."

The sad fact is that in those poor countries like Burundi, indigenous political and cultural barriers to production constitute the overwhelming if not exclusive source of poverty. Routinely, the chronically destitute nations of the world are the ones that make war on private property, keep out foreign investment, impose viciously punitive taxes and regulations, spend inordinate sums on the military, squander resources on corruption and public works boondoggles, and in general, penalize or even kill anybody with enough spunk to start a business. These nations don't consume much because, as a result of these barriers, they don't produce much. It's as simple as that. And it's no coincidence that reports to the contrary come forth from a world body in which the ranks of the benighted are legion.

What poor nations need to do is to create the enlightened political and cultural conditions whereby capital investment and the resulting production are encouraged instead of suppressed. This is not new information. It's the same formula by which America emerged from the status of 13 poor backwater colonies to the wealthiest nation on the globe. With a relatively free economy, America has shown the world how to go from Model T's to space shuttles in less time than most peoples have taken to get from dirt paths to gravel roads. Other countries from England to Hong Kong can boast similar accomplishments as well, and for similar reasons.

It is no disgrace that Americans consume 40 percent of the world's energy, or whatever the number may really be. Rather, it is a tribute to our ingenuity, creativity, and enterprise. We've put our God-given abilities to work within a system that even with all its government intervention is still infinitely more hospitable to production than Burundi's. If we restricted our energy consumption to just 6 percent of the total world supply, our lives would be shorter, less healthy, and a lot more painful. There would be fewer of us, and not by choice. The rest of the world would be worse off too because poor people cannot materially do much to help other poor people through trade.

People who are interested in ending poverty and really solving economic problems would do well to read Adam Smith's *The Wealth of Nations* and ignore any report that comes out of the United Nations. □

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THE FREEMAN (Ideas On Liberty)

The Other Tobacco War

by Aaron Lukas

The U.S. Customs Service recently mounted a major offensive in the federal government's latest brainchild: the war on Cuban cigars. Agents swept through exclusive Manhattan clubs and restaurants, arresting managers and patrons alike. Once again, law-abiding New Yorkers are free to stroll down Park Avenue without fear of encountering a contraband Cohiba.

News reports evoked images of grim-faced, Prohibition-era G-men busting up speakeasies: "[Agents] searched the upscale restaurant Patroon and arrested its cigar room manager Alex Hasbany," reported the Reuters news wire. "The restaurant's owner, Kenneth Aretsky, former president of New York's famous '21 Club' surrendered to authorities on Thursday."

Good thing Aretsky went peacefully—gun battles in expensive restaurants were all the rage in the days of cigar-smoking crime boss Al Capone, but are passé today.

Federal prosecutors reported seizing several hundred thousand dollars' worth of the prized stogies. At least nine people were arrested, including the head of U.S. securities at Chase Securities, Inc., a unit of Chase Manhattan Bank.

All of this suggests the question: doesn't customs have anything useful to do?

The raids were conducted under the auspices of the Trading with the Enemy Act, which grants presidents the authority to prohibit the import of property from specified foreign countries. Federal law has banned most imports from Cuba since July 8, 1963, shortly after President John F. Kennedy ordered press secretary Pierre Salinger to go out and buy as many of his favorite H. Upmann Petit Coronas as possible.

Sanctions Codified

In 1996 the Helms-Burton Act codified many of the unilateral economic sanctions against Cuba that the United States had maintained under the Trading with the Enemy Act. It also added noxious new provisions, such as extraterritorial boycotts of foreign companies that do business in Cuba.

Such laws offer massive potential for abuse because enforcement is nearly impossible. Prominent businessmen have been nabbed, but how many members of Congress have occasionally indulged in a fine Havana Montecristo or Cohiba Esplendidos? Don't expect to see agents raiding Capitol Hill offices anytime soon.

Besides, is Cuba really our enemy? With the collapse of the Soviet Union and the subsequent end of subsidies to Cuba in the early 1990s, the Cuban security threat virtually ceased to exist. Now we isolate Cuba not to enhance security, but to "help" the Cuban people.

It's difficult to see how commando raids on American citizens will promote freedom

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abroad. In any case, it's bad policy. Our government was established to protect the life, liberty, and property of the people of the United States. We shouldn't allow our rights to be compromised, even for seemingly noble goals. The example of a free and prosperous America is a more powerful force for change than any embargo will ever be.

Nevertheless, Customs has dramatically stepped up its enforcement efforts against Cuban cigars. The agency reported confiscating $3.1 million worth last year alone, in 3,700 separate seizures. As is the case with illegal narcotics, prices will rise and more smuggling will occur; oppression in Cuba will continue, however, just as it has during nearly four decades of U.S. isolation.

Sadly, the cigar sting is only the most recent embarrassment in America's failed policy toward Cuba. Ongoing U.S. antagonism is a major reason that Castro remains so firmly in power, despite the Cuban economy's deterioration.

If Congress and the Clinton administration are serious about encouraging liberalization, they should allow Americans to trade freely with Cuba. The Cuban embargo—and the cigar wars—should be consigned to the ash heap of history. □

THE FREEMAN
Ideas On Liberty

Artistic Freedom Requires Economic Freedom

by Tyler Cowen

Psychological motivations, though a driving force behind many great artworks, do not operate in a vacuum, independent of external constraints. Economic circumstances influence the ability of artists to express their aesthetic aspirations. Specifically, artistic independence requires financial independence and a strong commercial market. Beethoven wrote: "I am not out to be a musical usurer as you think, who writes only to become rich, by no means! Yet, I love an independent life, and this I cannot have without a small income."

Capitalism generates the wealth that enables individuals to support themselves through art. The artistic professions, a relatively recent development in human history, flourish with economic growth. Increasing levels of wealth and comfort have freed creative individuals from tiresome physical labor and have supplied them with the means to pursue their flights of fancy. Wealthy societies usually consume the greatest quantities of non-pecuniary enjoyments. The ability of wealth to fulfill our basic physical needs elevates our goals and our interest in the aesthetic. In accord with this mechanism, the number of individuals who can support themselves as full-time creators has risen steadily for centuries.

Perhaps ironically, the market economy increases the independence of the artist from the immediate demands of the culture-consuming public. Capitalism funds alternative sources of financial support, allowing artists to invest in skills, undertake long-term projects, pursue the internal logic of their chosen genre or niche, and develop their marketing abilities. A commercial society is a prosperous and comfortable society, and offers a rich variety of niches in which artists can find the means to satisfy their creative desires.

Many artists cannot make a living from their craft, and require external sources of financial support. Contrary to many other commentators, I do not interpret this as a sign of market failure. Art markets sometimes fail to recognize the merits of great creators, but a wealthy economy, taken as a whole, is more robust to that kind of failure in judgment than is a poor economy. A wealthy economy gives artists a greater number of other sources of potential financial support.

Private foundations, universities, bequests from wealthy relatives, and ordinary jobs, that bane of the artistic impulse, all have supported budding creators. Jane Austen lived from the wealth of her family, T. S. Eliot worked in Lloyd's bank, James Joyce taught languages, Paul Gauguin accumulated a financial cushion through his work as a stockbroker, Charles Ives was an insurance executive, Vincent van Gogh received support from his

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brother, William Faulkner worked in a power plant and later as a Hollywood screenwriter, and Philip Glass drove a taxi in New York City. William Carlos Williams worked as a physician in Rutherford, New Jersey, and wrote poetry between the visits of his patients.

Wallace Stevens, the American poet, pursued a full-time career in the insurance industry. "He was a very imaginative claims man," noted one former colleague. When offered an endowed chair to teach and write poetry at Harvard University, Stevens declined. He preferred insurance work to lecturing and did not wish to sacrifice his position in the firm. At one point a coworker accused Stevens of working on his poetry during company time. He replied: "I'm thinking about surety problems Saturdays and Sundays when I'm strolling through Elizabeth Park, so it all evens out."

Parents and elderly relations have financed many an anti-establishment cultural revolution. Most of the leading French artists of the nineteenth century lived off family funds—usually generated by mercantile activity—for at least part of their careers. The list includes Delacroix, Corot, Courbet, Seurat, Degas, Manet, Monet, Cézanne, Toulouse-Lautrec, and Moreau. French writers Charles Baudelaire, Paul Verlaine, and Gustave Flaubert went even further in their anti-establishment attitudes, again at their parents' expense.

Even the most seclusive artists sometimes rely furtively on capitalist wealth. Marcel Proust sequestered himself in a cork-lined room to write, covering himself in blankets and venturing outside no more than 15 minutes a day. Yet he relied on his family's wealth, obtained through the Parisian stock exchange. Paul Gauguin left the French art world for the tropical island of Tahiti, knowing that his pictures would appreciate in value in his absence, allowing for a triumphal return. Gauguin never ceased his tireless self-promotion, and during his Pacific stays he constantly monitored the value of his pictures in France.

Wealth and financial security give artists the scope to reject societal values. The bohemian, the avant-garde, and the nihilist are all products of capitalism. They have pursued forms of liberty and inventiveness that are unique to the modern world.

Pecuniary Incentives

Many artists reject the bohemian lifestyle and pursue profits. The artists of the Italian Renaissance were businessmen first and foremost. They produced for profit, wrote commercial contracts, and did not hesitate to walk away from a job if the remuneration was not sufficient. Renaissance sculptor Benvenuto Cellini, in his autobiography, remarked, "You poor idiots, I'm a poor goldsmith, and I work for anyone who pays me."

Bach, Mozart, Haydn, and Beethoven were all obsessed with earning money through their art, as a reading of their letters reveals. Mozart even wrote: "Believe me, my sole purpose is to make as much money as possible; for after good health it is the best thing to have." When accepting an Academy Award in 1972, Charlie Chaplin remarked: "I went into the business for money and the art grew out of it. If people are disillusioned by that remark, I can't help it. It's the truth." The massive pecuniary rewards available to the most successful creators encourage many individuals to try their hand at entering the market.

Profits signal where the artist finds the largest and most enthusiastic audience. British "punk violinist" Nigel Kennedy has written: "I think if you're playing music or doing art you can in some way measure the amount of communication you are achieving by how much money it is bringing in for you and for those around you." Creators desiring to communicate a message to others thus pay heed to market earnings, even if they have little intrinsic interest in material riches. The millions earned by Prince and Bruce Springsteen indicate how successfully they have spread their influence.

Beethoven cared about money as a means of helping others. When approached by a friend in need, he sometimes composed for money: "I have only to sit down at my desk and in a short time help for him is forthcoming." Money, as a general medium of exchange, serves many different ends, not just greedy or materialistic ones.

Funding Artistic Materials

Artists who chase profits are not always accumulating wealth for its own sake. An artist's income allows him or her to purchase the necessary materials for artistic creation. Budding sculptors must pay for bronze, aluminum, and stone. Writers wish to travel for ideas and background, and musicians need studio time. J. S. Bach used his outside income, obtained from playing at weddings and funerals, to buy himself out of his commitment to teach Latin, so that he would have more time to compose. Robert Townsend produced the hit film *Hollywood Shuffle* by selling the use of his credit cards to his friends. Money is a means to the ends of creative expression and artistic communication.

Capitalist wealth supports the accouterments of artistic production. Elizabethan theaters, the venues for Shakespeare's plays, were run for profit and funded from ticket receipts. For the first time in English history, the theater employed full-time professional actors, production companies, and playwrights. Buildings were designed specifically for dramatic productions. Shakespeare, who wrote for money, earned a good living as an actor and playwright.

Pianos, violins, synthesizers, and mixers have all been falling in price, relative to general inflation, since their invention. With the advent of the home camcorder, even rudimentary movie-making equipment is now widely available. Photography blossomed in the late nineteenth century with technological innovations. Equipment fell drastically in price and developing pictures became much easier. Photographers suddenly were able to work with hand cameras, and no longer needed to process pictures immediately after they were taken. Photographic equipment no longer weighed 50 to 70 pounds, and the expense of maintaining a traveling darkroom was removed.

Falling prices for materials have made the arts affordable to millions of enthusiasts and would-be professionals. In previous eras, even paper was costly, limiting the development of both writing and drawing skills to relatively well-off families. Vincent van Gogh, an ascetic loner who ignored public taste, could not have managed his very poor lifestyle at an earlier time in history. His nonconformism was possible because technological progress had lowered the costs of paints and canvas and enabled him to persist as an artist.

Female artists, like Berthe Morisot and Mary Cassatt, also took advantage of falling materials costs to move into the market. In the late nineteenth century women suddenly could paint in their spare time without having to spend exorbitant sums on materials. Artistic willpower became more important than external financial support. This shift gave victims of discrimination greater access to the art world. The presence of women in the visual arts, literature, and music has risen steadily as capitalism has advanced.

Falling costs of materials help explain why art has been able to move away from popular taste in the twentieth century. In the early history of art, paint and materials were very expensive; artists were constrained by the need to generate immediate commissions and sales. When these costs fell, artists could aim more at innovation and personal expression, and less at pleasing buyers and critics. Modern art became possible. The impressionists did not require immediate acceptance from the French Salon, and the abstract expressionists could continue even when Peggy Guggenheim was their only buyer.

The artist's own health and well-being, a form of "human capital," provides an especially important asset. Modernity has improved the health and lengthened the lives of artists. John Keats would not have died at age 26 of tuberculosis with access to modern medicine. Paula Modersohn-Becker, one of the most talented painters Germany has produced, died from complications following childbirth, at the age of 31. Mozart, Schubert, Emily Brontë, and many others who never even made their start also count as medical tragedies who would have survived in the modern era. The ability of a wealthy society to support life for greater numbers of people, compared to premodern societies, has provided significant stimulus to both the supply and demand sides of art markets.

Most advances in health and life expectancy have come quite recently. In the United

States of 1855, one of the wealthiest and healthiest countries in the world at that time, a newly born male child could expect no more than 39 years of life. Yet many of the greatest composers, writers, and painters peak well after their fortieth year.

Birth control technologies, generally available only for the last few decades, have given female creators greater control over their lives and domestic conditions. Most of the renowned female painters of the past, for various intentional or accidental reasons, had either few children or no children at all. Childbearing responsibilities kept most women out of the art world. Today, budding female artists can exercise far greater control over whether and when they wish to have children. The increasing prominence of women in music, literature, and the visual arts provides one of the most compelling arguments for cultural optimism. For much of human history, at least half of the human race has been shut out from many prominent artistic forms, and women are only beginning to redress the balance.

Do the Arts Lag in Productivity?

William Baumol and William Bowen, two economists who have analyzed the performing arts, believe that economic growth imposes a "cost disease" on artistic production. They claim that rising productivity causes the arts to increase in relative cost, as a share of national income. The arts supposedly do not enjoy the benefits of technical progress to equal degree. It took 40 minutes to produce a Mozart string quartet in 1780, and still takes 40 minutes today. As wages rise in the economy, the relative cost of supporting the arts will increase, according to this hypothesis.

Contrary to Baumol and Bowen, the evidence suggests that the arts benefit greatly from technological progress. The printing press, innovations in paper production, and now the World Wide Web have increased the availability of the written word. The French impressionists drew their new colors from innovations in the chemical industry. Recording and radio, both capital technologies, have improved the productivity of the symphony orchestra. Symphonic productions now reach millions of listeners more easily than ever before. These technological improvements are not once-and-for-all events that only postpone the onset of the cost disease. Rather, technological progress benefits the arts in an ongoing and cumulative fashion.

The cost disease argument neglects other beneficial aspects of economic growth. The arts benefit more from technological advances than it may at first appear. Production of a symphonic concert, for instance, involves more than sitting an orchestra in a room and having them play Shostakovich. The players must discover each other's existence, maintain their health and mental composure, arrange transportation for rehearsals and concerts, and receive quality feedback from critics and teachers. In each of these regards the modern world vastly surpasses the productivity of earlier times, largely because of technological advances.

Mechanisms in Support of Artistic Diversity

Well-developed markets support cultural diversity. A quick walk through any compact disc or book superstore belies the view that today's musical and literary tastes are becoming increasingly homogeneous. Retail outlets use product selection and diversity as primary strategies for bringing consumers through the door. Even items that do not turn a direct profit will help attract business and store visits, thereby supporting the ability of the business to offer a wide variety of products.

The available variety of artistic products should come as no surprise. Adam Smith emphasized that the division of labor, and thus the degree of specialization, is limited by the extent of the market. In the case of art, a large market lowers the costs of creative pursuits and makes market niches easier to find. In the contrary case of a single patron, the artist must meet the tastes of that patron or earn no income.

Growing markets in music, literature, and the fine arts have moved creators away from dependence on patronage. A patron, as opposed to a customer, supports an artist with his or her own money, without necessarily purchasing the artistic output. Samuel Johnson, writing in the eighteenth century, referred to a patron as "a wretch who supports with insolence, and is paid with flattery." Even Johnson, however, did not believe that patrons were intrinsically bad; the problem arises only when artists are completely dependent upon a single patron. Patronage relationships, which today stand at an all-time high, have become more beneficial to artistic creativity over time. The size and diversity of modern funding sources gives artists bargaining power to create space for their creative freedom.

Growth of the market has liberated artists, not only from the patron, but also from the potential tyranny of mainstream market taste. Unlike in the eighteenth century, today's books need not top the bestseller list to remunerate their authors handsomely. Artists who believe that they know better than the crowd can indulge their own tastes and lead fashion. Today it is easier than ever before to make a living by marketing to an artistic niche and rejecting mainstream taste.

In the realm of culture, market mechanisms do more than simply give consumers what they want. Markets give producers the greatest latitude to educate their audiences. Art consists of a continual dialogue between producer and consumer; this dialogue helps both parties decide what they want. The market incentive to conclude a profitable sale simultaneously provides an incentive to engage consumers and producers in a process of want refinement. Economic growth increases our ability to develop sophisticated and specialized tastes. □

Payola and Cultural Diversity

The payola scandals provided a dramatic episode in the clash of musical worlds. Independent record companies frequently used payola to promote rock and roll on American radio. Payola occurs when a disc jockey is paid by record companies or music publishers to play certain recordings. This practice, usually considered scandalous, in fact helped new musicians gain airplay. Payola combated conformism and racism in the music business. Nonetheless rock and roll opponents succeeded in making payola a dirty word akin to bribery or money laundering.

The first documented instances of payola date from England in the 1860s. The publishers of sheet music paid vaudeville artists to sing and popularize their songs. Payment of these fees was a normal marketing procedure for publishers and a significant source of income for performers; payola occasioned no political scandal. Prior to the payola scandals, payola had been an accepted and legal business practice used to promote new products for many decades. In the case of rhythm and blues, the independents lacked the reputations and marketing power to place their artists through name alone, and were forced to rely on payola.

Chuck Berry's "Maybellene," his first hit and still one of his most popular songs, was given initial airplay because of payola. Leonard Chess of Chess Records (Berry's record company) went to well-known disc jockey Alan Freed with a large catalog of material. Chess offered Freed partial songwriting credits on any song of his choice, provided that he would play and promote the song. Freed now had a stronger incentive to pick the best song and to promote it. After listening to hundreds of recordings, Freed picked "Maybellene." Berry became a star, and the Freed estate continues to receive royalties (check your record label). When record companies believed they had a sure-fire hit by an unknown singer, they used payola to buy air-time for the record.

Payola does not differ from the ordinary purchase of advertising time. Instead of hearing a jingle, we hear a song. The song itself, and the performer, is being advertised. Outlawing payola kept radio stations from advertising music, the commodity of greatest interest to their audiences.

Payola also encouraged disc jockeys, the individuals who knew most about music, to discover new talent. The station owners were not as well informed as the disc jockeys and did not have the same ground-level contacts in the musical world, especially for rock and roll. The proliferation of independent record companies made new stars harder to find, increasing the importance of disc jockey middlemen. If a disc jockey found a new star, the disc jockey would receive some of the benefits in the form of payola income.

Payola income decreased disc jockey favoritism and racial discrimination. When disc jockeys receive additional income from playing the more popular product, they are less inclined to indulge their own personal and racial biases, and more inclined to heed the wishes of consumers. The value of giving airplay to a good song, and thus its payola value, is usually higher than the value of promoting a bad song. Record companies were not interested in paying to procure airtime for likely duds.

Critics of payola argued (correctly) that payola gave a special boost to rock and roll. Outlawing payola increases the importance of advertisements as a source of radio station income. The radio station will play music to attract listeners who purchase advertised products—middle-class and upper-class Americans. When payola is legal, the desire to increase payola income encourages the station to attract listeners who will buy *records*. Payola gave record buyers—the young, the die-hard music fans, and the followers of rock and roll—greater influence over station programming.

The payola scandals were part of the ASCAP [American Society of Composers, Authors, and Publishers] campaign against BMI [Broadcast Music Incorporated] and rock music. After an ASCAP antitrust suit against BMI failed, the music publishers sought another legal weapon to use against their competitor. ASCAP also wished to strike out against the disc jockeys who had neglected to promote their music. In late 1959, ASCAP persuaded Congress to launch an investigation of payola for rock and roll, rhythm and blues, and soul music.

The discriminatory nature of the payola hearings belies their origins. Responding to ASCAP pressure, the House Committee examined payola for rock and roll only, not payola for classical music. The government came down much more heavily on "black payola" than "white payola." Alan Freed, the deejay who pushed gritty rock and roll and raucous black music, was prosecuted and found his entire career ruined. Dick Clark, of American Bandstand fame, used payola to promote more respectable forms of white pop. Clark's "violations" were more striking but he was left with his career and media empire intact.

At the end of the Committee hearings, Congress outlawed payola, with a jail term of up to one year and a $10,000 fine for convicted offenders. Earlier, the Federal Communications Commission had threatened to suspend the license of any radio station found guilty of accepting payola. Amazingly, when the payola hearings started, payola was not in violation of any Federal law. The investigations were primarily a witch hunt directed against particular kinds of music that did not meet with universal approval. —TYLER COWEN

THE FREEMAN
Ideas On Liberty

Flags, Flames, and Property

by Andrew I. Cohen

A constitutional amendment that would forbid the desecration of American flags is again percolating in the nation's capital. As of this writing, the immediate prospects for passage look bleak. But this amendment has a way of never fully going away. Many opponents of the measure trot out free speech arguments. And although concerns about free expression are important, these traditional arguments miss a more central political principle that the amendment and resulting laws against flag burning would jeopardize: property rights. The amendment would undermine key liberties for which the flag stands.

Arguments for Flag Desecration Laws

Those who uphold laws against flag desecration typically speak of the important values that the flag symbolizes. They claim that legally allowing flag burning is tantamount to rejecting the freedoms that the flag represents. They say it is vital that we express our respect for human freedom by institutionalizing penalties against those who would defile the national symbol.

Permitting flag burning, the amendment's proponents continue, sends the wrong message to America's youth, America's voters, and observers abroad. When the young see protesters publicly burning a flag with impunity, they may believe that American freedoms are cheap. They may then think that the nation's commitment to uphold those freedoms is fleeting. Permitting flag burning may also undermine a key basis for community among America's voters. With protesters burning flags, voters may lose a vision of shared citizenship and be less committed to the American ideal. Flag burning is also supposedly a slap in the face to all Americans who suffered in wartime to secure freedoms for everyone. Lastly, foreign observers who see Americans burning their own flag may be less inclined to support America's international policies aimed at securing freedom. Advocates fear that foreigners will think: if Americans cannot take their own freedoms seriously, then we need not take seriously the moral reasoning they present to the world.

The Free Speech Argument Against Flag Desecration Laws

People who burn flags intend to send a message by doing so. This is what makes flag burning a form of expression. Some flag burners take offense at various American foreign policy measures. (Recall the nightly news broadcasts last summer showing Sudanese burning American flags in Khartoum after the United States bombed what it deemed a suspicious pharmaceutical factory.) Some individuals may burn flags as a way of saying America is not true to its own values.

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Others simply despise American ideals and set the flag aflame. In any case, people who burn flags do so deliberately in order to send a public message of protest.

The First Amendment to the Constitution reads, "Congress shall make no law . . . abridging the freedom of speech." Constitutional scholars and legal theorists have long argued over the meaning of this amendment. There is, however, a rough consensus on two ideas: (1) the amendment protects peaceful expression, popular or unpopular, but (2) the Framers clearly did not intend for it to license any and all forms of expression. Consequently, room has been made for laws against libel, slander, and obscenity. Contrary to hyperbolic op-eds railing against flaming protests, burning a flag is not "obscene." At worst, it is despicable. At best, it is a valuable form of political speech.

The First Amendment protects freedom of speech, which in turn protects the liberty to say wrong-headed, bigoted, stupid, vicious things. Such protection is crucial; otherwise freedom of speech would reduce to the empty freedom to say only the right, the true, and the good. That would present a disturbing practical difficulty: some bureaucrat would have to decide what is permissible speech, because in today's pluralistic society, there is little consensus on many aspects of the right, the true, and the good. Freedom of speech, however, is the freedom to say what one wishes without having to solicit the permission of anyone first.

Freedom of speech guarantees a healthy, open marketplace of ideas. More fundamentally, it includes the freedom to say things that others might not like. Those who are offended should respond with reasoned arguments of their own and not by passing a law. If individuals were only free to say things that others liked, public and private discussions would be banal, stilted, and oppressed. A law against flag burning forbids a form of expression simply because others do not like the message. Government exists, however, to protect individual rights. It should not protect citizens from being offended. We can stipulate that many acts of flag burning are offensive. Simply being offensive, however, does not violate individual rights.

The Property Rights Argument Against Flag Burning

The free speech argument against the proposed amendment is powerful; people must be free to offend if free speech is to count for anything. There is, however, one time when flag burning should be against the law: when it's someone else's flag.

Suppose you own a flag. Suppose that Chris takes your flag without your consent and sets it on fire in the public square. What Chris has done ought to be forbidden (and punished) not because he burned a flag, but because he burned *your* flag. Chris ought to be held accountable just as if he had taken a sledgehammer to your concrete garden gnomes without your permission. He destroyed your property.

People who debate the flag issue often lose sight of this important fact: you cannot burn "the American flag" because there is no such thing as "the American flag." There are only *flags*. The "American flag" is an idea that cannot be burned. A particular flag, however, can be burned. Whether it is permissible to do so turns on whose flag it is.

Being a material object, a flag usually comes into the world attached to someone as property. A law against flag burning would forbid you from disposing of your property as you see fit. Let us assume that burning your flag does not pose a threat to public safety (that is, you don't ignite and toss it into an unsuspecting crowd). In that case, when you burn *your* flag, your actions are not importantly different from taking *your* paper and *your* ink to print up pamphlets that say anything (or even nothing) at all. The pamphlets are *your* property, and so too is your flag. Passers-by can take your message or leave it.

To forbid flag burning is to forbid you from disposing of your property in ways that offend others. But property rights protect freedom of action for which one need not solicit the permission of others. A right to *your flag* guarantees a right to burn it, stomp on it, spit on it, or turn it into underwear if you so choose. Your flag is your property. If someone does not like what you do with your property, he should not lock you up; he should persuade you to change your ways or he should have nothing to do with you. Consider the absurdity of having rights to use your property only in ways others find acceptable.

Permissible Flag Burning and Some Problems

When a flag becomes old and tattered, there is a prescribed way to dispose of it. Part of the process involves burning it. If flag burning were forbidden, presumably it would not be just any flag burning that would be illegal. It would only be flag-burning-while-thinking-nasty-thoughts-about-the-flag. If persons are to be punished not for what they do, but for what they *think*, we will have marched a long way from the freedoms on which this nation was founded, and headed dangerously closer to tyranny.

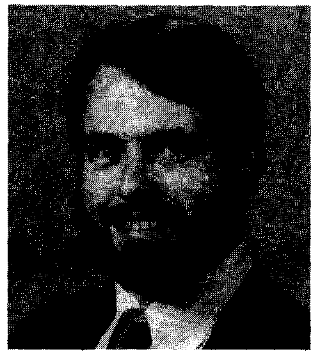
There are further difficulties with laws against flag burning. We all know what an American flag is supposed to look like. It has 50 stars and 13 stripes, all arranged in a certain pattern. Suppose, however, you were to sew a piece of fabric that looked just like a current American flag, except that it had *49* stars or 50 *six*-sided stars (instead of five-sided stars), or *white* stripes on the very top and very bottom (instead of red), or a blue field that was only *six* stripes high (instead of seven). Strictly speaking, those pieces of fabric would not be American flags. They would be imperfect approximations of American flags. Would a law against flag burning forbid the desecration of any piece of fabric that even *looked like* an American flag? What if one takes a big piece of white paper and writes in big boldface letters, "THIS IS AN AMERICAN FLAG," and sets it on fire? Perhaps the courts would rule that any act *intended* to make onlookers believe that one was burning an American flag would be covered by the amendment. Once again, however, the government would be getting into the business of punishing people for having bad thoughts. This is not the mark of a government in a free society.

What the Flag Means

The flag is a symbol of American values such as self-determination and freedom from oppression. Throughout our history, members of the armed services suffered on behalf of freedom, not on behalf of a piece of fabric. They did not put their lives on the line so that busybodies and bureaucrats could tell us what we can or cannot say and what we can or cannot do with our property.

No doubt, flag burners are often quite vicious, detestable persons whose contempt for American values deserves *our* contempt. But the law should not forbid all vicious conduct. We can privately refuse to have anything to do with such persons. We can hold them up to public scorn. We might display our patriotism to counter the flag-burning demonstration. Such acts would help solidify the shared citizenship that flag-burning amendment advocates so often invoke. Those informal responses would also help send the message that some matters are best left to private individuals and the free choices they make. Those who take freedom seriously are civilized enough to put flag burners in their place without beating them up or locking them up.

Supporters of laws to punish people who destroy a flag betray their belief that the values the flag symbolizes cannot prevail on their own merits. They seem to think that freedom demands government-mandated respect. But American ideals are sturdy enough to await voluntary respect. Let us repudiate flag burners and persuade (not force) individuals to respect the flag. We must not, however, cheapen the freedoms the flag represents with an amendment that would restrict individual rights. □



Public Failure, Private Response

President Bill Clinton has called for a "national crusade" on education. Naturally, that means spending more money: he would have Washington hire teachers and build schools. Many states, flush with cash, also plan to spend more.

But the problem of education is monopoly, not money. Average SAT scores dropped from 980 to 899 between 1963 and 1992, while real per-pupil spending rose 160 percent. In fact, real spending per pupil has risen 40 percent a decade since World War II.

The past decade of "reforms" has changed nothing. The 1994 National Assessment of Education Progress (NAEP) test found that 36 percent of fourth graders, 39 percent of eighth graders, and 57 percent of 12th graders failed to meet basic history standards. In most other subjects students perform poorly, and, incredibly, do worse the longer they stay in school. Last year the journal *Education Week* called America's public schools "rife with mediocrity," reporting that "there is no state in which at least half the students perform at the 'proficient' level or above." It refused to give the states grades based on their NAEP results, since "all would have failed."

International comparisons tell an equally dismal story, with American students scoring below foreign kids in almost every subject. The latest survey, the Third International Mathematics and Science Study, ranked America 19th out of 21 countries in math, surpassing only Cyprus and South Africa. (No Asian nations, whose students typically do well, participated.)

While suburban schools have problems, city schools are in crisis. The Carnegie Foundation declared a decade ago: "The failure to educate adequately urban children is a shortcoming of such magnitude that many people have simply written off city schools as little more than human storehouses to keep young people off the streets."

Half of urban kids typically fail to graduate. The diplomas for students who do graduate have the value of Czarist bonds. As of 1997, reports the NAEP, only 40 percent of fourth- and eighth-graders in urban schools score at the basic level for math, reading, and science.

Of course, the educational establishment's mantra remains "more money." But the public schools are doomed to mediocrity. Admitted the late Albert Shanker, head of the American Federation of Teachers: "It's no surprise that our school system doesn't improve; it more resembles the communist economy than our own market economy."

What education needs is more competition. Private schools cost about half as much as public ones and achieve significantly better results.

Alas, serious reform has been blocked by the educational establishment, or "the Blob," as William Bennett calls it, which is more concerned about protecting interest groups

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pigging out at the educational trough than children who are drowning in it. The very people who require the poor to send their kids to dangerous schools exercise choice. Members of city school boards routinely send their children to private institutions. Public school teachers are four times as likely as other parents with comparable incomes to send their children to private schools.

A growing number of supporters of educational choice have launched a flanking maneuver around the special interests: private scholarships. Roughly three dozen private scholarship programs currently serve some 20,000 students nationwide. Another 42,000 students are on waiting lists.

Pat Rooney, chairman of the Golden Rule Insurance Company, helped spark this movement in 1991 by establishing the Educational Choice Charitable Trust (CHOICE) in Indianapolis, which in 1997 offered 1,094 scholarships of up to $800 to low-income families. The latest initiative came last April, when the Children's Educational Opportunity Foundation announced a ten-year, $50 million program for children in San Antonio's Edgewood district. The goal is to provide a scholarship for every one of the nearly 14,000 students, more than half of whom live below the poverty line.

In 1997, the School Choice Scholarships Foundation, a group of foundations, philanthropists, and Wall Street firms, offered 1,300 scholarships worth $1,400 each, to be distributed by lottery: 22,700 kids applied. The decade-old Student Sponsor Partnerships provides full tuition for more than 900 students to attend parochial schools, and Operation Exodus offers 100 scholarships for students in New York and other states. The New York Catholic Archdiocese's Inner-City Scholarship Fund helps subsidize a network of schools that educate largely poor students.

The District of Columbia's Washington Scholarship Fund began in 1993 by aiding 36 students in 12 schools. In late 1997 entrepreneurs Ted Forstmann and John Walton set aside $6 million for an additional 1,000 scholarships to pay half of annual tuition up to $1,700. An incredible 7,573 students, one in every six who is eligible, and one-tenth of the entire D.C. student population, applied.

The Children's Educational Opportunities (CEO) Foundation of Southern California supported 799 kids in Los Angeles and Orange counties; 5,000 more were on waiting lists. The Los Angeles Archdiocese Education Foundation has been awarding scholarships for its parochial schools since 1988. The Pacific Research Institute of San Francisco plans to award 100 scholarships of $2,000 each this year.

Chicago has four separate private programs. One, the FOCUS Fund (Family Options for Children Urban Scholarship Fund), offered 30 noncompetitive scholarships for any private school last fall. The Daniel Murphy Scholarship Foundation works with 36 schools and has provided 80 scholarships this year. Link Unlimited, in operation since 1966, provides 230 scholarships for Catholic schools. The Big Shoulders Fund works with inner-city parochial schools and awards nearly $1 million in scholarships annually.

There are other programs in Atlanta, Austin, Baltimore, Battle Creek, Bridgeport, Buffalo, Chicago, Dallas, Dayton, Denver, Detroit, Grand Rapids, Houston, Jackson (Mississippi), Jersey City, Knoxville, Little Rock, Midland (Texas), Milwaukee, Newark, Oakland, Oklahoma City, Orlando, Philadelphia, Phoenix, Pittsburgh, San Antonio, Schenectady, Seattle, and Washington Heights (New York). The opportunities for further expansion are obviously enormous. In fact, CEO America, headquartered in Bentonville, Arkansas, assists people and organizations interested in setting up their own programs.

Such private programs offer a glimmer of hope to children and families trapped in a failing public monopoly. Political reform remains important, but advocates of children need not wait for politicians to act. Indeed, developing successful private scholarship programs will not only help struggling students; it will also make real political change more likely. Instead of pouring their money and energy into failing public schools—as did publisher Walter Annenberg with $500 million in 1993—businessmen, foundations, and philanthropists should develop alternative private educational options. □

Elijah McCoy and Berry Gordy: Ingenuity Overcomes

by Burton Folsom

Part of the tragedy of affirmative action is its implied premise that intended beneficiaries can't succeed in business unless government grants them special privileges. But history shows that when people have the freedom to succeed, remarkable entrepreneurs and innovators emerge. Two examples separated by a century—Elijah McCoy and Berry Gordy—show how black innovators changed American life before the existence of affirmative action.

Railroads were one of the greatest inventions of the nineteenth century. One man who was indispensable in helping the railroads run efficiently and on time was Elijah McCoy. He was born in 1843 in Canada, where his parents had fled from Kentucky to escape slavery. In Canada, the McCoys learned that individual freedom and training in the marketplace were keys to opening opportunities for blacks.

On reaching manhood, Elijah McCoy went to Scotland for training in mechanical engineering. When it came time to apply his industrial skills, the Civil War had ended and blacks were legally free. McCoy came back to the United States and settled in Ypsilanti, Michigan, where he began working for the Michigan Central Railroad.

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Determined to Achieve

Despite his training, McCoy was offered the lowly job of locomotive fireman. He accepted it with a determination to show the railroad that he could accomplish more.

He immediately applied his skills to a major problem: the dangerous overheating of locomotives. Trains had to stop regularly so that their engines could be oiled to reduce friction. If trains stopped infrequently, the overheating could damage parts or start fires. If they stopped too often, freight and passengers would be delayed. McCoy invented a lubricating cup that oiled engine parts as the train was moving. He secured a patent for it in 1872 and steadily improved it.

Others tried to imitate McCoy's invention, but he kept ahead of them with his superior engineering skills. His standard of quality was so high that the cup became known as "the real McCoy," which many believe to be the origin of the famous phrase.

The invention helped the Michigan Central run safer and quicker across the state. It was also put to use in stationary engines and even in steamship engines. The grateful management of the Michigan Central promoted McCoy and honored him as a teacher and innovator for the railroad.

McCoy showed remarkable creative energy during the next 50 years. He received 51 more patents, mostly for lubricating devices. Not even old age dimmed his creative light. When


COURTESY: STATE ARCHIVES OF MICHIGAN

Elijah McCoy

he was 77, he patented an improved airbrake lubricator; when he was 80, he patented a vehicle wheel tire. He founded the Elijah McCoy Manufacturing Company in Detroit in 1920 to make and sell his inventions.

Elijah McCoy was one of many black Americans who after the Civil War improved the American workplace and showed skeptical whites what free, enterprising blacks could accomplish. In the late 1950s, 30 years after his death, another black American from Detroit, Berry Gordy, was using the free market to transform American music.

The Motown Sound

Forty years ago, many blacks enjoyed rhythm and blues music, but it was routinely unprofitable and often performed in shabby venues. Berry Gordy, a songwriter and assembly-line worker, had a vision of taking black-inspired music out of the slums and giving it broad, national appeal as a respectable art form. In 1959, Gordy borrowed $800 from his family and risked it to start Motown Record Corporation, named for the "motor town" of Detroit.

Once in business, Gordy hustled musical talent from the streets of the city and pinched pennies to survive. He set up a used two-track recorder in his small house at 2648 West Grand Boulevard that became Motown headquarters. His father did the plastering and repairs, and his sister did the bookkeeping. His vocal studio was in the hallway, and his echo chamber was the downstairs bathroom. "We had to post a guard outside the door," Gordy says, "to make sure no one flushed the toilet while we were recording."

The fact that Gordy started Motown out of his home is more than a quaint historical footnote. Doing that today in Detroit's residential areas would violate the city's repressive ban on home-based businesses—a sad comment on how stifling Detroit's regulations and taxes have become since the 1950s.

Gordy's success is sometimes ascribed to his knack for writing and producing hit songs. But there was more than that. As actor Sidney Poitier observed, "Berry Gordy . . . set out to make music for all people, whatever their color or place of origin." In doing so, Gordy made black music—the Motown sound—part of the mainstream popular culture in America.

What an achievement! Gordy had white teens all over America humming the catchy tunes of the Four Tops, the Miracles, and the Temptations. After that he promoted a flurry of black stars including Diana Ross, Michael Jackson, and Stevie Wonder. Gordy so much wanted their music, and that of other Motown singers, to reach the larger white audience in America that the sign on his headquarters read, "Hitsville, U.S.A."

The impact of Gordy's remarkable achievement is worth pondering. At one level, he created more opportunities for blacks everywhere in the music business—production, nightclubs, recording, and marketing. Beyond that, in an era of racial tensions, Gordy's music bonded blacks and whites. In 1964 and 1965, some whites attacked blacks in Oxford, Mississippi, and Selma, Alabama. But during this time, many white fans everywhere were making number-one hits for Gordy out of the first three songs by the Supremes: "Where Did Our Love Go?," "Baby Love," and "Come See About Me."

The Motown sound became mainstream American music not by law or force, but by choice. It was clever entrepreneurship, not affirmative action, that persuaded whites to integrate black musicians into their record collections. Gordy used well-crafted songs to capture not just first place on *Billboard*'s Top 100, but the number two and three slots as well for the whole last month of 1968.

America's system of private enterprise gave Gordy the chance to air his records on radio stations and have them compete for sales in record stores all over America. But when Gordy tried to expand the Motown sound into England, he found government standing in his way. The government stations, especially the British Broadcasting Company, refused to play Motown records and give Gordy the chance that private enterprise gave him in the United States. "Because we couldn't get our records on the government stations," Gordy said, "our earliest airplay had come from *Radio Veronica* and *Radio Caroline,* 'pirate ships' anchored a few miles off the coasts of England and Holland."

The Motown music broadcast from those pirate ships captivated British listeners. Soon the demand for Gordy's records swamped record stores from Liverpool to London and forced the bureaucrats to permit the music to be heard on government stations. When Radio Free Europe and The Voice of America began playing Gordy's records, his empire penetrated the Iron Curtain and truly became an international force.

Success, Gordy explains to this day, starts with a dream. "That's what's wrong with people," Gordy said when he started Motown. "They give up their dreams too soon. I'm never going to give up mine." And because he didn't give up, black Americans have more opportunities today and American music has changed forever.

Throughout much of American history, black entrepreneurs and innovators have been objects of discrimination. But, as the stories of Elijah McCoy and Berry Gordy suggest, the remedy for discrimination in the past is not reverse discrimination in the present, but the freedom to invent, create, and produce in a free market. □

THE FREEMAN
Ideas On Liberty

Sudden Impact: The Collision of Ethics and Air Bag Mandates

by Loren E. Lomasky

A John Elway forward pass travels toward its receiver at over 70 miles per hour; Randy Johnson's fastball darts from his hand at over 90 miles per hour; Pete Sampras's serve booms across the net at 120 miles per hour. Unless you know how to play the game, you're advised to stay safely away. But should you find yourself in even a minor fender-bender, you may be on the receiving end of an air bag deploying at up to 200 miles per hour.

For most people most of the time, impact with an air bag is benign compared to what they would have hurtled against had they been traveling unprotected. Although the air bag affords less protection than the seat belt, the air bag is, on balance, a wonderful safeguard. Since 1990 over 3,500 lives have been saved and numerous injuries averted, the National Highway Transportation Safety Administration says.

But the air bag's benefactions do not come free of cost. Although deployment usually produces nothing worse than soon-healed bruises, a significant minority fares worse: over 120 people have been killed by air bag impact, almost always in low-speed accidents from which they otherwise would have walked away.

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Any fatality is cause for regret of course, but realism compels us to acknowledge that few valuable interventions come altogether without cost. People die on operating tables during routine surgery, drown while enjoying an invigorating swim, get hit by lightning while out on a golf course. We can and should try to minimize the occurrence of such tragic outcomes, but as Milton Friedman famously observes, there is no such thing as a free lunch. Air bags save on the order of 30 lives for each one lost. It would seem on first blush that this lopsided ratio is an eloquent testimonial to the regulatory regime that mandated them in all new vehicles. Few public safety measures, we might say, can claim so enviable a record of success.

Identifiable Victims

Complicating the appraisal, however, is the fact that air bag fatalities do not occur at random. Most victims of air bags are children (66 of the fatalities since 1990), typically infants or toddlers traveling in the front seat either unbuckled or strapped into child carriers. The air bag is most forceful as it leaves the dashboard, and carriers, especially backwards-facing ones for infants, bring their occupants closer to the point of explosion. Already vulnerable because of their small size, being in a forward location heightens their risk. Otherwise innocuous collisions produce crushed skulls, even a reported decapitation in an Idaho parking lot. Also at considerable risk

N O T E S F R O M

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The Grateful Pedestrian

Yesterday evening I drove to a nearby restaurant. On my way I passed several strolling pedestrians. *I did not kill a single one!*

Please note that I possessed near-absolute ability to do so. A quick and easy flick of my wrist on the steering wheel at almost any time on my drive would have meant certain death for numerous pedestrians. But I refrained from running them over.

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The above account is true.

Suppose now that you were one of these pedestrians and I solicit from you expressions of gratitude for my not running you over. How would you react? Not only would you be indignant at my solicitation, you'd think me to be demented. And properly so. I would be insanely brazen to seek your gratitude for my not bulldozing you with my car.

And yet politicians routinely seek—and receive—praise for actions that differ in no fundamental way from the actions of drivers who avoid running down innocent pedestrians.

We are bombarded by news reports and campaign ads boasting of how this president or that governor "created" so-many-million new jobs or is responsible for whatever amount of economic growth has occurred during his or her term of office. Such claims are preposterous. They are on a moral and intellectual par with my claim that I deserve credit for not killing pedestrians with my car.

No politician creates jobs or prosperity. Jobs and prosperity are created by entrepreneurs and business firms whenever the economy is sufficiently free of government meddling. For government to avoid meddling—that is, for government to keep taxes low and to steer clear of regulating voluntary exchange—is indeed desirable. But to avoid interfering with voluntary exchange is not at all actually to create whatever jobs and prosperity emerge from voluntary exchange. To insist otherwise would be no different from my insisting that I, as a driver who did not run over Ms. Jones as she walked back from the supermarket, am responsible for the tasty dinner she cooked that evening for her family.

If a car is careening out of control onto a pedestrian walkway, anyone who leaps into the car to stop it is a genuine hero. This person *does* deserve applause and gratitude (while, incidentally, the persons who either intentionally or carelessly caused the car to be out of control deserve condemnation and, perhaps, jail time). But even this hero does not take credit for all that is created and produced by those who would have otherwise been killed.

Whenever that rarest of creatures—an honorable elected official—actually manages to loosen some part of government's grip on us, that person merits bona fide acclaim. Even he, however, doesn't deserve credit for whatever economic growth and cultural flourishing follow. Such credit properly belongs to the countless people who create, innovate, take risks, save, and work hard to produce what consumers want.

The idea that government deserves credit for all of the benefits produced by freedom is a special case of the pernicious deification of government. When deified, government is mistakenly seen as responsible for all that happens in society.

A distressingly large number of writers contend that what looks like government's refusal to intervene is really just a different form of government intervention. I offer here only two examples. One is left-wing economist Warren Samuels who, in a 1995 issue of *Critical Review,* wrote that deregulation is simply government regulation carried out by enforcing private property rights rather than by enforcing bureaucratic edicts. When the economy is deregulated, what Samuels sees is that "[o]ne system or structure of (nominally private) coercive power is substituted for another by the very institution, government, which helped establish and/or reinforce the first one." According to Samuels, only the unsophisticated believe that when government deregulates it thereby reduces its sway over the economy.

This view isn't confined to left-wingers. Louis Hacker, in an otherwise fine essay appearing in F. A. Hayek's edited volume *Capitalism and the Historians,* insists that "the idea of laissez faire is a fiction. For the state, by negative action—that is, by refusing to adopt certain policies—can affect economic events just as significantly as when intervention occurs." Well, yes—in the same way that I, by not running my car over pedestrians, can affect events just as significantly as if I *do* kill pedestrians.

Only in the most base materialist sense are Samuels and Hacker correct: insofar as government possesses power to restrict commerce and suffocate industry with its regulations, any self-restraint by government in its zeal to regulate can be said to "affect economic events." But such sophistry sneakily erects as the benchmark for evaluating government activity the maximum possible destruction that government could possibly inflict. If the actual amount of destruction caused by government falls short of what government *could* have caused, then government is credited with producing all that it refrained from destroying. Using such a benchmark is lunacy.

The Soviet military *could* have annihilated the United States population with an atomic attack at almost any time during the cold war. Should we then credit the Soviet military for our current prosperity and our very lives? Does it really make sense to speak of the Soviet military as having "affected economic events" by not launching a nuclear strike against America? If so, then why not also credit the decision by the British military not to launch a nuclear attack against us as a cause of our prosperity?

Refraining from interfering in other people's affairs is simply the right thing for everyone, including government, to do. Our praise is properly reserved for people who heroically help others whom they have no duty to help, while our condemnation is properly reserved for people who intrude uninvited into others' lives. (By the way, to heroically help another person is to do so voluntarily and with your own resources and effort. You're no hero if you are coerced into giving aid to another; you're a slave. Likewise, you're no hero if you coercively confiscate the resources or efforts of third parties to help others; you're a thug.)

Until someone convinces me that I deserve a ticker-tape parade every time that I don't run down a pedestrian with my car, I will find intolerable the misbegotten gratitude and applause that politicians receive for not destroying even more of our liberties and wealth than they currently ravage.

Don Boudreaux

Donald J. Boudreaux
President

A Special Message from the President

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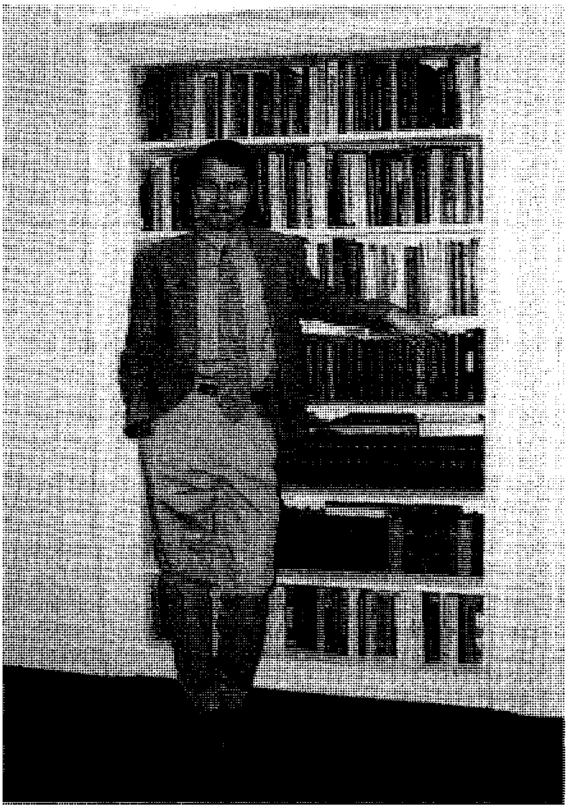

In November it was my privilege to announce that FEE had received a major new challenge grant from two anonymous contributors.

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are the very old, the very frail, and short drivers who seat themselves close to the steering column. For them the air bag is not a friendly bodyguard but potentially a weapon that maims and kills.

By requiring manufacturers to install air bags in all new cars, the federal government is, then, not simply mandating a policy that confers substantial benefits on the population at large, albeit tempered by occasional harms. Rather, governmental policy deliberately and knowingly enhances the safety of one identifiable group of citizens at the expense of another. It literally has redistributed expected life years between these two classes.

Last fall, the government sought to address this problem in its characteristic way. Instead of permitting freedom of choice so people can select safety features tailored to their own circumstances, it proposed fine-tuning the rules to take into account that small and unbelted bodies may be in the seats. The auto industry fears the newly mandated air bags will be as dangerous as the first generation of bags that threatened children and small, frail adults. Even if this attempt at central planning of technology works, it won't take effect until 2006. (Earlier, the government tried to address the danger by allowing qualifying citizens to have a disabling switch installed.)

Some observers find troubling all governmental edicts designed to protect people against themselves, to force them "for their own good" to act in ways they less prefer or that attempt to engineer compliance by subsidizing officially approved behavior and laying taxes and other penalties on that which is disapproved. For one who takes the free society seriously, this sort of governmental paternalism is odious. I confess I am troubled by these incursions on individual choice. If people wish to drive around in their cars unbelted or dispense with helmets while motorcycling, choose to smoke cigarettes or consume slabs of marbled beef followed by gooey chocolate desserts, I may regard their decisions as imprudent. But if those engaging in these behaviors are competent adults I do not see that I—or anyone—enjoys the prerogative of constraining them to do otherwise.

One need not be a dyed-in-the-wool opponent of paternal government to be disturbed by regulations that protect us from ourselves. That's because they contravene broadly shared moral principles that address the acceptability of forced tradeoffs across persons and that govern the relationship between a liberal government and its citizens.

Ends in Themselves

There is no more fundamental principle of ethics than the proposition that human beings are special. Each person manifests a uniqueness that confers a dignity that no mere thing possesses. They are not interchangeable components of a social whole who may be plugged in and plugged out like chips in a computer. In the Western tradition of moral reflection, this understanding has been expressed in many forms. One is the theory of basic human rights that establish zones of limited sovereignty within which individuals may act without interference so long as they respect the similar liberty of others. Another is the traditional natural-law doctrine which insists that no otherwise good state of affairs can be pursued if doing so requires acting with injustice toward another human being. Yet another version is the Hippocratic Oath's insistence, "First, do no harm." But this moral insight was perhaps best expressed by the German philosopher Immanuel Kant when he insisted that human beings, whether oneself or another, are not to be used as mere means for someone's projects but rather must always be treated as *ends in themselves*. Although it is not altogether certain what this dictum comes to, there are clear cases of its application to which there is general assent. They spotlight what is morally distinctive about persons. Let me offer a few simple examples.

Although it is entirely reasonable to take apart one auto to salvage parts that will restore five other vehicles to operability, it is strictly impermissible to mine one healthy person's body for organs that could be transplanted to save five other individuals. Similarly, it is unacceptable to frame an innocent person in a kangaroo court so as to mollify the mob milling ominously about. Fraud and deceit evince a willingness to manipulate the beliefs and desires of others so as to render them instruments for one's own designs; assault and rape run roughshod over the essential embodiedness of persons; theft is the action of treating someone as a resource one may freely plunder for one's own ends; murder is literally the obliteration of personhood. Using others as mere means achieves its most fully developed institutional form in the practice of slavery.

It seems hard to avoid the conclusion that insofar as current air bag policy knowingly advances the life prospects of one group of citizens at the expense of another, it violates this most fundamental of moral precepts. It also puts in jeopardy the bedrock principle of liberal democratic government, *political neutrality*. Briefly, this is the requirement that the state not take sides concerning the projects and pursuits of its citizens. Individuals acting in their private capacity are free, of course, to be passionately partisan with regard to their religious creeds, ideological convictions, aesthetic tastes, and conceptions of the good life; the state, though, is not permitted to anoint winners and losers in these disputations. Rather, its role is to be the fair and impartial enforcer of the rules under which individuals operate, an umpire rather than a player in the game.

If air bags were options that car buyers could select if they desired, but forgo if their individual circumstances so dictated, then no class of individuals would be forced to be the unwitting instruments of others' ends; the government would not be acting with partiality toward some at the expense of others. Note that even those who qualify for the disabling switch are nevertheless financially penalized by the mandate. Do we really believe it acceptable for the government to penalize those who wish to safeguard the health and lives of their loved ones?

Protection for the Imprudent

As noted at the outset, air bags burst out at speeds of up to 200 miles per hour. If they were less forceful they would still adequately protect motorists who are belted in, but those who neglect to use seat belts will sometimes suffer injuries that high-speed air bag deployment could have obviated. There is, then, a tradeoff implicit in the regulation as it stands: it affords greater protection to the lazy and imprudent at the expense of babies and others. Make no mistake about it; there is nothing in the technology that renders this tradeoff unavoidable, and the government says it's now interested in air bags with adjustable deployment speeds. But today's dangerous air bag was deliberately engineered through governmental mandates.

If all air bags could be disabled via a standard switch, then foolish or unwise drivers might forgo protection that they would be better off having. To protect them against themselves, parents are impeded in their efforts to better protect their children. Can anyone reasonably deny that these examples of regulatory partiality are morally bizarre?

One response that the National Highway Traffic Safety Administration has offered in the wake of revelations about air bag injuries and fatalities is that children under 13 should not, whether in car seats or otherwise, be placed in the front seat. The intended implication is that children are not so much the victims of air bags as they are of parental malfeasance.

The point is, to an extent, well taken. To assign credit or blame to regulators does not absolve parents of responsibility. However, this response hardly gets the regulators off the moral hook. First, it does not address the issue of other vulnerable populations such as short drivers and the elderly. Second, it sometimes is impossible or impracticable to place all child passengers in the back seat. And third, it is in tension with a regulatory structure that is predicated on the assumption that individuals are not competent enough to be left to make their own choices. At the very least, then, it is a piece of bad faith to downplay the enormity of the human costs air bags impose by protesting that they would be lower if people were generally more provident.

Unrealistic Demand?

What will the regulators say in defense of their position? They might argue that to impose on social policy the condition that it produce only winners and no losers is unrealistically idealistic, indeed unworldly. Virtually nothing could traverse so high a barrier. For example, polio vaccination has mostly eliminated in this country what was once a deadly scourge. Yet each year some individuals come down with polio, in almost every instance from the vaccine itself. Should we allow the return of polio epidemics rather than accede to these very occasional instances of harm due to inoculation?

That objection misfires because the analogy on which it rests breaks down. To be sure, some individuals who are vaccinated would have been better off had they not received the vaccine. However, we cannot tell in advance which ones they are. For each person getting the vaccine, the ex ante probability of a polio-free life is augmented. Probabilities are not certainties, so ex post some will find that they have pulled the short straw and are worse off. That's too bad for those who lose, but it does not falsify the proposition that for all players it was a good bet to take.

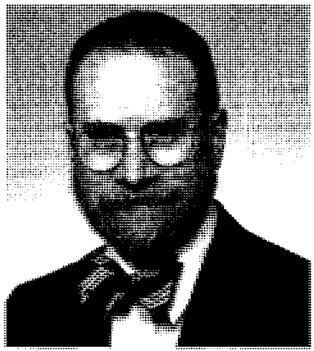
Such is not the case, however, with air bags. Babies and small adults are placed in jeopardy so that those older and larger can be afforded greater protection. The regulators know this now, and the record indicates that they knew it back in the late '70s when air bag regulations were initially being promulgated. So a closer analogy would be to a world in which vaccine is produced by knowingly and deliberately inflicting some with full-blown polio so that their tissues can be harvested and used to confer immunity on others. Would we regard that as acceptable social policy?

Regulation's Opportunity Costs

There are numerous other grounds for questioning the federal government's air bag mandates. Insistence on universal employment of this one safety device precludes experimentation that might generate better alternative safety measures. If cars are made more expensive by the requirement that they carry air bags, then car owners will have less money available to spend on other safety-enhancing measures. (The new generation of bags might add as much as $160 to the car's price.) For example, they may not be able to afford to get their vehicles serviced as often as they otherwise could. Perhaps they will be forced to drive around longer in older, relatively unsafe automobiles rather than purchase newer, relatively safe ones. Or with the money freed up by not purchasing an air bag, consumers could purchase larger vehicles that better withstand crashes. (At least they could if the government did not discourage manufacture of big cars that burn more gas than little cars. This is yet another irony transfixed like a hapless fly in the regulatory web.) It is also the case that individuals differ in the strength of their needs and desires for enhanced safety. Someone who drives defensively and who routinely uses his seat and shoulder belts may quite reasonably judge that the increment of safety afforded at the margin by an air bag does not justify its cost.

These grounds for opposing mandatory air bags commonly pop up in the policy debate. Each is essentially based on an economic way of thinking that bids us to be aware not only of the benefits that we procure through our expenditures but also their associated costs. In calling these reasons economic I do not mean thereby to disparage them. To the contrary: such efficiency considerations are central to rational policymaking. However, they often spawn a response to the effect that issues of public safety transcend dollars-and-cents calculations. Life is too precious, it will be said, to be stuffed into Procrustean cost-benefit computations; morality ought to trump mere monetary considerations.

I could not agree more. This discussion has insisted that morality does indeed matter. It has, however, seriously called into question whether federal bureaucrats and so-called consumer advocates genuinely do occupy the moral high ground. The fact that air bags on balance save lives does not necessarily secure for them this position. There are other criteria that must be met, criteria such as treating individuals as ends in themselves and not bending the technology of governance to the service of some classes of citizens at the expense of others. It is simply unacceptable to save lives by knowingly forfeiting others. □



The Art of Plunder

When the *Washington Post* recently honored Sidney Yates, 89, on the occasion of his retirement, the headline emphasized that he "Made His Mark on the Arts."

Is Sidney Yates a composer? Musician? Painter? Poet? Writer?

None of the above.

He was a congressman.

Don't laugh. In Washington, you can make your mark on the arts by chairing the subcommittee that oversees appropriations for the national endowments of the arts and humanities. From that vantage point, Yates, as he himself modestly put it, "help[ed] the arts and the humanities be the pride of the country."

After 24 terms in the U.S. House of Representatives (no advocate of term limits he!), the Illinois Democrat gave up his office. His retirement was taken as a blow to American culture because he has been, according to the *Post*, such a "fierce defender of the arts." His claim to that title lies in his unflagging belief that the taxpayers should be forced to finance artistic activity—and jailed if they refuse. (Okay, the second part is never pronounced in polite company; but we all know the score.)

For Yates, the greatest threat to American art came in the 1980s when Republicans talked about cutting the funding of the endowments. There were even murmurs of abolition. "Talked" is the operative word here. They didn't *do* anything. (A treatise on Republican dismantling of the welfare state would be titled *Human Inaction*.) The jeopardy to the endowments subsided largely because wealthy old-line Republicans feared losing the prestige they get from sitting on boards of symphony orchestras and community cultural organizations that receive federal grants.

In the silly world of Washington, if you favor forcing the taxpayers to finance artists (including those whom they find repulsive), you are a champion of the arts. If you oppose compulsion, you are an enemy of the arts, not to mention of free speech and all other forms of civilization. By any objective standard, that is of course nonsense. What do tax subsidies have to do with the artistic vitality of the American people? As for freedom of speech, forcing people to finance expression that they wouldn't voluntarily support surely violates the First Amendment.

To hear the inside-the-beltway crowd tell it, you'd think that before the endowments were set up in the mid-1960s, America was a cultural tundra. It takes prodigious oversight to believe that. You'd have ignore such innovations as jazz, the Broadway musical, modern dance, rhythm and blues, rock and roll, bluegrass, several schools of painting, and lots of fiction and poetry. Somehow, the originators of those minor contributions managed to get along without state beneficence. Many art forms that are today considered mainstream were so on the edge in their early days that the arts bureaucrats probably wouldn't have lowered their noses long enough to notice them. Have government subsidies produced anything approaching the greatness of the unsubsidized American arts and letters? Besides,

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"performance art," the delight of lovers of chocolate and gore everywhere, it is hard to think of anything.

Great and good art doesn't need help from the government. (Even a lot of bad art thrives without subsidy.) The freedom of citizens *not* to support art is not only consistent with cultural vitality, it is the key to it. How odd that the so-called champions of the arts have so little confidence that they would flourish if the taxpayers were not harnessed in their service.

Those champions are caught in their own hopeless contradiction, however: while they insist that without taxpayer support America would turn philistine, they simultaneously insist that the amount government spends is minuscule, surely too little for the troglodytes to furrow their eyebrow ridges over. Truth to tell, taxpayer support is a tiny percentage of the federal budget. But in a $1.7 tee-rillion budget, that's true of lots of things. The subsidies are also a small percentage of what Americans spend privately on the arts.

So why the fuss?

To begin with, there is the little matter of principle. Imagine if someone proposed a small subsidy to religious institutions—no more than 64 cents per man, woman, and child—the price of two stamps before the latest postal increase. Would the quasi-socialists who are mistaken for liberals accept the argument that the amount of the subsidy is too small to bother about? One suspects that they would invoke the principle of church-state separation regardless of the paucity of the alms. When it comes to *their* pet projects, a similar commitment to principle is scorned. As Mayor Daley once said, there are times when it is necessary to rise above principle.

The endowments' backers resolve the aforementioned contradiction by pointing out that the money provides leverage to summon forth big private donations. It's the multiplier effect. The prestige of taxpayer largess apparently so impresses arts patrons, they can't help but write checks. If so, that's an excellent reason to abolish the endowments with dispatch. If bureaucrats are able to channel not just taxpayer money but also private benefactions to their favorite artistic causes, that is more power than a free society should tolerate. Of all places, the United States should not be proud that the government aspires to pick cultural winners. You'd think that people who were regarded as competent to pick their political officeholders would also be able to allocate their own income when it comes to the arts.

What the advocates of subsidy don't appreciate is that culture, like language, is a spontaneous and undesigned institution. No central planner is required or desirable. Government subsidy designed to nudge private patrons in one direction or another is a step toward centralization that arts lovers should deplore. The color of government is mediocrity; why would we want it anywhere near the arts?

Throughout history the arts have flourished when artists were at liberty to offer their products to the broad or narrow market of their choosing and when art consumers were at liberty to accept or reject those products.

Artistic freedom is for both buyer and producer. The endowments must go. □

THE FREEMAN
Ideas On Liberty

Libertarianism in Japan

by David Boaz

The publication of a primer on libertarianism in Japan is another sign of two heartening developments: the continuing process of the world's people being drawn closer together, and the worldwide spread of the ideas of peace and freedom at the end of a century of war and statism.

Americans, and especially American libertarians, find much to admire in the Japanese people: their strong families, their commitment to education, their strong sense of individual responsibility, their peaceful and democratic society, and their productive entrepreneurship that has given the world so much material progress over the past 50 years. The Japanese can take much pride in their economic success, and they certainly don't deserve the criticism they have received from protectionists in the United States and Europe who don't want to compete in a global economy.

But recent economic problems in Japan and its Asian neighbors indicate that there are problems with the region's economic policies. An economy largely based on private property, individual initiative, and free markets has been hampered by too much state allocation of capital and too much of what Americans call "crony capitalism." These policy mistakes have led to the need for currency reform (mostly in Asian countries other than Japan) and deregulation of financial services. Also, Japanese consumers have not always reaped the benefits of economic growth, and deregulation of retailing—particularly a repeal of the laws that impede the opening of large discount stores—might allow them to achieve standards of living commensurate with their productivity. But none of this should obscure the real achievement of the Japanese in dramatically increasing their living standard in scarcely a generation through productive enterprise in a system based on low taxes, free trade, and the rule of law.

The libertarian philosophy has much to offer Japan as we move into a global millennium. But an obvious question may occur to Japanese readers: Are these just American ideas, or at most Western ideas? Do they have any relevance to the people of Japan and Asia?

Universal Values

Some Asian leaders have criticized liberalism and proposed "Asian values" as an alternative. Singapore's leader, Lee Kuan Yew, has said that his country does not "need the kind of free-for-all libertarianism that we see in America." But the values of individual rights, limited government, and free markets are universal values. The principles of science are universal, even though so much of the discovery of those scientific principles took place in the West. No one would argue today that mathematics and physics are "Western" ideas or that Asians cannot participate in the scien-

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tific enterprise. Liberalism, now known as libertarianism, developed in the West, but it speaks to all people.

But Westerners steeped in the ideas of John Locke and Adam Smith can learn much from Asians who study the traditions of Confucius and Lao-Tzu. Lao-Tzu, who wrote that "without law or compulsion, men would dwell in harmony" and who taught that harmony can emerge from competition, may well have been the world's first libertarian. A similar concept can be found in Zen.

Today the Asian emphasis on strong families and personal responsibility fits better with libertarian political philosophy than does the unfortunate trend in Europe and the United States toward personal irresponsibility, a sense of entitlement, and reliance on the state. Indeed, Japan and America have more to learn from each other than either of us has to learn from the failing welfare states of Europe or the statist model of France.

Libertarianism is sometimes perceived as a radical philosophy, even in its American home. But in fact it is the fundamental philosophy of the modern world: liberty, equality, enterprise, the rule of law, constitutional government. These ideas have become so commonplace that we forget how radical they were at one time. Libertarians want to apply those principles more consistently than do the adherents of other ideologies. But few people in the modern world would want to reject libertarian ideas wholesale.

Liberalize to Prosper

The largest trends in the world reflect libertarian values. Communism is virtually gone, and few people still defend state socialism. Eastern Europe is struggling to achieve societies based on property rights, markets, and the rule of law. Honest observers throughout the developed world understand that the middle-class welfare states are unsustainable and will have to be radically reformed. The information revolution is empowering individuals and small groups and undermining the authority of centralized power.

Perhaps most importantly, the increasing globalization of the world economy means that countries that want to prosper will have to adopt a decentralized, deregulated, market-oriented economic model. You can't avoid world markets in the 21st century; or if you do, you will be left out of the phenomenal economic growth that global markets and technological development will deliver.

So one reason that Japanese readers should be interested in libertarianism is very simple and practical: these are the ideas that drive the modern world, and you need to know about them. The other reason is that libertarianism offers to every country the promise of peace, economic growth, and social harmony. I hope Japanese readers will join American libertarians in working to restrain state power and liberate individuals, families, associations, and enterprises. □

THE FREEMAN (Ideas On Liberty)

Can Government Deliver the Goods?

by Hugh Macaulay

Students in their first course in economics learn that every country faces three problems that it must resolve. What goods will be produced? How will it produce these goods? And, who will get the goods produced? Since the questions deal with economic matters, it is usually assumed that markets will determine the answers. But political forces in government can also provide results.

Milton Friedman has observed that every country answers some aspects of each question through market forces and other aspects through the political system. The proportions vary greatly from country to country. At one extreme would be the old Soviet Union and the People's Republic of China under Mao Zedong. At the other extreme would be the British colony of Hong Kong and the United States before the Great Depression. In between are all shades. Cuba, Sweden, Germany, the United Kingdom, the United States today, Chile, and Taiwan lie along the line moving from more government control to more market control.

What can we say about these two systems for answering the above questions? Each system must have some advantages, for each is used, though in widely varying proportions. The close relation is shown by the early reference to economics as "political economy."

To examine the results we can expect from using each of these systems, we will first look at some broad, general forces that operate in each system. Then we will use the fundamental principles of demand and supply to predict outcomes and evaluate results. We hope that from these considerations, the strengths and weaknesses of each system will be apparent and each individual will be better able to make wiser choices in answering the basic questions cited above.

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Deciding with Votes Versus Deciding with Money

In 1959 Gary Becker, at that time a young professor at the University of Chicago and later a Nobel laureate in economics, compared the two ways of producing and allocating goods. He noted that a person could take his money, go into the market, and choose the goods he wished to obtain. That action would determine what goods were produced, how they were produced, and who got them. Similarly, a person could take her vote, go to the polls, cast it for the politician who favors having government order the production of goods she liked, made the way she preferred, and distributed to the people she thought most deserving. The two systems seemed mirror images of each other. But are there features that make one superior to the other? Becker cited several areas where the two systems differ. We shall discuss three of them.

First, when a person votes for a representative, that person elected will serve for two, four, or six years and cannot be replaced until the term ends. A person may have voted for

Bill Clinton, who promised in 1992 to reduce taxes, but in the following year raised them markedly. But Mr. Clinton had three more years to serve and could not be removed for abandoning his tax-cut promise.

In a market, however, you may enter a Safeway grocery store, based on its promise of quality products, good service, or a large inventory. If Safeway fails to deliver to your satisfaction, you may fire it then and there. You need never patronize it again. Market goods can change rapidly. Government goods change slowly. Not only can the politician remain in office and with power after his services are no longer desired, but the bureaucrat who administers the laws usually has, in effect, a lifetime appointment. An example of a service tied to long tenure is the provision of justice. It should be swift and sure. Instead, it is interminably slow and often random. Federal judges have lifetime tenure. Improving the delivery of justice will take decades, if it can be done at all. Professional arbitrators, however, can be replaced swiftly and their services reflect this condition.

Second, *Consumer Reports* has long complained about the "bundling" of features on automobiles. In order to get the car with the color and power you want, you may have to buy other equipment that you do not want. The product should be "unbundled," says the magazine, so the consumer would receive and pay for only the features desired.

When the voter helps elect a mayor, senator, or other official, that officeholder will represent the voter on a large number of issues. The voter may like her congressman's position on the minimum wage, but vigorously oppose his position on most-favored-nation treatment for China. A congressman will represent his constituents on about a thousand pieces of legislation during his two-year term. Many constituents, even those who actively favored him, will support his position on some of these bills but strongly oppose him on others. The congressman is a bundled good, and the voter will be forced to pay for many results she does not want. Dwight Lee has used a Safeway grocery analogy: the consumer enters the store and is confronted with a full grocery cart containing some goods she wants and some she does not. Her choice is the cart or nothing. In government she must take the representative's bundle; she cannot choose nothing.

In markets, one is not forced to buy all goods from only one supplier. Sears or Wal-Mart will not be the single source of all goods for any consumer. You can vote for only one congressman who will provide you with thousands of rules affecting what is produced, how it is made, and who gets the goods, but in markets you can vote for hundreds, if not thousands, of suppliers of private goods. Even in the purchase of food, the consumer may buy bread at one store, meat at another, and vegetables at a third. In markets a consumer is seldom forced to pay for a good he does not want or that is produced in a way he does not like; in government purchases, he often is.

Rational Ignorance

A third difference between government and market provision of goods involves what economists call rational ignorance. This can be either costly or costless.

Because the Congress will take action on over a thousand bills during a given session, the typical voter cannot be informed on each and every bill. In fact, he will be completely ignorant about almost all of these bills. This does not imply a lack of interest in government, laziness, or an inability to understand the bills presented. Rather, the voter is rationally ignorant about these proposals, for he has his own life to lead, family to care for, job to pursue, church to attend, sports team to enjoy and support, and a thousand other things to occupy his time and attention. There is little left over to be spent on these peripheral political issues, many of which may not interest him. Further, even should he pause and study any issue and try to urge his representative to vote on it intelligently, his voice is likely to be lost among those of the thousands of others also affected. He will be ignorant of 99 percent of all items that come before the Congress, legislature, council, or district governing body, and rationally so. This ignorance is costly to him, but removing it is even more expensive. He is destined to be a loser on most of these government-provided items.

In the typical voter's purchases and work in private markets, he will also be rationally ignorant about almost all products offered. But these will be products he will not purchase and will not pay for. Most of us are rationally ignorant about the features and cost of yachts, for example. The price system determines how they are produced, and we need not be concerned about others who spend their own money for this product, for we will not spend our money on it. This form of rational ignorance is not costly to the individual.

The late Mancur Olson was an early expositor of a fundamental rule of political action. Every law, rule, or regulation by government helps some group and imposes costs on others. A proposal is likely to become law if it concentrates the benefits in the hands of a few people so that each enjoys a sizable gain; at the same time it spreads the costs over a large population, so each loser bears only a small absolute expense. The gainers, then, have a strong incentive to support the proposal, while the losers have little reason to oppose it actively. They are better off remaining rationally ignorant, spending their time on matters more important to themselves. When government allocates resources, rational ignorance not only creates inefficiency, it also encourages small groups, often called special interests, to press for allocating more and more goods in this manner. In effect, inefficiency breeds even more inefficiency.

Many people think that the government should provide "public goods," so named because many people automatically benefit from them if any one person does. Examples are neighborhood attractiveness, fireworks displays, water quality, and radio broadcasts. Still, many economists argue that markets can provide these goods more efficiently than government can.

When we rely on government, even when democratically elected, to provide the goods we want, produced the way we want, and allocated to the people we want to receive them, we will get fewer of the goods we want, more of the goods we do not want, and will encourage the increased use of this inefficient system. Markets overcome these weaknesses.

Demand and Supply of Goods Under Each System

Economists turn to the concepts of demand and supply to make sense of the allocation of scarce goods. These powerful tools will help us examine our questions in a different light and give us significant insights.

We know that people want lots of units of many goods and services, but they cannot have all they want. The concept of demand tells us a person will take more of a good the less expensive it is and that he will demand each good until he gets about the same happiness from the last dollar he spends on the last unit of each good. If he buys a $20 shirt and a $2 pair of socks, he should get about ten times as much satisfaction from the new shirt as from the additional pair of socks. He is then getting about the same happiness from the last dollar spent on each of these goods.

When we answer our three questions using the concept of demand, we know each consumer will look at the many goods out there and their prices, and decide which goods will bring him the greatest happiness from the dollars he spends on them. He knows why he does not buy some goods he likes and why he does not buy more units of some of the goods he does purchase. The goods are not worth the price. By following these rules of demand, he will be as happy as is possible with his income.

When government produces or allocates goods, it usually provides them at a low or zero price. Schools, police protection, justice in the courts, clean air and water, Medicaid, occupational safety, and welfare payments are all seen as virtually free goods. Many other goods are subsidized, such as public transportation, public housing, and Medicare. When the price of a good is low, or even zero, consumers will want more of it than they would voluntarily have bought at its cost of production. Think how much more food, clothing, and shelter you would buy if they were 50 percent cheaper, or free.

As a consequence of government provision, too much of the good will be produced. That means we will have to give up other more valuable goods to get these less valuable units of the subsidized or free good. Production of government-provided goods will draw scarce resources away from the production of things people would have bought. Remember the fundamental economic rule: there is no free lunch, or even a cheap, subsidized, lunch. It just appears free or cheap. We give up beer, tires, and encyclopedias that are more valuable than what we get in cleaner air, higher SAT scores, or better housing for the poor. In fact, added expenditures on these last three items have often given us dirtier air, lower SAT scores, and fewer housing units for the poor. Federal laws requiring scrubbers on electric utility generating facilities also allowed the use of higher sulfur-content coal so that dirtier air resulted. Despite annual increases in real expenditures per student in recent years, the SAT scores fell throughout the 1970s and 1980s. The early urban renewal program displaced poor residents and built units that only middle-income residents could afford.

But when the government-provided goods do supply some benefit, even if small, we might think, "Well, at least the recipients will be happier." Strangely, they are far more likely to be dissatisfied with what they have received. First, the extra units of the good are not worth much to them. For example, there is far more dissatisfaction with "free," but actually expensive public schools than with cheaper private schools for which consumers pay directly. Similarly, "free" public highways are the subject of frequent complaints because of potholes and delays, while toll roads are seldom criticized. More money spent on either education or highways is likely to be even less productive than the earlier spending.

Second, recipients will be unhappy because government will not provide them with all the goods they are willing to buy at the low prices. People are more likely to be unhappy over receiving public housing and public transportation than over not getting expensive housing and Lincoln Town Cars. Price sends the wrong signal for the first two goods and the right signal for the latter two. Recall the widespread public dissatisfaction during the 1974 OPEC boycott when government set gasoline prices below market levels but could not provide all the gasoline people were willing to buy.

Government provision of goods generally creates wasteful consumption and consumer dissatisfaction, a doubly bad result. Market provision leaves consumers happy with what they got and a clear understanding of why they do not want more units that are not worth their cost.

The concept of supply tells economists that if demanders will pay a higher price for a good, more units will be produced. Further, this price must cover the cost of the land, labor, and capital needed to turn out these units. If demanders will not pay for the good, it will not be produced. Waste will be avoided. Firms that produce goods that people do not want will go bankrupt. This is how markets avoid wasteful activities.

Markets also promote efficiency. People who learn to provide a better or less expensive good make profits. We call them Ray Kroc or Bill Gates. Markets provide a strong incentive to supply only goods people want badly enough to pay their cost of production. The producers of government-provided goods, however, almost never face bankruptcy. The mail may be late, children may learn little in public schools, Medicare fraud may cost billions, job-training programs may leave participants worse off, but rarely are such programs declared a failure or abandoned. There are at least two features that help explain these supply results.

First, those who produce these failed products have little incentive to improve them. The person who produces a better oil-drill bit, Internet browser, or wash-and-wear fabric can make millions from the improvement. Incentives for government employees or administrators to improve government programs are almost nonexistent. No incentive, no improvement.

Second, the incentives facing government workers, in fact, encourage the production of bad products. Schools can get bigger budgets if their students are failing. The judiciary can get more funds if its cases take longer. The police can increase funding if there is more crime in schools and on the streets. In terms of a supply curve, we are not getting more units of schooling provided at a higher price; we are shifting the supply curve for education upward and getting less education at the same price, or equal education at a higher price. This condition applies to almost all government-produced goods. Failure pays.

Government or Market

Governments can provide goods or markets can do the job. The two systems appear similar, but they are very different. The general problems of slow response of government because of political tenure, the bunching of decisions made by government officials, and costly rational ignorance by voters all argue for abandoning this inefficient system.

When government provides goods, people will demand too much of less valuable goods and become unhappy because they were not provided more and better products. Government agencies producing goods have little incentive to become efficient and significant incentives to turn out failed products. They also need not fear a prospect of bankruptcy or competition.

Markets, on the other hand, change quickly, allow for many producers, and do not burden those who are ignorant of goods they do not buy. Further, consumers will demand only those goods that benefit them most and suppliers will become efficient or go bankrupt. We often choose government as our preferred provider on the basis of emotion. If we can substitute understanding for emotion, we may become healthier and we will certainly become wealthier as we become wiser. □

THE FREEMAN (Ideas On Liberty)

Markets in Time: The Rise, Fall, and Revival of Swiss Watchmaking

by Anthony Young

For more than 300 years, watchmaking has been Switzerland's most identifiable industry. The country's geography and political non-involvement have permitted Swiss watchmakers to survive revolutions, wars, and depressions. Yet there was something the industry almost did not survive: technological change.

Swiss watchmaking grew out of clock making as the ability to make smaller mechanical movements evolved in the seventeenth century. Both innovation and craftsmanship flourished in the eighteenth century. Some firms established back then are still making watches today, including Blancpain (1735), Vacheron Constantin (1755), and Perrelet (1777). For every Blancpain or Perrelet, however, there are many smaller, lesser-known companies in Switzerland. Close to 500 companies in Switzerland manufacture watches, watch movements, and parts.

The mass production of the Industrial Revolution reduced costs, but there has always remained the cherished element of handwork in a Swiss watch. In 1793, Isaac and David Benguerel along with Julien and François Humbert-Droz established the first watch movement-blank factory in Fontainemelon, hard against the Neuchâtel mountains. (A movement-blank is an unfinished, but difficult-to-make watch movement.) This region of Switzerland became a magnet for the watch parts industry. Companies specializing in cylinder, pin lever, and jeweled-lever mechanical movements made possible the establishment of small watch companies that did not have to manufacture every part of the movement themselves.

The twentieth century has had the most profound effect on Swiss watch companies. Two world wars and the Depression in between reduced the demand for Swiss watches, but the industry always recovered. The postwar economies of the world eagerly sought Swiss pocket watches and wristwatches, from inexpensive mass-produced hand-wound watches to self-winding, or automatic movement, watches. By 1974, exports of Swiss mechanical watches and movements had risen to 84 million units.

In this euphoric and seemingly irreversible climate, a quiet revolution was brewing in Switzerland. It was a revolution mostly of its own making, and it would shake the Swiss watch industry to its very foundations.

The Quartz Revolution

Work on an electrical watch began in the 1950s. Development of both the electro-mechanical movement and the battery to

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power it had to progress concurrently. In 1954, Swiss engineer Max Hetzel developed an electronic wristwatch using an electrically charged tuning fork powered by a 1.35 volt battery. The tuning fork resonated at precisely 360 Hz and powered the hands of the watch through an electro-mechanical gear train. This watch went on to become the famous Accutron by Bulova, which was introduced to the market in 1960. It used a proprietary design that was not adopted by the watch industry. However, the Accutron was beaten to the market by the American-made Hamilton 500, which appeared in 1957; this was the first battery-driven watch in production.

In 1962, a research center, the Centre Electronique Horloger (CEH), was established in Neuchâtel to develop a Swiss-made quartz wristwatch. Why quartz? An electrically charged quartz crystal has the ability to achieve stunning accuracy in a watch mechanism. Research and development took five years, but the center succeeded in reducing the size of the components to fit into a watch case.

The Japanese, however, were also hard at work on an electronic watch and had the financial footing to conduct their own research and development of quartz technology. The Japanese were no strangers to watchmaking. Citizen and Seiko are much older companies than many realize. The first Japanese watch plant was built in Seikosha near Tokyo in 1892, at first making wall clocks. Pocket watches and wristwatches followed. An earthquake in Tokyo destroyed the Seikosha plant in 1923, but it was rebuilt. In 1924, this factory introduced the Seiko brand name. The Citizen Watch Company had its roots in the Shokosha Watch Research Laboratory founded in 1918. The Citizen name was adopted in 1930. All watches produced at these two companies were mechanical until the 1960s, when work was begun on an electronic watch.

The Swiss Neuchâtel Observatory, which was responsible for certifying mechanical watch chronometers for accuracy, held a competition in 1968. Swiss and Japanese watches competed. The Swiss entrants swept the first ten places and the CEH was awarded the Prix du Centenaire. As a result, Japan, with a long-range commitment to consumer electronic products, threw its industrial might behind quartz watch development and production. Seiko was the first company to bring an analog quartz watch to the market, the Seiko Quartz Astron, introduced in 1969. The Swiss, however, were not far behind. The Ebauches SA Beta 21 quartz watch appeared in 1970.

Swiss Slowdown

Swiss companies, steeped in the mechanical tradition, were slow to embrace quartz technology. Mechanical movements had proven their durability and reliability for centuries. This reluctance of the Swiss to adopt quartz technology initially cost them dearly. Exports of Swiss mechanical watches plummeted from 40 million in 1973 to only three million ten years later. While some Swiss watch companies did manufacture quartz watches, Japan and Hong Kong dominated the quartz segment and decimated the Swiss industry. Many small- to medium-sized watch companies in Switzerland closed their doors by the end of the 1970s. The number of workers in the industry plunged from nearly 90,000 in 1970 to 47,000 by 1980.

In 1979, the management of the Swiss ASUAG group (Société Générale de l'Horlogerie Suisse SA) embarked on an ambitious plan to produce its own inexpensive line of quartz watches to counter the Far East juggernaut. To produce an accurate, rugged, and water-resistant watch for less than 50 Swiss francs demanded a paradigm shift in thinking regarding materials, manufacturing, and marketing. The micro-molding of plastic parts, reduction in the number of parts in the quartz movement, and ultrasonic welding were but a few of the cutting-edge technologies applied to the program.

This revolutionary watch line, known as Swatch, was launched in March 1983. The inexpensive watch, offered in myriad styles and colors, took the consumer world by storm. In less than two years, more than 2.5 million Swatches were sold. The Swatch was a phenomenon that put Swiss watches back on consumers' wrists. As the brand went from victory to victory and sales passed 10 million, it had a profound effect on the Swiss watch industry as a whole and the world's perception of the industry.

The technological fallout of the Swatch permitted the Swiss watch companies to market quartz watches in virtually all price ranges. But quartz was not necessarily the answer for every Swiss watch company. Many companies felt honor-bound by their tradition of making mechanical watches, while others were simply leery of quartz for the long term. As the quartz movement took hold among Swiss watchmakers, articles appeared in watch journals proclaiming that the end of the mechanical movement was in sight. Witnessing the dramatic decline of mechanical watches exported during the 1970s and early 1980s, some pundits stated it was inevitable the mechanical movement would go the way of the horse-drawn carriage. This worried many watch companies; demise of the product would entail scrapping millions of dollars in precision machine tools, investing in the new technology, and retraining a very skilled work force.

Oris—One Company's Response

One of the many watch companies facing the quartz/mechanical dilemma was Oris. Located in the picturesque town of Holstein southeast of Basel, this company had been making watches since 1904. Its founders, Paul Cattin and Georges Christian, chose Oris as the name of their company after a valley near Holstein; the word Oris was formed from the Celtic-Roman word *aurisa*, meaning river. In a crowded industry, Oris has more than a few innovations to its credit. In 1938 the company introduced the pointer calendar, with the days of the month running the circumference of the watch face and the day indicated by a needle-type hand; the seconds were shown on a small dial at six o'clock. During World War II, Oris produced watches with oversized winding crowns to permit Allied bomber crews to synchronize watches with gloves on in the bitter cold environment at 30,000 feet. In 1952, the company introduced a watch line with an automatic (self-winding) movement. Oris received full chronometer certification from the Neuchâtel Observatory in 1968 for its calibre 652 movement.

Oris had survived and prospered for more than half a century making mechanical watches. Nevertheless, it led electronic watch development on several fronts in the 1960s. It was in a small group of companies, including Rolex, that contracted with a Swiss state institute to research and develop an electronic watch. It also became a member of the ASUAG group.

Oris was one of the first Swiss companies to sell an LCD (liquid crystal display) watch and did so for a number of years until Casio virtually took over this market. It had vast experience with mechanical movements, having manufactured cylinder, pin and lever, and jeweled-lever mechanical watches. Its work force was skilled in the fabrication and assembly of such watches, and there was a certain romance to a mechanical movement. Moreover, quartz, while certainly accurate, had a problem mechanical watches didn't have: dead batteries. In most first-generation quartz watches, the batteries typically lasted only a year and obtaining a replacement could be difficult if not impossible in many places. Thus mechanical watches would remain in the Oris catalog. At the same time, the company did not want to ignore what could be a large market for quartz watches. The company took the prudent course of adding quartz watches to its line.

Oris was not convinced that the dire predictions of some industry observers regarding the mechanical watch would come true. The decision to manufacture watches with both types of movements was a cautious one, as Oris waited to see which way the winds would blow. Many watch companies embraced the quartz movement totally and never looked back. Other companies remained faithful to the mechanical movement. During the 1980s, Oris was part of the SMH group of watch companies, which included Omega, Tissot, Mido, and other brands. But Rolf Portmann, who had joined Oris during the 1950s and later steered the company through troubled waters over the next three decades, orchestrated a management buyout, and Oris was once again an independent watch company.

The market for quartz watches became crowded in the 1980s. The Pacific Rim countries were churning out literally hundreds of millions of quartz watches a year, and many Swiss companies were making them. How could Oris distinguish itself in such a saturated market? The management concluded it was hard to convey through advertising that its watches were unique. So the company decided to focus all its design, manufacturing, and sales efforts on mechanical watches.

Oris chose to lure buyers by extolling the beauty and virtues inherent in the mechanical movement, which had always been the essence of watchmaking. Many Oris models are fitted with a glass back with a screw-down case to show off the handcrafted movement inside—a feature of many other mechanical watch companies. The company has published a series of booklets describing the history of timekeeping, Oris milestones, detailed descriptions of each step in the manufacture of an Oris watch, and a lexicon of the components and functions of the mechanical watch. In so doing, the company is linking itself to Switzerland's rich watchmaking past, building on its own successful history, and making it possible for the watch fancier to wear a piece of that history on his wrist. The company took what, at first, appeared to be a market liability and turned it into a market asset, proving it could compete with the high-tech quartz movement, no matter where it's made.

The Swiss Comeback

In looking at the history of Swiss watchmaking over the last 30 years, it's clear that if the industry had not responded to the electronic revolution that was coming, it would not be in the healthy state it is today. Initially, the industry was slow to embrace quartz technology, but many companies eventually realized it was the key to their survival and to the industry as a whole. In 1997, Swiss production of finished watches was 33 million pieces, with 30 million being quartz analog, and the rest mechanical. This is a far cry from the glory days of the 1970s, but there is a silver lining. Over half the value of the more than 500 million watches sold worldwide (roughly 80 percent being made in Hong Kong and China) is generated by the Swiss watch industry, totaling more than eight billion Swiss francs. Interestingly, while mechanical watches account for only ten percent of annual Swiss production, they generate nearly half of that total. Even Swatch has introduced watches with mechanical automatic movements. On the face of each one of these watches are the two words that make them the most sought-after in the world: Swiss Made. □

Swatch revolutionized Swiss watchmaking in the 1980s.

Economics

Censoring Pleas for Help

Ask people if they favor government censorship and the response will be a nearly unanimous *no!* Yet if you ask the same people if they favor government price controls, the response will be much more mixed. Ask them if the government should control prices to prevent "price gouging" after natural disasters, and the response will be a nearly unanimous *yes!*

These responses reflect an unfortunate ignorance of how markets allow us to communicate with one another. Once market prices are recognized as a means of communication, we have another powerful way of understanding why government price controls, which I have discussed previously, are a particularly harmful form of censorship. And the harm is greatest in the times of natural disasters because the victims are desperate to communicate their need for help.

The communication permitted by market exchange and the resulting prices creates a remarkable degree of social cooperation. There are no better examples of the benefits of this communication and cooperation than natural disasters. The victims need not only the assistance of people outside the disaster area, but also the cooperation of one another if they are to recover as soon and completely as possible. Unfortunately, when natural disasters strike, governments are most likely to outlaw the price signals that make this cooperation possible—and to do so with the support of public opinion.

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After a natural disaster, prices generally increase sharply for labor, construction materials, electric generators, and a host of other products needed for recovery and comfort. The common explanation for these price increases is that unscrupulous suppliers are profiteering at the victims' expense. Suppliers may be profiting, but not at the expense of the victims. Those whose homes are damaged and lives disrupted are victims of the natural disaster, not of those who supply them with needed goods and services afterward. High prices are better explained as the best way for victims to communicate their need for help to those who are most able to provide it. High prices also insure that pleas for help will be met with a quick and effective response.

Sending Lumber to Miami

I heard an interesting example of such a response when I was giving a talk in Ohio in 1992, not long after Hurricane Andrew ripped through southern Florida. I had mentioned the storm and its aftermath to illustrate the importance of price communication, and a gentleman in the audience told a story about his son, a building contractor outside Cleveland who had started building the house he and his wife had dreamed of for years. The foundation had been laid and the lumber was being delivered as Andrew hit Miami. With the news of the disaster, he decided against using the lumber himself and (despite his wife's opposition) shipped it to Miami instead. Why? Because the news he found most compelling came in the form of high prices for lumber, informing him that the demand for his lumber was greater in Miami than in Cleveland.

Was the Cleveland contractor an unscrupulous profiteer? Hardly. He did far more good for the victims of Hurricane Andrew than those who sat around expressing contempt for price "gougers." True, a few people helped the hurricane victims by sending supplies to Miami for free. Certainly these people should be commended. But their help was insignificant compared to the help given by suppliers from all over the country (indeed, the world) who responded to higher prices by providing more of the things Andrew's victims indicated (through higher prices) they most desperately needed.

Those who express contempt for people who sell products to natural-disaster victims at high prices should look closer to home for someone to criticize. Their criticism (born of economic ignorance) and the public opinion they inflame frequently provoke price controls, which muzzle those crying out for help. The Atlanta *Journal-Constitution* pointed out last April that Georgia has a "price gouging" law that forbids suppliers from charging "one penny more than they charged the day before the disaster struck." This law was favorably mentioned, with no hint of irony, in an article reporting that building contractors and construction supplies from several states had poured into Atlanta immediately after it suffered massive tornado damage. Can anyone seriously believe that this help would have poured in from far away if the "price gouging" law had been perfectly enforced, or that the help was not reduced by the enforcement that had occurred? (Penalties for price gouging in Georgia range from one to ten years in prison and fines of $5,000.)

The Electric Shaver

Victims of natural disasters need to communicate with one another also. Market prices are the only practical method. Everyone in the stricken area will value the products being made available, but people will want those products to go to those they believe can put them to the best use. Price controls prevent this from happening by censoring communication among victims.

A friend of mine who lived in Charleston, South Carolina, when Hurricane Hugo hit in 1989 saw firsthand the harm done by this censorship. Electricity was out for several days in my friend's area, and so lots of people were anxious to get gas-powered electric generators. Unfortunately, the local hardware store had only two and was unable to get more because of price controls. But there was another problem with the price controls—one that actually benefited my friend's family, though at great cost to others. Because his father was a good friend of the local hardware-store owner, he got one of the electric generators at the controlled price. The store owner couldn't legally sell the generator to anyone else at a higher price, so why not let his buddy have it? My friend's father was delighted because he could continue to shave with his electric shaver. Unfortunately, grocery stores in town required electricity desperately to prevent thousands of dollars' worth of food from spoiling. Without price controls, one of those stores would have offered a higher price for the generator, effectively communicating (on behalf of customers) that it had a more urgent use for it than my friend's father had. One person would have had to suffer the inconvenience of lathering up to shave, but hundreds of his neighbors would have persuaded him, through a high price for the generator, that their desire for fresh food should take precedence. Of course, without price controls, all the stores and my friend's father (had he still wanted one) would have quickly secured electric generators because they would have been able to communicate with suppliers outside the disaster area.

Natural disasters provide a particularly vivid example of the harm done by price controls. Unfortunately, governments do not need natural disasters to justify undermining social cooperation and destroying wealth by dictating prices. Governments have a long history of imposing price controls on a wide range of goods and services. And they will continue to do so until it becomes widely recognized that such controls are a particularly pernicious form of censorship. □

THE FREEMAN
Ideas On Liberty

Let's Pierce the Government Veil

by Karen Selick

ONTARIO, CANADA—Although multiple births are becoming almost commonplace in the 1990s, quintuplets were considered a miracle in 1934 when the Dionne sisters were born in a small northern Ontario town. Their father, a poor farmer with five other children in the family to feed, soon discovered that his five baby girls might bring in some extra income during those tough Depression times. He accepted an invitation to exhibit the girls at the World's Fair. Hastily, the province of Ontario stepped in and made the quintuplets wards of the province, ostensibly to protect them. They were taken away from their parents and deposited in a hospital-compound that was soon transformed into a virtual theme park called "Quintland."

Quintland became a tourist attraction, drawing millions of curious visitors who were permitted to gaze through one-way glass at the five little girls during three daily "showings" over nine-and-a-half years. The quints themselves earned unknown amounts through endorsements. A trust fund was set up for them. When they turned 21, it contained $800,000, which was paid out to them over the next 20 years.

In early 1998, at the age of 63, the three surviving quintuplets, now virtually destitute, alleged that their trust fund should have contained a lot more than the $800,000 they had received. They claimed that the trust had been mismanaged and that money had been pilfered. They demanded compensation from the province of Ontario.

The province denied any legal responsibility, but nevertheless offered to pay them a pension of $2,000 per month each for the rest of their lives. At a press conference, they rejected this offer with the words, "We want justice, not charity." One couldn't help admiring the spirit with which those words were uttered.

However, a few weeks later, the sisters accepted the province's offer of a $4 million lump sum, without seeming to realize that what they got was precisely what they wanted to avoid—charity, not justice. Or maybe something worse.

Justice would have consisted in identifying the individuals responsible for misappropriating their trust money and making those people pay compensation, either out of their ill-gotten gains or their other resources. Instead, the money will come out of the pockets of Ontario taxpayers.

Whose Responsibility?

Many of those now being asked to foot the bill hadn't even been born back in the days when the quints were being put on display or when their trust funds were being dissipated. Others were mere children themselves, too young to vote the government out of office even if they had been aware of the misdeeds taking place. Still others were residents of other provinces or foreign countries and did

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not immigrate to Ontario until later. Among those who resided in Ontario at the time, many had voted against the government then in power. Others, who may have voted for that government initially, would never have sanctioned such actions if it had been in their power to stop them later.

Add up all these segments of the taxpaying population and you will undoubtedly find that the overwhelming majority of the people who will now have to bear the burden of this compensation claim are innocent of even the tiniest share of blame for the offenses. Forcing them to pay will not be righting a wrong. It will just be shifting the wrong from one group of victims to another. But the new victims, the taxpayers, will be so numerous that the injury to each will be diffuse and easy to ignore.

The number of people claiming compensation for government misdeeds in recent years is astonishing. A search through the Canadian Press database reveals literally dozens of unrelated claims. Clearly, many Canadians have suffered physical, emotional, and financial injury at the hands of the state.

If they all receive compensation out of tax money, we'll witness the ludicrous spectacle of victims compensating other victims. Japanese Canadians who suffered internment and expropriation during World War II will be paying compensation to recipients of HIV- and hepatitis-tainted blood, who in turn will compensate David Milgaard for the years he spent in prison after his erroneous murder conviction. Milgaard will pay sexual assault victims at government reform schools, who will pay the victims of Alberta's eugenics laws (sterilized against their will on the mere suspicion of mental inferiority), who will reimburse the Chinese immigrants of the 1920s for the racist head-tax imposed on them, and so on ad infinitum. The same chain of injustice can be found of course in the United States.

Collective Blame

This absurdity has its roots in the acceptance of collective responsibility for misdeeds that were conceived and implemented, as all human action is, by specific individuals. The government is not "us." It is rather a tiny subset of individuals chosen from among us. These people are expected to know right from wrong. Their job is to enact and implement a system of laws that protects the rights of citizens. If they choose instead to exercise the coercive powers of government to violate the rights of citizens, it is they, not innocent bystanders, who should be held accountable—first, for not doing their jobs properly and second, for the harm they've caused.

We've had it backwards for centuries. We've allowed successive bands of so-called statesmen to occupy our legislatures, inflict or at least preside over one injustice after another, and then walk away free of all responsibility for the damage they've done. Meanwhile, they bask in praise for having served society, pension checks swelling their bank balances. The worst that ever happens to them, no matter how badly they've harmed their country or their countrymen, is that they don't get re-elected.

It's about time we rethought this. Corporate law has been allowing us to "pierce the corporate veil" for years in order to hold corporate directors responsible for company actions. Why not pierce the government veil? Why not trace the financial liability for genuine government wrongdoing back to the individuals who actually formed the government at the time of the transgression?

If making politicians pay for their blunders would discourage people from seeking public office, or from doing much while in office, so much the better. This might be the shock treatment they need to make them realize they are there primarily as guardians of our liberty, not meddlers in our lives.

The easier we make it for people to collect compensation by taking it out of the common pot so that the new victims won't notice, the more such claims we will encourage. The more we discourage individual responsibility among our elected representatives and their employees by shifting the cost of their malfeasance to the taxpayers, the more such violations of rights we can expect to occur. □

THE FREEMAN (Ideas On Liberty)
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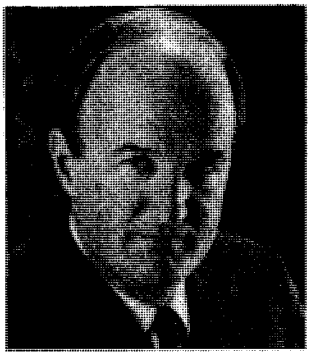

Are Financial Markets Inherently Unstable?

"There is an urgent need to recognize that financial markets, far from trending towards equilibrium, are inherently unstable."
—GEORGE SOROS[1]

In the aftermath of the collapse of emerging economies in Asia, eastern Europe, and Latin America, many prominent economists and speculators, from Paul Krugman to George Soros, have called for government intervention in financial markets. Recommended policies include monetary inflation and currency controls. The foundation of such state interference is the belief that free markets in general, and financial markets in particular, are inherently unstable and require strict government regulation.

The fathers of this thesis are the British economist John Maynard Keynes and his principal heir, Hyman P. Minsky, who devised a "financial instability hypothesis." Minsky, a Harvard-taught economist, wrote many books and articles during his academic career of nearly 50 years, most of which he spent at Washington University in St. Louis. He died in 1996.

According to Minsky, Keynes's general theory of the economy was really a financial theory of uncertainty and expectations. According to this thesis, the capitalist economy is primarily ruled by Wall Street, which is fundamentally fragile and destabilizing owing to excessive debt, lax government rules, and businessmen's "animal spirits" and "waves of irrational psychology." (Conservative economist Allan H. Meltzer of Carnegie Mellon University makes the same point.[2])

In the Keynes-Minsky model, full employment in an unregulated market economy is not a natural equilibrium point, but a transitory moment in a business cycle. Euphoric expectations lead to an overleveraged condition where the rate of credit expansion exceeds the rate of profit in the economy. Eventually, the boom turns into a debt deflation and depression.

Long-Run Damage by Government Intervention

To stabilize the business cycle, Keynesians favor big-government capitalism where central banks and the International Monetary Fund play major roles as lenders of last resort. Keynes advocated the "socialization of investment" and taxes on short-term trading.[3] However, Minsky rightly pointed out that interventionist policies validate the existing fragile financial structure and allow the problems to deepen. He warned that "Once borrowers and lenders recognize that the downside instability of profits has decreased

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there will be an increase in the willingness and ability of business and bankers to debt-finance."[4] Larger and more frequent interventions become necessary to fend off debt deflations and recessions.

Minsky correctly criticized neo-classical economics for largely minimizing the impact that financial markets can have on economies: "The neo-classical synthesis became the economics of capitalism without capitalists, capital assets, and financial markets."[5]

My only problem with Minsky is that he mistakenly blames the market itself for its instability.

Mises's Non-Neutrality Thesis

To understand the root cause of financial and economic instability, we need to go back to Ludwig von Mises's "non-neutrality" thesis in his breakthrough work *The Theory of Money and Credit*. Mises pointed out that monetary intervention (easy money policies and artificial lowering of interest rates) is the principal source of uncertainty, false expectations, and excessive debt-leverage in the economy and on Wall Street. Under a stable monetary system, a laissez-faire economy would suffer occasional financial mishaps, bankruptcies, and down-days on Wall Street, but there would be no systematic "cluster of errors" that currently characterize today's global economy.[6]

Fortunately, most economists now recognize that government's monetary and fiscal policies are the main source of economic and financial instability in the world today. In fact, more and more college textbooks teach up front that the economy is relatively stable at full employment; this is known as the "long-term growth model." The short-term Keynesian model is taught at the end of the textbooks, where government intervention is recognized as a destabilizing factor in the economy and the chief cause of the boom-bust cycle. See Roy Ruffin and Paul Gregory's *Principles of Economics* and N. Gregory Mankiw's *Economics*.

Maybe George Soros needs to take a refresher course from these textbooks. □

1. George Soros, remarks before the House Banking Committee Hearing on International Economic Turmoil, September 15, 1998.
2. Allan H. Meltzer, *Keynes's Monetary Theory: A Different Interpretation* (Cambridge: Cambridge University Press, 1968).
3. John Maynard Keynes, *The General Theory of Employment, Money and Interest* (London: Macmillan, 1936), chapter 12, "The State of Long-Term Expectation." See also my article, "Keynes as a Speculator: A Critique of Keynesian Investment Theory," *Dissent on Keynes* (New York: Praeger, 1992), pp. 161–69.
4. Hyman P. Minsky, *Stabilizing an Unstable Economy* (New Haven: Yale University Press, 1986), p. 213.
5. Ibid., p. 120. For a favorable review of Minsky's work, see Robert Pollin, "The Relevance of Hyman Minsky," *Challenge* (March/April 1997), pp. 75–94.
6. Ludwig von Mises, *The Theory of Money and Credit* (Indianapolis: Liberty Classics, 1981 [1934]). See especially Murray Rothbard's excellent foreword in this edition.

Skousen on Samuelson at the AEA

The annual meetings of the American Economic Association (AEA) convene in New York City, January 3–5, 1999.

Freeman columnist Mark Skousen will be chairing and participating in an AEA session titled "Fifty Years of Paul Samuelson's *Economics*" on Monday, January 4, at 8:00 a.m. in the Trianon Ballroom at the New York Hilton. Other participants include Greg Mankiw of Harvard, Alan Blinder of Princeton University, and *Freeman* Contributing Editor Peter Boettke of George Mason University.

For complete information on registration, check AEA's Web site, www.vanderbilt.edu/AEA.

FEE will host a get-together for participants and friends Monday evening at the Hilton. For further information, contact Janette Brown at FEE—(914) 591-7230.

BOOKS

Titan: The Life of John D. Rockefeller, Sr.

by Ron Chernow

Random House • 1998 • 774 pages • $30.00

Reviewed by D.T. Armentano

For me, this is the image that sticks: John D. Rockefeller, president of Standard Oil, age 57, in bicycle suit and goggles, racing around the University of Chicago campus in 1897, harried administrators in tow, with students on the sidewalk chanting: "Rah, Rah, Rah, Rockefeller, he's the feller." Priceless.

He was indeed "the feller," as this scintillating retelling of his life and times by Ron Chernow aptly demonstrates. Chernow must surely be one of the few historians who can really write. That a 774-page book about a businessman born in 1839 can be a wonderful page-turner in the late 1990s says a lot about Chernow's literary talents—and about the object of his attention, John D. Rockefeller.

Chernow's early hunch was that the Rockefeller legend was "exhausted" and that he should skip the project. We can rejoice that he did not. For here, finally, is an intelligent and insightful account of the most important industrialist of his time, of his personal and family life, his religious beliefs, his massive philanthropy, and the company he created. This important revisionist account of the man and the myth is about as good as we are likely to get.

Who was John D. Rockefeller? Chernow shows that he was, above all else, a man who held fast to certain core values throughout his life. His early Baptist religious training shaped his lifelong attitudes toward the importance of hard work and charitable giving. Rockefeller threw himself into both without reservation. "Get money and give money" was his double-entry bookkeeping for reconciling capitalism and Christianity. His church work and other charitable causes were never an apology for his commercial success. Readers of this magazine can be grateful that he sank many millions into creating the University of Chicago.

Despite great wealth, Rockefeller was always economical, some would say miserly, in his own affairs. He reviewed every household bill and often "patrolled the hallways turning off gaslights." The titan and his family owned several residences, but there were no racehorses, no decadent parties, no yachts, no extravagant traveling or gaudy personal trinkets. When Cettie, his beloved wife of 50 years, died in 1915, her most costly items of clothing were a seal coat and muff valued at $135. Rockefeller gave away hundreds of millions of dollars to his children and to selected causes (including medical research and black schooling). When he died, his own personal estate (which had been devastated by the 1929 crash) stood at a "mere" $26 million.

Chernow labors mightily to set Standard's commercial accomplishments reasonably straight. He identifies correctly the factors that account for the early growth of the firm (entrepreneurship, economies of scale, technological innovation) and its ability to maintain market leadership. He also identifies correctly the changing market conditions at the turn of the century that eroded Standard's market share prior to the antitrust suits. Indeed, Chernow even admits that the subsequent legal actions may have been "superfluous."

But there are problems with some of his economic and legal analysis. Lacking a correct (Austrian) theory of monopoly, Chernow is unnecessarily bothered by Standard's "predatory" pricing and by the "rebates" it was able to wring consistently from the railroads. Also, he constantly refers to Standard as a "monopoly" even though there were always rivals in domestic refining (147 in 1911), and even though most markets were legally open to entry.

The greatest disappointment in *Titan* is Chernow's virtual non-treatment of the classic antitrust decisions that broke up Standard. While the book builds to this climax, the Circuit Court (1909) and Supreme Court (1911) decisions are tossed off in less than two pages! Readers are not told that the Circuit Court never made any legal judgment on

Standard's business practices or economic performance. Instead, it decided the case on the more narrow issue of whether Standard Oil of New Jersey was a "trust" or "combination" in restraint of trade. Under the legal precedents, it was. Guilty; divestiture ordered. And while the Supreme Court announced that dominant firms should be judged by a "rule of reason," it never applied that rule to the evidence in the case.

These are not dry academic points. They are crucially important to any overall evaluation of the firm in the marketplace and to an understanding of any appropriate "monopoly" policy. Unfortunately, Chernow misses it all very badly. Still this is a blockbuster book that every student (and professor) of business history would do well to study carefully. □

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The Great Betrayal: How American Sovereignty and Social Justice Are Being Sacrificed to the Gods of the Global Economy

by Patrick Buchanan

Little Brown & Company • 1998 • 320 pages • $22.95

Reviewed by James Bovard

Patrick Buchanan has given America one of the most eloquent theological tracts of recent decades. Unfortunately, when Buchanan, a two-time presidential candidate, takes his theological views into economic areas, the result is a recipe for poverty, conflict, and subjugation.

The subtitle of Buchanan's book is "How American Sovereignty and Social Justice Are Being Sacrificed to the Gods of the Global Economy." Buchanan seems obsessed with demons—denouncing economist Frederic Bastiat as "heretical," denouncing elites for betraying America, denouncing foreigners at every opportunity. He seems far more interested in the proliferation of enemies than with the simple mechanics of economic exchange.

In a chapter entitled "Anatomy of a Murder," Buchanan uses the American auto industry as the consummate example of the evils of American trade policy. He declares: "The U.S. auto industry can justifiably claim to have been a victim of abuse, neglect, and abandonment by the government of the United States." The one lesson from this chapter is that no industry can be held responsible for its own incompetence and abuse of loyal customers.

He begins by declaring that Volkswagen Beetles were the first foreign auto to get significant market share in the United States—and then stresses Hitler's role in creating the Volkswagen corporation and the fact that the company (like many German corporations) relied on slave labor from concentration camps during World War II. Readers are left with the impression that all Volkswagens are forever tainted by this Original Sin and that anyone who bought a Beetle or any foreign car was morally inferior to people who bought American-made cars.

One issue Buchanan did not find space for is quality and reliability. *Consumer Reports* in the early-to-mid-1980s repeatedly flogged the Big Three American automakers for the high rate of defects in their new cars—at a time when Japanese companies had far better quality control. Buchanan, like other protectionists, ignores how foreign competition improves the quality of domestic products.

Among other notions of unfair trade, Buchanan claims that foreigners unfairly benefit because they are not forced to comply with the same regulations and pay the same taxes that American companies face. He has shifted from his earlier beliefs that government must slash the burden of regulations and taxes on American citizens and American businesses—and is now on a holy crusade to "level the playing field" by imposing more taxes and burdens on foreign businesses. The fact that many European companies face heavier tax and regulatory burdens than do U.S. companies somehow never gets mentioned. Even were that not so, why should foreign companies be considered cheaters if their nations' tax systems are not as idiotic as is the U.S. Internal Revenue Code?

Buchanan's program is nothing new. American protectionists have always found some moral pretext to damn imports. In the 1820s, protectionists proclaimed that trade between England and America could not be fair because England was advanced and America was comparatively backward. In the 1870s, protectionists announced that trade between America and Latin America could not be fair because America was comparatively rich while Latin American countries were poor. In the 1880s, protectionists warned that trade could not be fair if the interest rate among the trading nations differed by more than 2 percent.

In practice, fair trade means protectionism. Yet every trade barrier undermines the productivity of capital and labor throughout the economy. A 1979 Treasury Department study estimated that trade barriers routinely cost American consumers eight to ten times as much as they benefit American producers. A 1984 Federal Trade Commission study estimated that tariffs cost the American economy $81 for every $1 of adjustment costs saved. According to the Institute for International Economics, trade barriers are costing American consumers $70 billion a year—equal to over $1,000 per family.

The myth of fair trade is that politicians and bureaucrats are fairer than markets and that prosperity is best achieved by arbitrary political manipulation, rather than by each individual pursuing his own interest. But government cannot make trade more fair by making it less free.

Should Pat Buchanan have dictatorial power over what other Americans are permitted to buy from 96 percent of the world's population? This is the question by which his doctrine must be judged.

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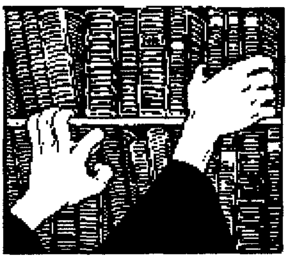

Politics By Principle, Not Interest: Towards Nondiscriminatory Democracy

by James M. Buchanan and Roger D. Congleton

Cambridge University Press • 1998 • 191 pages • $49.95

Reviewed by William H. Peterson

Said Plato: "Morality determines politics." Which raises a question 2,500 years later for Nobel laureate James Buchanan and fellow economist Roger Congleton: Does politics determine morality?

Their answer in an era of no-holds-barred welfare state politics is, in the main, yes. They argue that the very logic of majoritarianism inevitably leads to unequal treatment and discrimination by the state. Coalitions push the interests of their members at the expense of others. Politics and "takings" become virtually synonymous.

Unprincipled politics? The charge is not new. Ambrose Bierce defined politics as "the conduct of public affairs for private advantage." Oscar Wilde saw democracy as the "bludgeoning of the people by the people for the people." Yet America seems to cling to politics over character. The high approval ratings of scandal-ridden President Clinton come to mind.

A kind of political amorality marks our times. Politics becomes a secondhand religion, an odd mixture of opportunism, apathy, cynicism, relativism, and deception. It sinks into a contest over spoils, plundering many to benefit a few, all via political spin and tax coercion.

Buchanan's insights into this unholy process helped him win the 1986 Nobel Prize in economics, long after he and colleague Gordon Tullock forged the Public Choice school with their 1962 book, *The Calculus of Consent.* Their theory holds that self-interest guides voters and officials in their public as well as private choices, and that government naturally caters to powerful "rent-seeking" groups.

"Rent" in public choice jargon means a special grant: in a sense, a sale of a government favor enabling the beneficiary to prosper more than it otherwise could. Note, for example, that the domestic price of wholesale sugar is about twice the world price. It remains at that high level because the federal government protects some three-quarters of the market for high-cost domestic growers, with the remaining quarter allotted by quotas to low-cost foreign producers. The domestic growers' gain comes at the expense of sugar consumers—virtually everyone getting clipped for but a few pennies a day.

Why does politics generate programs of such dubious morality? Public choice theorists explain that the rent-seekers are well informed about and fight hard for programs that give them large gains. The costs, on the other hand, are widely diffused among a great number of consumers who know little or nothing about the government's policy and have little incentive to oppose it. The political deck is stacked in favor of those who prefer to wheedle their profits out of government "rent" rather than honest trade.

Buchanan and Congleton point up the economic facts of life. No free lunch ever—the state can give only what it first takes. Most voters are too busy with life's exigencies to cope with the daily maze of politics, or as the public choicers put it, voters are "rationally ignorant." However, they will pursue their perceived self-interest, join pressure groups in an attempt to get their cut of the state's booty, and generally vote for the candidate or party that promises them the most.

The cure? The authors prescribe relimiting the state: Get it back to equal treatment of all. Restore to constitutional vitality the Ninth Amendment: "The enumeration in the Constitution of certain rights shall not be construed to deny or disparage others retained by the people." In short, Buchanan and Congleton want to stop the state *constitutionally* from treating different persons and groups differently.

That would knock rent-seeking for a loop. It would reform election campaigns by getting at the root of the problem—power. It would add up to freer trade, saner environmental controls, greater freedom for American entrepreneurs. It would also lead to faster economic growth, less discrimination, less state waste, and lower taxes.

But, Catch-22: Can guts for such basic change be found in today's jaded electorate? How many Americans want to do in Santa Claus by setting up a real barrier to the free-spending, vote-buying state? The need to put the constitutional brakes on runaway government is clear. How do we get there from here? That question awaits an answer.

As Voltaire wrote some 250 years ago: "The art of government is to take from some to give to others." It is this dark art that James Buchanan and Roger Congleton seek to undo. □

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Written on the Heart: The Case for Natural Law

by J. Budziszewski

InterVarsity Press • 1997 • 252 pages • $15.99

Reviewed by Robert Batemarco

The canard that free-market economists are so narrowly focused on economic concerns that they miss the big picture seems as indestructible as it is indefensible. It was Ludwig von Mises, after all, who said that one cannot be a good economist if he is only an economist. Indeed, there are things higher than economics that do have a bearing on how an economic system should be properly ordered. *Written on the Heart* spells out what those higher things are and why they justify economic freedom.

This book, however, was not written primarily to shed light on the best way to fashion an economy. It is, rather, a primer on natural law philosophy. It discusses the main tenets of three seminal thinkers in this tradition: Aristotle, Aquinas, and Locke. After comparing the views of the three, the author then examines the utilitarian position of John Stuart Mill, which helped move moral philosophy away from natural law thinking.

Just what does natural law philosophy have to say about the proper role of government?

Aristotle's teaching that government exists to make men virtuous looks like an invitation to an overbearing state. However, the author, a philosophy professor at the University of Texas, shows that Aquinas qualified this somewhat, contending that the state should not seek to extirpate all vices but "only the more grievous vices, from which it is possible for the majority to abstain, and chiefly those that are to the hurt of others." This formulation still leaves much to be desired. To most people, for instance, the drinking of alcoholic beverages would scarcely qualify as a "grievous vice," but unfortunately the author, showing more courage than wisdom, denies that Prohibition was an instance in which banning a vice did more harm than good. This will hardly help to promote natural law thinking.

Just how far short of the standards set by natural law thinking current legislative practice falls is clearly demonstrated by Aquinas's definition of law as "an ordinance of practical reason, for the common good, made by those who have care of the community, and promulgated or made known." With so many legislative enactments serving special interests rather than the common good, and so few such measures fully understood even by the legislators who vote on them, the amount of twentieth-century American legislation that meets all these criteria would probably fit in a volume not much larger than one issue of *The Freeman*.

Budziszewski's discussion of Locke revolves around the seventeenth-century philosopher's criteria for justice in the appropriation of goods from their original state of nature and his notion of inalienable rights. It follows from these Lockean concepts that since the natural right to keep justly acquired property is inalienable, redistributive taxation is theft, regardless of how large a majority favors it. That argument will shock many, but it is one that needs to be made.

Budziszewski's critique of the utilitarian challenge to natural law is very pointed. He finds utilitarianism devoid of any notion of right and wrong that is not tantamount to expediency. Moreover, he maintains that the foundation of utilitarian ethics is feeling rather than reason. Thus the widespread acceptance of utilitarianism has imbued the twentieth century with ethical relativism and the exalting of emotions over reason. The price, counted in lives and liberties lost in wars, concentration camps, and bureaucratic tyranny, has been high indeed.

The book is avowedly Christian. It is laced with numerous references to scripture and to Christian writers such as C.S. Lewis. Whether or not the reader shares Budziszewski's belief in God, he would be hard pressed to deny that natural law thinking is a mighty obstacle to the belief that earthly rulers are entitled to wield god-like powers. The acceptance of natural law, he writes, implies that "Earthly rulers are on a leash. They cannot make deeds wrong simply by prohibiting them, nor can they make them right simply by calling them constitutional rights."

Beautifully said. Unless that point is taken to heart, however, the 21st century may turn out as bad as the twentieth. □

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The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the World

by Daniel Yergin and Joseph Stanislaw

Simon and Schuster • 1998 • 352 pages • $26.00

Reviewed by David L. Littmann

The danger in telling a good story is often the sacrifice of key facts, thereby distorting the reader's understanding of reality. In *The Commanding Heights*, authors Daniel Yergin and Joseph Stanislaw describe the epic twentieth-century conflict between socialists and market advocates. This is an extremely worthy story, but the telling, although quite informative, has some serious gaps and weak analysis. We might say that it comes up one sandwich short of a picnic.

The book's title is lifted from a saying of Lenin's, that socialists must aim at seizing the "commanding heights" of a nation's economy if they are to succeed in their plans. Yergin and Stanislaw embark on an ambitious journey to describe the eight-decade-long, worldwide struggle among economists and politicians with conflicting visions about government's role in the economic and social life of their citizens.

One admirable accomplishment of the book is its tracing of the forces and individuals most centrally involved in the rise and fall of socialist policies around the globe. The authors have painstakingly developed the key names and ideas associated with the drama. Their history of each nation's sorry experience with socialism is excellent. The anecdotes and damaging quotations from now-discredited proponents of socialism alone make the read worthwhile.

The greatest strength of *The Commanding Heights* is its comprehensive portrayal of socialism's ascendency—the road to serfdom, as F.A. Hayek put it. Yergin and Stanislaw reveal an amazingly consistent pattern of political connivance and the distressing ease with which professional politicians and their coterie of "economic advisers" systematically capitalize on fear and gullibility among the masses to replace freedom and property rights with central planning and bureaucracy. The authors illustrate how eagerly totalitarians have—and in the future, will—pounce on every economic crisis as an opportunity to grasp more power.

But there are significant weaknesses in the book stemming from the authors' deficient background in economics. This deficiency leads them to repeat familiar misconceptions about the free market, such as blaming it for the Great Depression. Readers are bombarded by "market failures" as the reasons for the subsequent rise of the central planners, but if the authors had looked more closely, they would have found that government intervention was responsible for all the economic shocks of the century.

Among the precursors of the crises exploited by the socialists are stifling taxes, trade restrictions, intervention in agricultural markets, counterproductive regulations, and perverse monetary and credit policies. The authors, however, accept the conventional, but unprofessional wisdom propounded by the propaganda organs of socialism that whenever something goes wrong, it's a market failure for which the visionaries have a remedy. Consequently, the average reader is apt to blithely accept "market failure" rather than government meddling as the beginning of the government's rise to the commanding heights.

The errors do not end there. Yergin and Stanislaw fail to distinguish between money and credit, and they totally miss the origins of the $200 billion savings and loan disaster. Those and other mistakes undermine the book.

Their understanding of inflation, for example, is weak. Inflation is always and everywhere a monetary phenomenon. Printing money faster than the growth of real output leads to an increase in the overall average price level. Yergin and Stanislaw, however, write as if increases in particular prices—oil, in this case—were the cause of inflation. Worse yet, they fail to examine the terrible policy blunders committed in Washington in an effort to "solve" the so-called energy crisis. Looking down from the commanding heights, our central planners gave us price controls, rationing schemes and, thanks to the Federal Reserve, torrents of new money and true inflation. Many important lessons can be learned from a study of the "energy crisis" of the 1970s, but the reader will have to learn them elsewhere.

The plentiful sins of omission and commission could have been avoided if the authors had talked less with the likes of Felix Rohatyn and had consulted more with, say, Walter Williams. Alas, they didn't.

Read this book for its generally good history, but beware of its poor economic analysis. □

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Beyond All Reason: The Radical Assault on Truth in American Law

by Daniel A. Farber and Suzanna Sherry

Oxford University Press • 1997 • 195 pages • $25.00

Reviewed by Lauren S. Bain

In *Beyond All Reason,* Daniel Farber and Suzanna Sherry identify a serious threat to our legal system—the assault on the idea that the law should seek and then respond to the truth. Unfortunately, they pull their punches and fail to deliver a knockout blow to this lurking menace.

Much has been written about the farrago of bizarre ideas that goes under the name of "multiculturalism." Among the stranger notions advanced by the multiculturalists is that reality is a social construct. There is no objective truth; instead, each person or group constructs his own reality. Women, for example, supposedly have their own "way of knowing," and those who dispute this idea must be a part of the "dominant power structure" and therefore beneath response. Decades ago, Ludwig von Mises destroyed the claims of what he referred to as "polylogism," but bad ideas have a way of coming back, dressed up in some fancy new language. That is exactly the case here.

Law professors Farber and Sherry see the multiculturalist assault on truth as undermining the very foundations of our system of law. They write, "Critiques of truth, merit and legal reasoning are all tightly intertwined. It is difficult to defend merit if the concept of truth is open-ended. . . . [I]t is difficult to defend truth if the merit of an analysis or argument is wholly subjective. And without either merit or truth, how could judicial reasoning hope to stand?" Well said. They have identified one of the most pernicious tendencies of multiculturalism—its hostility to reason.

Consider, for example, the "indeterminacy thesis" advanced by the "critical legal studies" movement. Professor Mark Tushnet, a proponent of this thesis, explains, "Critique is all there is. . . . A competent adjudicator can square a decision in favor of either side in any given lawsuit with the existing body of legal rules." But the consequences of adopting indeterminacy are devastating. As Farber and Sherry write, "If the indeterminacy thesis is correct, then it is unclear how legal arguments ever have any persuasive effect, because all arguments are equally sound." Why bother with argumentation at all; we might as well flip a coin.

The authors go to considerable lengths to deconstruct two crucial tenets of multiculturalist theory: first, that reality is socially constructed, and second, that all constructs of reality merit equal deference in the marketplace of ideas, including the legal system. They are particularly effective in obliterating the "alternative ways of knowing" supposition that the multiculturalists use as a battering ram against the idea embedded in the legal system that the truth excludes all incompatible ideas. This is the backbone of the book and it is strong.

Unfortunately, our avowedly "centrist" authors weaken their effort by trying to pacify the multiculturalists. "We don't mean that all the work of these scholars is worthless," they write. They then proceed to validate their multiculturalist colleagues' "other work" by resort to the non-judgmental multiculturalist trait of presuming merit where no evidence of merit exists. The reader looks in vain for any sound argument from the authors in favor of multiculturalist theorizing, in law or elsewhere.

At one point, Farber and Sherry go so far as to attempt an intellectual rescue of the people whose ideas they have shown to be a menace in the law, saying that the multiculturalists are only guilty of employing wild and sometimes inane slogans as a means of getting across their ideas. But if the ideas behind the slogans are bad ones, what does it matter how they promote them?

At another turn, the authors, attempting to chart a "middle" course, take a completely gratuitous swipe at the free-market camp: "Radical multiculturalists favor ideas relating to the social construction of reality, just as conservative scholars have latched onto other ideas about free markets." These law professors probably know almost nothing about the vast extent of free-market scholarship (that they insist on labeling it "conservative" is a tip off), but are happy to dismiss it in the same breath as they dismiss the idea that reality is merely a "social construct."

Their unwillingness to come down hard on the multiculturalists (who are leftist allies, if rather embarrassing ones) and their pandering attacks on freedom advocates undermine what might have been a truly useful book. Like the proverbial road to hell, *Beyond All Reason* is paved with good intentions. Farber and Sherry smoke out and then wound some of the multiculturalist dragons, but it will have to fall to more courageous writers to slay them. □

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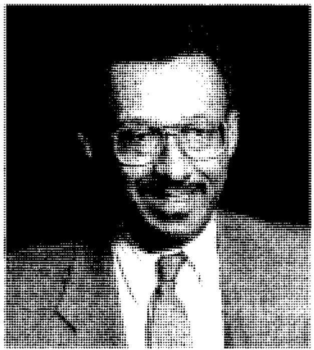
History



The Civil War's Tragic Legacy

The Civil War produced at least two important outcomes. First, although it was not President Lincoln's intent, it freed slaves in the Confederate States. Second, it settled the question of whether states could secede from the Union. The causes of and the issues surrounding America's most costly war in terms of battlefield casualties are still controversial. Even its name—the Civil War—is in dispute, and plausibly so.

A civil war is a struggle between two or more factions for control of the central government. Modern examples are the conflicts in Lebanon, Liberia, and Angola. In 1861, Jefferson Davis, the president of the Confederate States, no more wanted to take over Washington, D.C., than George Washington wanted to take over London in 1776. The Confederate States were fighting for independence from the Union. Whatever one's sentiments, the conflict is more accurately characterized as a war for Southern independence; in the South, you frequently hear it called the War of Northern Aggression.

Unrestrained Government

History books most often say the war was fought to free the slaves. But that idea is brought into serious question by Abraham Lincoln's repeated disclaimer: "I have no purpose, directly or indirectly, to interfere with the institution of slavery in the states where it exists. I believe I have no lawful right to do so, and I have no inclination to do so." The real causes had more to do with problems similar to those the nation faces today—a federal government that has escaped the limits of the Constitution.

John C. Calhoun expressed that concern in his famous Fort Hill Address of July 26, 1831, when he was Andrew Jackson's vice president. Calhoun, who later became a senator from South Carolina, said, "Stripped of all its covering, the naked question is, whether ours is a federal or consolidated government; a constitutional or absolute one; a government resting solidly on the basis of the sovereignty of the States, or on the unrestrained will of a majority; a form of government, as in all other unlimited ones, in which injustice, violence, and force must ultimately prevail."

Calhoun, like Jefferson, feared Washington, D.C.'s usurpation of powers constitutionally held by the people and the states ("consolidation"). For example, of the tariffs enacted to protect Northern manufacturers, Calhoun said that "an undue proportion of the burden of taxation has been imposed on the South, and an undue proportion of its proceeds appropriated to the North."

Import duties extracted far more from the South than from the North, and Southerners complained of having to pay either high prices for northern-made goods or high tariffs on foreign-made goods. They also complained about federal laws not dissimilar

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to the Navigation Acts that helped bring on the War for Independence.

The Nullification Doctrine

A precursor to the War Between the States came in 1832 when South Carolina called a convention to nullify the tariff acts of 1828 and 1832. Branded "the tariff of abominations," the duties were multiples of previous duties. The convention declared them unconstitutional and authorized the governor to resist federal efforts to collect them. After reaching the brink of armed conflict with Washington, a settlement to reduce the tariffs in steps—the Great Compromise of 1833—was reached.

South Carolinians believed there was precedence for the nullification of unconstitutional federal laws. Both Jefferson and James Madison suggested the doctrine in 1798. It was used to nullify federal laws in Georgia, Alabama, Pennsylvania, and the New England states. The reasoning was that the federal government was created by, and hence was the agent of, the states.

When Congress threatened to raise tariffs to unprecedented levels and the Republican Lincoln was elected president, a special South Carolina convention unanimously adopted an Ordinance of Secession and a "Declaration of Causes" stating that "We assert that fourteen of the States have deliberately refused for years past to fulfill their constitutional obligations. . . . Thus the constitutional compact has been deliberately broken and disregarded by the non-slaveholding States; and the consequence follows that South Carolina is released from her obligation. . . ." Continuing, the Declaration, asserted, "We, therefore, the people of South Carolina, by our delegates in Convention assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, have solemnly declared that the Union heretofore existing between this State and the other States of North America is dissolved, and that the State of South Carolina has resumed her position among the nations of the world, as a separate and independent state, with full power to levy war, conclude peace, contract alliances, establish commerce, and to do all other acts and things which independent States may of right do." The next year war started when South Carolinians fired on Fort Sumter, an island in the harbor of Charleston, South Carolina.

The principal-agent relationship between the states and federal government was not an idea invented by South Carolina in 1860; it was taken for granted. At Virginia's convention to ratify the U.S. Constitution, the delegates said, "We delegates of the people of Virginia . . . do in the name and on the behalf of the people of Virginia, declare and make known, that the powers granted under the Constitution being derived from the people of the United States, may be resumed by them whensoever the same shall be perverted to their injury or oppression, and that every power not granted thereby remains with them, and at their will."

The clear and key message was: the people of Virginia, through their delegates, entered a contractual agreement with the several other sovereign states and created the federal government as their agent. When the federal government violates their grant of power, the people of Virginia have the right to take back the power and fire their agent.

In light of the outcome of the War Between the States, the federal government can do anything it wishes and the states have little or no recourse. A derelict U.S. Supreme Court refuses to do its duty of interpreting both the letter and spirit of the Constitution. That has translated into the 70,000 federal regulations and mandates that controls the lives of our citizens. It also translates into interpretation of the "commerce" and "welfare" clauses of our Constitution in ways the framers could not have possibly envisioned. Today, it is difficult to think of one elected official with the statesman's foresight of a Jefferson, Madison, or Calhoun who can articulate the dangers to liberty presented by a run-amok government. The prospects for liberty thus appear dim. The supreme tragedy is that if liberty dies in America, it is destined to die everywhere. □