# THE FREEMAN

Ideas On Liberty

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## FEATURES



## COLUMNS



## DEPARTMENTS

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Ideas On Liberty

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## PERSPECTIVE

# When Bullies Take Power

*Life is Beautiful*, winner of Academy Awards for best foreign language film and best actor (Roberto Benigni), is a remarkable movie. This story about a Jewish father's attempt to shield his son from a Nazi concentration camp is perhaps the most powerful movie ever made about the Holocaust. The movie makes a stunning impression precisely because it focuses on one family's ordeal and juxtaposes horror and humor.

I'd like to know what audiences are thinking when they leave the theater. I suspect the standard reactions are along these lines: The Nazis sure were bad. Or, hate and intolerance are terrible. That's fine, as far as it goes. But it doesn't go nearly far enough.

I wonder how many people came away thinking: Government certainly is dangerous. How can we limit its power so it will never engage in systematic mass murder again? Too few, I fear.

Murderous hatred was certainly a necessary condition for the Holocaust. But it was hardly a sufficient condition. How many Jews could Hitler and his thugs have killed had Germany had a strong classical liberal tradition undergirding a constitutionally limited government. The question answers itself.

Murder on the scale perpetrated by Hitler, Lenin, Stalin, Pol Pot, Idi Amin, et al. requires a *state*; that is, a *legitimized* machinery of force. Only a state can concentrate the resources (thanks to taxation) necessary for such a monstrous feat. More important, only a state has the mystique (thanks to its schools, among other things) to command the sort of allegiance required to induce large numbers of people to cooperate or at least to stand by and let it happen. A dictator is just a bully with a state at his disposal.

Hate and intolerance are likely to be features of the social landscape for quite some time to come. Trying to avert future systematic mass murders by abolishing hate and intolerance is naïve and futile—especially if government accumulates new powers in the process. A more efficacious and feasible course (albeit still extremely difficult) is to institutionalize strict limits on government power. When that's achieved, aspiring dictators will have difficulty achieving office higher than neighborhood bully.

* * *

Thanks to a passel of government programs, Americans are increasingly getting the message that parenthood can't be left to amateurs any longer. A century and a half after responsibility for schooling was lifted from parents' shoulders, is the state ready to relieve them—starting with low-income people—of the rest of the job of rearing children? Susan Orr doesn't like what she sees.

Programs such as Head Start are often defended as "investments" in children that promise to avoid later social problems like crime and dependency. John Hood looks at the data and isn't impressed.

No matter how the advocates of gun control try to evade it, America's founding generation was avidly pro-gun and not just for sporting purposes. Joseph Stromberg explores the relationship between firearms and the philosophy on which the United States was established.

The federal government did many things to turn what might have been a short recession into the Great Depression. In his series finale, Richard Timberlake explains that one of those things was the manipulation of the banking system's reserve requirements.

One of Franklin Roosevelt's first acts was to outlaw the possession and monetary use of gold. It was an assertion of executive power that would have far-reaching consequences, writes James Bovard.

The Department of Justice and the Federal Trade Commission get upset when a company achieves a dominant share of a market. Are consumers at risk from a dominant firm? Christopher Mayer ponders the question, showing that "market share" is not the simple concept that regulators think it is.

Is the market order compatible with authoritarianism? Even some champions of capitalism reluctantly believe so. John Marangos disagrees, arguing that economic freedom holds the seeds of political freedom.

Francis Hirst is virtually unknown today. But in his time, he was a prominent advocate of individual liberty and opponent of state power, both the welfare and warfare variety. Mark Brady introduces us to this forgotten English champion of freedom.

A government-controlled education system that only sought to teach children to read would have been bad enough. But what about a school system designed to recast society in a collectivist mold? Daniel Hager profiles an old proponent of such a system, George Counts.

Our columnists once again find provocative topics to chew on. FEE President Donald Boudreaux reminds us government isn't a god, then looks at a claim that workers are being forced to work without pay and responds, "It just ain't so!" Lawrence Reed sees differences between taxes and user fees. Doug Bandow explores President Clinton's Balkans folly. Dwight Lee illustrates that even gifts entail opportunity costs. Mark Skousen thinks economic growth could double and go on indefinitely. Russell Roberts warns that nothing is free.

Our reviewers render verdicts on books about money, the welfare state, Mugwumps, the classics, secession, and the work of a major public choice economist.

—SHELDON RICHMAN

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by Donald J. Boudreaux

# Government Is No God

Assume you need surgery to remove a brain tumor. Two physicians in your town offer to perform this operation. Dr. Smith specializes in neurosurgery; it's his sole occupation. Dr. Jones, however, divides his time among a variety of occupations. Along with performing neurosurgery, he practices dentistry, gynecology, podiatry, and radiology. He also spends part of each day teaching political science at the local college, and another part of each day as an investment counselor.

Which surgeon will you use?

If your brain tumor hasn't yet seriously diminished your capacity for rational thought, you'll choose Dr. Smith—the specialist. Dr. Jones might well be more brilliant than Dr. Smith, but common sense correctly tells you that even the world's smartest person can never master a complex task if that person spreads himself too thin. Mastery requires specialization.

In our everyday lives, we all grasp this fundamental truth about the importance of specialization. Each of us is trained—through schooling, experience, or both—to do a particular job. None of us grows his own food, weaves his own cloth, brews his own beer, mixes his own toothpaste, *and* works as a CPA or a pipefitter. In fact, none of us even *thinks* to try to do all these things. Nor do we purchase goods and services from non-specialists—with one big exception.

The exception is politics. Judging from any ordinary day in the life of the president of the United States, politicians fancy themselves to possess near-godlike capacities for mastering a vast array of issues and disciplines. It's typical to hear Bill Clinton—in a single day!—speak with seeming authority on the merits of school uniforms, on plans for bringing peace to the Middle East *and* to Kosovo, on the consequences of higher tax rates, on the benefits of V-chips for televisions, and on how to reduce the number of illegitimate births among inner-city teenagers. No social issue seems beyond his grasp.

Perhaps more astonishing is that virtually no one looks askance at such absurd pretensions. While almost everyone would (properly) regard as crazy a physician who attempted to work also as an accountant, farmer, and political philosopher, most people don't think twice about a politician who not only expresses opinions on countless complex subjects, but also meddles in each of these matters. Indeed, many people positively *demand* that politicians each have a hand in an oceanic array of human activities.

Why? Why are politicians—unlike people in other occupations—widely presumed to possess sufficient expertise in almost any subject that catches their fancy? Why don't people howl with laughter, rather than nod their heads seriously, whenever Bill Clinton, Al Gore, or Trent Lott discourses on some matter about which he has neither experience nor expertise? Why do people swallow the ludicrous promises and proclamations of politicians—promises and proclamations that are typically sillier than the assertions of a third-rate fortuneteller with a traveling circus?

*Donald J. Boudreaux is president of FEE.*

The answer to these questions, I fear, is that most people regard the state as a superhuman institution. Most people regard government (or, at least, democratic government) as somehow free of the limitations that beset human beings in nonpolitical activities. In short, too many people deify the state. But regardless of your political views, it is impossible seriously to deny that government is a human institution. Just as General Motors, Sun Microsystems, the Ford Foundation, the Kiwanis Club, mom-and-pop retailers, and every other profit and not-for-profit organization you care to name is run by human beings, so too is government. The state is no more capable of superhuman feats than is any other human institution.

Few people dispute this fact when it is stated so baldly. Nevertheless, people routinely *act* as though they do in fact believe government to be (at least semi-) godlike.

## Why Is the State Deified?

The question then becomes: Why do people deify the state?

Part of the answer is that politicians shamelessly encourage this deification. They do so directly by promising to perform all sorts of impossible miracles—using prohibition to eliminate drug use, keeping Social Security solvent without imposing crushing taxes, using campaign-finance reform to exorcise interest-group demons. The fact that these schemes always fail seldom poses a problem, for politicians are unscrupulous and clever about blaming others for these failures.

Politicians' direct efforts to encourage deification of the state would come to naught, however, without their myriad indirect efforts.

Probably the most effective of these indirect efforts is government-run schooling. By failing to educate American children, government schools each year spew out platoons of young people who are not taught to think critically and reason carefully. Instead, they learn only to parrot bumper-sticker slogans and to value the emotion du jour over evidence and rational analysis.

Yet another source of support for politicians seeking to deify the state is a popular press that reports on government actions and agencies as though their names accurately describe their actual effects. For example, Congress's claim that the recent Small Business Jobs Protection Act will do just that goes largely unchallenged—despite the fact that it raises the minimum wage!

It's no surprise, then, that Americans too seldom question the motives and the abilities of government officials who regularly claim to possess far wider expertise than could have been acquired in a lifetime by a legion of Leonardo da Vincis.

My objection can't be parried by pointing out that the president gets advice from specialists of all kinds. How does he know whom to canvass for that advice? If he seeks advice on whom to seek advice from, the problem is merely pushed back a step.

It cannot be repeated too often: government is no god. Its employees are no more ethical or expert than employees in the private sector; nor are government employees—including the president and members of Congress—immune to the cognitive limitations that naturally afflict the rest of us.

I refer anyone who is tempted to fantasize that government possesses unlimited intelligence and abilities to these wise words from F.A. Hayek's *Road to Serfdom*:

> [I]t is impossible for any man to survey more than a limited field, to be aware of the urgency of more than a limited number of needs. Whether his interests center round his own physical needs, or whether he takes a warm interest in the welfare of every human being he knows, the ends about which he can be concerned will always be only an infinitesimal fraction of the needs of all men.

Anyone seeking power who denies this truth is a devil, not a god. □

## Workers Exploited?

# It Just Ain't So!

The late Nobel laureate economist George Stigler rightly insisted that anecdotes are not reliable data on which to base judgments about the state of the world. Labor lawyer Thomas Geohegan either never heard or ignores Stigler's wise warning. Geohegan relies on a handful of anecdotes to argue in the January 24, 1999, *New York Times* that American workers are increasingly exploited by their employers ("Tampering with the Time Clock").

The thrust of Geohegan's argument is that employers are forcing more and more workers to work more and more hours "off the books." "Go anywhere," he asserts, "a supermarket. A nonunion hotel or club. Any nursing home. There's a very good chance that the staff is working for nothing some of the time." The consequence, Geohegan asserts, is that the American worker now suffers "longer hours, less vacation, more stress on the job."

His apparent solution for this problem is stronger labor unions and stricter government-enforced work rules. For example, he wants the government to require that time-and-a-half be paid not only to hourly employees who work overtime (which is the current rule) but also to workers at the professional and managerial levels.

## Record-Setting Leisure

Geohegan's facts are mistaken—not surprisingly, given his reliance on anecdotes—and his economics is gobbledygook. First the facts. Today's American workers enjoy more leisure—both at work and at home—than any previous generation of workers. Since the Great Depression, the number of hours worked per week by the typical American worker fell from 44 in 1938 to 38.6 in 1960 to 36.9 in 1973 and to 34.4 today. Moreover, the number of vacation days rose from six in 1938 to seven in 1960 to eight in 1973 and to 10.5 today. The number of holidays and personal days during this period increased even more dramatically.

Geohegan would question these data, arguing that Americans work ever-more hours off the books. Presumably, employers are reducing the number of hours that employees are formally required to work, while increasing the number of hours—without pay—that employees are in fact required to work. But again, aside from some anecdotes, where's the evidence?

The same consistent and substantial decline in hours worked that marks the modern workplace also marks the modern home. Holier-than-thou pundits routinely condemn capitalism for turning out excessive quantities of gadgets and gizmos. But the fact is that these gadgets and gizmos relieve us of many of the monotonous household tasks that burdened our parents and grandparents. Automatic dishwashers cut the number of hours we spend at the dreary task of cleaning up after dinner; microwave ovens reduce the amount of time necessary to prepare meals; no-iron fabrics mean less time caring for clothes; Jiffy Lube and Pep Boys now change our cars' oil in minutes; improvements in health care and household sanitation diminish the amount of time that we are down with illnesses; on-line shopping enables us to spend less time in stores. These and countless other advances brought to us by the free market have slashed the number of hours that we must give over to household chores.

All told, say researchers W. Michael Cox and Richard Alm, "In 1996, an average lifetime's waking hours devoted to work, both on the job and at home, stood at an all-time low of 21.8 percent, compared with 24.8 percent in 1973." (See *The Myths of Rich and Poor*, Basic Books, 1999.)

Our greater leisure time isn't spent idly. We spend this time—and larger portions of our income—on entertaining activities. For example, there are today five times more adult softball teams than there were in the mid-1970s. The proportion of the population that today attends professional sporting events is almost twice what it was in 1970. The same is true for live symphonies and operatic performances. And the number of pleasure trips we take today is three times higher than it was back then. Finally, the proportion of Americans who donate some of their time to volunteer efforts is today double what it was in the mid-1970s.

## Government Can't Help

The facts show overwhelmingly that American workers are not only paid more today than at any time in the past, but that the amount of leisure time we have to enjoy our higher incomes is at an all-time high. But let's suppose for the sake of argument that the facts are opposite of what they really are; that is, let's suppose that Geohegan's picture of the American worker's lot is accurate. Would increased government regulation of the workplace—both directly and through special privileges granted to labor unions—improve matters? Hardly.

Government mandates of pay, fringe benefits, and working conditions inevitably worsen the lot of the typical worker. The reason is that government-mandated pay and working conditions are substitutes for what workers themselves prefer.

The classic case is minimum-wage legislation. When government mandates that no worker be paid less than $5.15 per hour, all workers who are worth less than that to employers, but who would prefer to work at some lower wage rather than be unemployed, are forced by this legislation out of their jobs. They are made worse off. Identical logic applies to government-mandated fringe benefits—including worker leave and improved working conditions. At best such mandates merely change the compensation package to one that workers prefer less than the package that would be offered in the absence of the regulation.

Employers compelled by government to offer more employee leave will offer employees less of other forms of pay, such as wages, pension contributions, or employee discounts. The number of possible adjustments is countless. And to the extent that employers cannot offset the costs of any government mandate, the consequence for many workers is devastating: unemployment. When government piles mandates atop mandates, it artificially and unnecessarily raises firms' costs of hiring workers. Firms that would have hired 1,000 workers now hire only 850; firms that would have hired 100 workers now hire only 70; firms that would have hired ten workers now hire only nine—and some firms that would otherwise have sprung to life now are never formed; they are snuffed out in advance by reckless government regulation of the conditions of employment.

So even though Geohegan's statement of the "facts" is a sham, it is also dangerous. The danger lies in people's believing what he says and, in response, endorsing the destructive policies he proposes.

Genuine data, however, belie the gloomy and sinister picture painted by Geohegan. These data are nowhere better collected, reported, and interpreted than in Cox and Alm's book, as well as in the many books of the late Julian Simon. Almost any single chapter from the works of these scholars proves that Geohegan's argument just ain't so.

—DONALD J. BOUDREAUX

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# The Professionalization of Parenthood

by Susan Orr

What do the following things have in common? The child-care initiative, foster care, Head Start, and the child-abuse prevention effort "Healthy Families." All are programs for children and all receive government funding, most at the federal level. They also share an insidious assumption: most people, particularly the poor, are unable to be good parents without the help of professionals.[1] Is such an assumption warranted? And if not, why not?

Parents increasingly complain about how difficult it is to raise their children in a wholesome atmosphere. In *The Assault on Parenthood*, Dana Mack tapped into that sense of frustration. Parents, she says, find that the "communal supports for the child-rearing work of even the best families are crumbling. . . . In fact, parents see the decline of social supports and the breakdown of families as symptoms of a larger phenomenon: the sudden and rapid decay of those stable social values that once fostered a protective culture of childhood."[2]

Recognizing the need for community support does not necessitate turning over parenting to a professional class, particularly one subsidized by the state. But the two things are not unconnected. As anyone could tell who monitored last year's debate over child care, the White House conference on early childhood development, or the latest proposal to triple funding to schools that make after-school programs available, the Clinton administration is more than willing for government to step in to "help" parents.

## Caution Warranted

Americans should exercise caution before embracing such assistance. One has only to look at the results of the government "help" extended to the poor over the last several decades. Since the war on poverty began in the sixties, an unintended consequence of government policy has been to treat the poor as if they were incapable of living responsibly, particularly when it comes to raising their children. This shows up most clearly in education and child-welfare policy.

The easy answer over the years has been to spend more money on government programs. If we are feeling guilty about the plight of the urban poor, then increased funding for Head Start (the preschool program for poor children that is supposed to help them enter grade school on a par with their more affluent peers) is the easy solution. Increased spending requires only our money, not our time or effort. Simply spending more money also has the added advantage of appearing nonjudgmental. We don't have to say that children do better with both a mother and a father or that neglectful parents are bad. Instead, we ignore the underlying problem, hoping that more education will inoculate children against their

*Susan Orr is director of the Reason Public Policy Institute's Center for Social Policy in Washington, D.C.*

upbringing. In practice, this has meant turning the problem over to professionals.

Only occasionally do we get hints that professionalized child rearing might be problematic. Only occasionally is anything made of the fact that Head Start, now in its fourth decade, might be little more than a salve for our consciences. A recent GAO study confirms what earlier research has consistently pointed out, i.e., there is scant evidence that Head Start has any long-term beneficial effects for children.[3] Yet the program now routinely recruits three-year-olds. There is also a "0 to 3 initiative," because age three was deemed too late for a sufficient head start. This initiative, as its name implies, works intensively with young mothers, teaching them about child development and encouraging them to rear their children responsibly. Yet as the program grows more expansive, there is little indication that children fare any better and some signs that they do not. (See John Hood's article, page 11.)

The Comprehensive Child Development Program, a similar federally funded initiative geared toward low-income families, released its evaluation results last year with little fanfare because the study revealed that participating families fared no better than their less pampered peers and sometimes even did worse. At some time we have to admit that there are limits to what professionals can do. By failing to insist on responsible parents, we ask educators to take on an extra burden and are shocked when they fail.

In many respects, education policy has been driven by the disasters plaguing the child-welfare system. Just a glance at recent statistics tells us that something is dreadfully awry. Child protective agencies looked into the lives of over three million children in 1996 (the latest year for which we have data).[4] This number reflects more than a 300 percent increase in reports over the last 20 years.[5] In under one-third (28 percent) of the cases, a caseworker determined that a child had been hurt by his parents; of that number, 15 percent were considered to be in sufficient danger to be removed from their homes and put into foster care.[6] While no official count exists, experts estimate that there are at least 500,000 children in foster care today.[7] Unfortunately, over 30 percent of all children sent back home to their families eventually re-enter foster care because of further abuse or neglect.[8]

But who are these children and why don't we hear about them? The children caught in the web of the child welfare system are overwhelmingly poor and without fathers.[9] Most Americans are horrified when confronted with these statistics, but are unaware that they are predictably the direct result of policies that do not hold parents accountable for their behavior. Not surprisingly, the children of those irresponsible parents are the ones who end up in Head Start.

## Perverse Incentives

The pervading problem is that the child-welfare system is riddled with perverse incentives that undermine personal responsibility and reward destructive behavior. Social workers understand themselves as providing remedies in the guise of therapeutic treatment. Child abuse is not regarded primarily as a violation of justice, but as either a symptom of illness or the result of economic deprivation, depending on which theoretical model of abuse the social worker follows: the medical or ecological model. Parents, according to either theory, are not at fault. Because abuse is not seen as a moral problem, it should be susceptible to professional help. It is therefore not surprising to find reluctance to ever pronounce any given parent irredeemable.

Mirroring the science of modern medicine, child-welfare professionals are trained to look at human behavior as a doctor would look at disease. Just as doctors strive to eradicate cancer, child-welfare professionals work to end all strife within the family. Even the tools of their trade are couched in scientific terms. If someone beats a child, he is in need of treatment, even if treatment is a parenting class. Caseworkers use "risk assessment tools" to decide whether a child can safely remain in the home, as if by application of a checklist one could do more than guess who will choose to do evil. Such tools lessen the dignity of all involved: they fail to take into account, and in fact attempt to replace, the free will of the parent and the judgment of the caseworker.

The profession continuously speaks of creating "systems of care" to protect children from the harm caused by bad parents, thus attempting to restore the broken family through social engineering. If a system fails, one needs simply to tinker with the machine, not find fault with the human beings involved. Finding fault is made more difficult because any agency intervention is cloaked under the secrecy of confidentiality laws and treated as utterly private. Since child-welfare agencies are lodged within the state, however, their actions cannot be private: citizens do not have a choice about when the agency enters into their lives.

That cases of abuse and neglect are subject to intervention is not a problem in and of itself; rather, it is the manner in which such intervention is carried out. Child welfare professionals were long ago successful in persuading state legislatures to decriminalize most cases of child abuse and neglect. By forsaking the courts of criminal law, in which determinations of justice and injustice are made and punishments meted out, social work took on the much larger task of attempting to heal family members who have gone wrong. The therapeutic regimen is carried out by providing various services from things as simple as housekeeping to as complicated as residential drug treatment for both the drug-addicted mother and her children.

Healthy Families America, embraced by politicians across the spectrum, is only the latest government-funded fad directed at preventing child abuse. Healthy Families, sponsored by the National Committee to Prevent Child Abuse and funded by most states, is popular because it is advertised as voluntary. This home-visiting program screens parents with newborns in the hospital for risk factors for abuse; then paraprofessionals visit parents deemed to be high-risk and provide them with advice and information on child development. Its effectiveness is unclear: in Arizona, for example, the first-time mothers in the control group had a lower incidence of abuse than the group in the program.[10] After several decades of social experimentation, one thing is clear: yet another government program will fail to make parents better; we do know it can make things worse, however.

It is the poor and marginalized citizens who are hurt most by current policy. If we want parents to raise their children in a manner fitting to a free society, we must remove the incentives for irresponsibility. Overcoming desperate circumstances requires good character, especially that virtue which is the foundation of all the other virtues: self-control. When virtue is not rewarded, but is instead treated as one of many equally worthy lifestyle choices, the poor are disproportionately harmed. It is more than time to insist that all parents be responsible for raising their children. □

1. This may indeed be true of foster care, where the state steps in and physically removes a child from a dangerous parent.

2. Dana Mack, *The Assault on Parenthood* (New York: Simon and Schuster, 1997), p. 17.

3. U.S. General Accounting Office, "Head Start: Research Provides Little Information on Impact of Current Program," April 1997. See also Nina H. Shokraii and Patrick F. Fagan, "After 33 Years and $30 Billion, Time to Find Out If Head Start Produces Results" (Washington, D.C.: Heritage Foundation), July 15, 1998.

4. U.S. Department of Health and Human Services, Children's Bureau, *Child Maltreatment 1996: Reports from the States to the National Child Abuse and Neglect Data System* (Washington, D.C.: U.S. Government Printing Office, 1998), p. 2–1.

5. Patricia A. Schene, "Past, Present, and Future Roles of Child Protective Services," in *The Future of Children*, Spring 1998 (Los Altos, Calif.: The Center for the Future of Children, David and Lucile Packard Foundation), p. 29.

6. *Child Maltreatment 1996*, p. 2–3.

7. The Voluntary Cooperative Information System (VCIS) is the most complete aggregate data on children in substitute care. It is collected by the American Public Human Services Association (APHSA), formerly known as American Public Welfare Association, in Washington, D.C. The last estimate available is for 1995, which puts the number of children in foster care at 483,000. However, APHSA projects a 3–4 percent increase each year, which would put the estimate at 527,787 for 1998. See American Public Human Services Association's Web site at: http//: www.apwa.org/faq/quest7.html.

8. U.S. Department of Health and Human Services, Children's Bureau, *National Study of Protective, Preventive and Reunification Services Delivered to Children and Their Families* (Washington, D.C.: U.S. Government Printing Office, 1997), p. 3–11.

9. U.S. Department of Health and Human Services, National Center on Child Abuse and Neglect, *Executive Summary of the Third National Incidence Study on Child Abuse and Neglect* (Washington, D.C.: U.S. Government Printing Office, 1996), pp. 8–10.

10. Robert Franciosi, "Get 'Em While They're Young: The Second Childcare Revolution and the Expansion of the Nanny State" (Phoenix: Goldwater Institute, 1998), p. 20.

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# Children's Real Enemy

by John Hood

An ounce of prevention is worth a pound of cure," or so the old saying goes. For the past three decades, politicians and policymakers attempting to close the gaps in educational achievement and social well-being among American children have taken this sentiment to heart. From the creation of Head Start in 1965 to various preschool and child-care programs today, government at all levels has attempted to ameliorate or eliminate social problems such as poverty, illiteracy, crime, drug abuse, out-of-wedlock births, and welfare dependency by "investing" in early childhood education. The case for such programs has been seductive. Why not inoculate youngsters against these social pathologies with a preschool program, much as public-health departments inoculate youngsters against viral or bacterial pathologies?

In reality, the public-health model has little relevance for early childhood development. The wide range of influences on young minds has proven resistant and sometimes impervious to government alteration. Head Start and other preschool programs aren't "miracle drugs" that can overcome the effects of poor parenting, poverty, and educational malpractice in the public schools.

Nor is an institutional setting the preferred means of caring for preschoolers in most American families. Census data show that nearly three-quarters of all preschoolers are still cared for by parents or relatives at home, rather than in the day-care centers that benefit most from the new government initiatives. It is, in other words, impossible for preschool models, day-care subsidies, provider training, and new regulations to improve the early childhood development of the many children who will never set foot in a day-care center or preschool. What they and other children need are not new government programs but tax relief to allow families to keep more of what they earn and to make their own investments in their children's development.

## Head Start

The granddaddy of the government preschool movement is Head Start, a federal program that provides educational, medical, and social services to disadvantaged preschool children. The program originated in 1965 as an eight-week summer program of the U.S. Office of Economic Opportunity. Over the next three decades, it grew into a $4 billion year-round program providing grants to local organizations to operate programs for about 800,000 poor preschoolers.

There are four major components to Head Start: (1) education, (2) health care, (3) parent education, and (4) social services. Local programs provide these services in surprisingly different ways and levels of quality. Indeed, reports by the Inspector General's Office in

*John Hood is president of the John Locke Foundation, a state policy think tank based in Raleigh, North Carolina, and one of the authors of a new report on children and public policy from the Pacific Research Institute.*

the U.S. Department of Health and Human Services have found that many programs fail to deliver the services for which they are paid. Many children fail to receive scheduled immunizations despite spending two or more years in Head Start.

Even given the spotty nature of local Head Start performance, few analysts dispute that children who leave Head Start and enter elementary school exhibit some advantages over their non-Head Start peers in academic and socio-emotional measures. Unfortunately, these benefits do not last long. By the third grade, according to the federal government's own analysis of Head Start studies, the benefits "fade out." That is, disadvantaged youngsters with Head Start experience become indistinguishable from disadvantaged youngsters without such experience. Whatever Head Start is, it does not qualify as inoculation against educational or social maladies later in life.

Still, defenders of Head Start and similar government programs continue to argue that an early taxpayer investment can save significant costs in the future. They base their case not on Head Start itself but studies of a handful of university experiments. The most famous of these is probably the Perry Preschool in Ypsilanti, Michigan. In 1962 the preschool selected 123 poor children. Half the group was given two years of preschool instruction and services, two-and-a-half hours a day, five days a week. The other half took part in no preschool program. Both groups of children were then tracked throughout their academic careers and into adulthood. The Perry students demonstrated not only significant short-term gains, as do typical Head Start participants, but also long-term gains. About two-thirds of the Perry group graduated from high school, compared to 50 percent of the control group. Similarly, while 51 percent of the control group had been arrested by age 19 for some crime, fewer than a third of Perry graduates had.

When the Perry results were first reported in the mid-1980s, they made a huge public relations splash. Child advocates began arguing that a dollar spent on preschool would save taxpayers $5 in future economic, education, welfare, and crime costs—all based on the Perry experiment. Even as pressure mounted to expand Head Start, and several states began their own early childhood initiatives, few bothered to ask why the Perry results differed so radically from those of Head Start programs themselves.

In fact, studies of the Perry Preschool and a couple of other university experiments don't offer much guidance about the probable efficacy of government preschool. "These programs were conducted under ideal circumstances," wrote Congressional staffer Ron Haskins in a seminal article in *The American Psychologist*. "They had skilled researchers, capable staffs with lots of training, ample budgets. . . . It seems unwise to claim that the benefits produced by such exemplary programs would necessarily be produced by ordinary preschool programs conducted in communities across the United States."

Another major difference between Perry and Head Start is obvious: studies of the Perry project and a few similar projects track only a relative handful of students, a few hundred, through their academic and early adult lives. Studies of Head Start, on the other hand, involve hundreds of preschool programs and thousands of children. When dealing with complex issues such as child development, researchers and policymakers must do better than hype a few best cases.

## Smart Start and Success by Six

Fueled by Head Start's public-relations successes in the mid and late 1980s, several states began designing their own early childhood development initiatives in the early 1990s. With names such as "Smart Start" and "Success by Six," these programs mixed a variety of approaches to assisting families with preschoolers, including grants to local service providers, day-care subsidies, home visitation by nurses or social workers, child-care referral activities, and parent-education efforts. In a 1998 report, Columbia University identified eight states as having the most "comprehensive" initiatives in the early childhood area. They included Colorado, Georgia, Minnesota, North Carolina, Ohio, Oregon, Vermont, and West Virginia. The Smart Start program, created by North Carolina Governor Jim Hunt in 1993, serves as a useful case study for how these programs have developed and what impact they have on children's lives.

Hunt made Smart Start the centerpiece of his election campaign in 1992. He promised not a traditional entitlement program but a public-private partnership to link preschool children with service providers in local communities. Very quickly, however, it became clear that Smart Start was in fact a government program paid for almost entirely by taxpayers and routing most dollars to service providers rather than parents. When fully funded, the program is expected to cost nearly $350 million a year—larger than entire departments of North Carolina's state government. Just to put that in perspective: Smart Start will consume more resources than the state's law enforcement budget and almost as much as the state's entire judiciary.

Smart Start may well be the most successful public-policy initiative ever hatched in North Carolina—if one defines success as getting good press. Not just in North Carolina but nationally, the program has received lavish praise for making an investment in the future of the state. Most recently, the program was the recipient of the 1998 Innovation in American Government Award from Harvard University and the Ford Foundation. "North Carolina is making an effort for early childhood education that includes county by county, group after group, and business after business, and is making significant headway," said selection committee chairman David Gergen, former Clinton aide and editor-at-large for *U.S. News & World Report*. Other kudos for Smart Start have come from national magazines such as *Working Mother* and *Good Housekeeping*.

After such heady praise, many state leaders seem to have conveniently forgotten the purpose of Smart Start—to make a long-term impact on the education and social development of children. With only four years of operation under its belt, Smart Start cannot yet be judged conclusively on this criterion. Indeed, it is striking how many plaudits the program has received without a shred of evidence that it is achieving its stated goals. Like Head Start, Smart Start has been successful on a political level without establishing a demonstrable record of success.

## The Early Evidence

Unfortunately for its boosters, the early evidence that does exist does not bear out Smart Start's reputation. Two studies, neither conducted by critics of the program, have found it not to be the public-private partnership Hunt promised in 1993, nor is it likely to be a successful "investment" in early childhood development.

In August 1998, North Carolina State Auditor Ralph Campbell released a "Special Report on the Smart Start Program," which included financial data for FY 1995–96 and 1996–97. While Campbell's office found some areas of improvement, particularly in the number of management problems at local partnerships, it concluded that Smart Start still operates without a uniform fund accounting system, without a uniform contract management and monitoring system, and without sufficient oversight by its nonprofit parent, the N.C. Partnership for Children.

Perhaps most significantly, the audit found that Smart Start continues to fail to meet its private fundraising goals. For 1996–97, the program received $3.9 million in cash and in-kind contributions, far less than the $6.7 million in private funds required by the state legislature in exchange for past increases in taxpayer support. Even this standard wasn't particularly high; the legislature mandated only that Smart Start raise $1 in private funds for every $10 in taxpayer funds. Given the early rhetoric about Smart Start not being a government entitlement program and instead being a public-private partnership, the failure to meet the legislature's low fundraising target represents a major disappointment. Indeed, the N.C. Partnership for Children says it has exceeded the fundraising goal for 1997–98—but only after liberalizing the definition of fundraising to include gifts made directly to day-care centers, not to Smart Start itself. How much private support would flow to the centers anyway? It is impossible to tell.

With regard to the benefits of the program, only one study provides any useful information. It was conducted by the Charlotte-Mecklenburg Public Schools and Smart Start of Mecklenburg County and was released in July 1998 by the N.C. Partnership for Children. In examining the educational impact of Smart Start on kindergartners in Mecklenburg County, the state's most populous county, it surveyed 5,715 parents. It used different assessments to provide educational data. One, the Kindergarten Awareness Profile (KAP), is given to incoming students to identify potential learning difficulties. The other, the Kindergarten Assessment in Reading and Mathematics (KARM), is a periodic observation of academic achievement given by classroom teachers. The results are combined at the end of the year and serve as a measurement of student achievement.

In brief, no statistically significant relationship was found between the KAP and KARM results, on the one hand, and participation in the Smart Start program for fewer than three years, on the other. That is, preschoolers who spent a single year in a Smart Start-supported day-care center or simply received a Smart Start-sponsored vision or hearing screening did not perform any better on the KAP screening or the KARM achievement assessment than preschoolers who did not. For those who spent three years in a Smart Start-supported center, the study did find a statistically significant—but small—difference. On the KAP screening, long-term Smart Start kids scored an average of 93.35 (on a scale of 0-102) versus 91.05 for kids without that experience. On the KARM, the point difference was similar: 32.18 versus 29.83.

Smart Start proponents trumpeted that last result as evidence of the effectiveness of the program. "Smart Start is working in Mecklenburg County and this study proves it," said Ashley Thrift, chairman of the N.C. Partnership for Children. He is mistaken. The Head Start experience shows that the difference between participating and nonparticipating preschoolers will shrink as both groups go through the same schools. A large gain in early educational outcomes for participants might be sustained over time, but a tiny one—two points on a test—is unlikely to persist. It is certainly not a worthwhile return on the huge investment that North Carolina taxpayers have made in the Smart Start program since 1993.

Even the small jump in scores for long-term Smart Start participants may be suspect. After all, it is difficult if not impossible to rule out "selection bias" in such a study. That is, parents with other characteristics likely to improve student performance are probably more likely to get their children involved in Smart Start-type programs than are their peers. This effect may be small, but it would not take much to eradicate the small outcome differences the study found.

## A Different Approach

There is no great mystery as to why government programs like Head Start and Smart Start don't provide the long-term benefits they promise. Two or three years of preschool are unlikely to make an indelible impact on children who will spend far more time with their parents and in what are often mediocre (or worse) government schools. There is no magic wand that can wish away the effects of poverty, family breakup, and educational malpractice. There are no shortcuts in tackling these problems, nor are many of them amenable to government solutions at all.

On this point, the comments of four academic researchers who support Head Start are particularly salient:

> If we wish to "close the gap" between advantaged and disadvantaged children, educational services need to go beyond the provision of short-term interventions. Policy decisions that support the expansion of preschool programs without addressing the more fundamental question of trying to alter what happens to disadvantaged children in our nation's public schools are shortsighted. (Valerie Lee, et al., "Are Head Start Effects Sustained?," *Child Development*. vol. 61, 1990, p. 505)

Furthermore, there is no reason to believe that government involvement or oversight of preschool and child-care arrangements will improve their quality. It is not obvious, for example, what specific factors make an early childhood program effective, so governments have little to go on in trying to mandate improvements. As the National Research Council stated in 1996, researchers do not know what constitutes the "basic ingredients" of high-quality child care. The council observed that "what is developmentally beneficial for one child may not be so beneficial for another."

The few studies that do exist suggest that the impact of day care and preschool, positive or negative, on a child's readiness to learn is difficult to demonstrate. Only 1.3 to 3.6 percent of differences among children in cognitive and language performance has been significantly linked to child-care factors; the vast majority of such differences among students when they enter school can be linked to factors such as family income, mother's vocabulary, and family environment.

If policymakers really want to help all children grow and develop, the most important task is to alleviate the tax burden on families. □

THE FREEMAN Ideas On Liberty

# The Second Amendment in the Light of American Republicanism

by Joseph R. Stromberg

The "transforming" ideology of America's revolutionary period saw the chief conflict in society as one between liberty and power. That ideology synthesized themes from several sources.[1] Given the differing origins and jumping-off points of classical liberalism and classical republicanism (the two most important elements), the American "synthesis" might be expected to undergo some unraveling when up against the harder problems of political life. What is striking, however, is the surprising tenacity and coherence of American republicanism over the long haul, the persistence of its language, and the continuing relevance of its key ideas down to the present.

One of these key ideas is the notion of the individual properietor on his own land, capable of bearing arms in defense of himself, his property, his family, *and* the republic. In his role as defender of his free society, the armed citizen served with his fellows in the militia, which republican thinkers regarded as the military system most compatible with republican liberty and whose existence helped offset the menace of "standing armies" drawn from outside the community ("crimped scum") loyal only to their immediate superiors (men of "ambition" or a "court party"). The armed proprietor was the idealized republican citizen, and the Second Amendment enshrines his role in the ideological and political systems.

*Joseph Stromberg is a part-time college lecturer in history who has contributed to the* Journal of Libertarian Studies, Reason, Independent Review, *and other publications.*

Some latter-day writers on republicanism have a way of overestimating the tensions within the American synthesis. But some of the alleged incompatibilities—"agrarianism" versus "commercialism," "virtue" versus "luxury"—were either handled well enough by Americans, or exist mainly in the eye of the beholder. Wendy Kaminer, for example, writes that "[a]t the heart of the gun-control debate is a fundamental tension between republicanism and individualism" (that is, liberalism).[2] A look at the Second Amendment is an opportunity to learn more about American republican ideology and to gain a better understanding of the Amendment itself.

Kaminer writes of "the challenge posed by republicanism to the individualist culture that many gun owners inhabit."[3] But when have Americans *not* inhabited an individualist culture? And when did American "individualists" *not* live in communities? (Re-read Tocqueville.)

The problem as set up by Kaminer rests on the old caricature of "atomistic liberalism." It does not follow that because John Locke started with individuals and their rights, that he or any other liberal writer overlooked the existence of families, churches, and other social institutions. It has never been strictly a matter of "the individual versus society"; rather it has been about what *kind* of society we live in, or wish to live in, and whether or not a free society is desirable and possible. If there are "atomistic" versions of liberalism, the French can answer for them, since the English, Scottish, and American writers did not create them. The rootless, abstract individual, who can only be made "whole" again by participating in an authoritarian-to-totalitarian form of republic, is central to Rousseau's system—not Locke's.[4]

## The Second Amendment in a Distinctively American Republicanism

Anti-Second Amendment writers have great sport trying to separate the individual's right to bear arms from the same individual's role in the militia. On their reading of republicanism, the community stands opposed, somehow, to those who make it up, and the people have "the right to keep and bear arms" only in relation to their duties in the militia. We are asked to take seriously the view that these individuals only keep and bear arms at the command of the state, and really ought to store them all in a central warehouse, whence they will be issued when the state organs (of "national security"?) decide there is an emergency. The state militias, it is likewise asserted, mean nothing today, having been consumed by the National Guard, with its sort of Third World name. I shall demonstrate the leglessness of this stand directly.

As far as an individual right to self-defense goes, the law—which is very conservative—gives us examples from the earliest societies connected with the Indo-European language family. It was a settled thing in Greek, Roman, and Slavic law that a man who caught an intruder in his house by day, should seize him and hold him for the authorities; if the intruder came at night, he could kill him. I suppose he could do this barehanded, but more likely he was armed

We need not reach so far back for precedent, however. William Blackstone, whose views on English law were more or less committed to memory by the Founders, regarded self-defense as one of the three most fundamental rights embodied in that law. In the run-up to the American Revolution, colonial radicals held forth on natural rights and the Rights of Englishmen (which in their minds were much the same thing). James Otis advanced arguments from *both* directions in his speech against the Writs of Assistance, making good use of the truism that an Englishman's home is his castle.[5]

Much of that ground had been covered in the Puritan Revolution and the Glorious Revolution of 1688. The seventh item in the English Bill of Rights of 1689 stands in ancestral relation to our own and says: "That the subjects which are Protestants may have arms for their defence suitable to their conditions, and as allowed by law." This is not very "inclusive"—as we say these days—but this was the Parliament that had just deposed James II for being too absolutist and too Catholic, and we can hardly expect these lords and great landholders to have shared the right of self-defense fully with the lower orders.[6]

The immediate context of the Second Amendment is, of course, the struggle over the ratification of the second U.S. Constitution. Part of this context is the revolutionary generation's correct view that the militia had played an important role in the success of the American war of secession from the British Empire. Perhaps the only believable reason for throwing over the existing Articles of Confederation (the first constitution) was the claim that a slightly more effective federal government was needed to defend the confederacy from European powers that still held large parts of North America. This, in turn, raised many questions that went to the heart of republican theory: internal versus external taxation, standing armies versus militia, "empire" versus republican decentralization, and the like. It is not surprising, therefore, that seven state conventions ratified the second Constitution with reservations. They submitted declarations about rights to spell out their understanding of the new charter and proposed amendments to set right ambiguities they saw in it.

Some of these proposals spoke directly to the related questions of the militia and the people's right to bear arms. New Hampshire asked for amendments—among others—stating that "no standing army shall be Kept up in time of Peace unless with the consent of three fourths of the Members of each branch of Congress" and that "Congress shall never disarm any Citizen unless such as are or have been in Actual Rebellion." Asserting the power to "resume" (take back) powers granted if they should be abused, Virginia called for a Bill of Rights to include the following: "That the people have the right to keep and bear arms; that a well-regulated Militia *composed of the body of the people* trained to arms is the proper, natural and safe defence of a free state. That standing armies in time of peace are dangerous to liberty, and therefore ought to be avoided. . . ." (My italics.) New York, also asserting the right of the people to "reassume" powers abused by the new federal government, declared that "the people have a right to keep and bear Arms; that a well-regulated Militia, including the body of the People *capable of bearing arms*, is the proper, natural and safe defence of a free State; [t]hat the militia should not be subject to Martial Law except in time of War, Rebellion or Insurrection. That standing armies in time of Peace are dangerous to liberty, and ought not to be kept up, except in Cases of necessity. . . ." (Italics in original.) North Carolina likewise: "[T]he people have a right to keep and bear arms; that a well-regulated militia *composed of the body of the people*, trained to arms, is the proper, natural and safe defence of a free state." (My italics.) Finally, Rhode Island, asserting the right of the people to "reassume" delegated powers, declared that "the people have a right to keep and bear arms," with the same language regarding militia, standing armies, etc., used by the other state conventions.[7]

It would seem that the men who demanded what became the Second Amendment expressed their views with great power and clarity. Yet it is this straightforward proposition that overmasters the reasoning power of several prominent northern congressmen and senators today.

## The Hermeneutics of the Second Amendment

The wording of the actual text of the Second Amendment can be described as "sloppy draftsmanship" only in the sense that the sentence structure leaves itself open, perhaps, to deliberate and willful misreading that the amendment's framers could never have foreseen. That they and their contemporaries understood what they were about, and what the amendment means, is clear from the state proposals cited as well as from a mountain of related language in contemporary opinion and private communications. Judge Joseph Story of Massachusetts—High Federalist, U.S. Supreme Court Justice, and a founder of the Yankee theory of the union—wrote in 1840 that the right to keep and bear arms is "the palladium of the liberties of a republic; since it offers a strong moral check against the usurpations and arbitrary power of rulers; and it will generally, even if these are successful in the first instance, enable the people to resist and triumph over them."[8]

Stephen P. Halbrook quotes Thomas Jefferson's and James Madison's comments on Virginia legislation to show that there is no mystery about the meaning of "bear" (it means "carry"). This goes to the modern liberal superstition that Second Amendment advocates believe in private ownership of tanks and nuclear bombs. If the private right were not already clear from the ratifying conventions' drafts, Robert Shalhope cites Thomas Jefferson's views: "Let your gun therefore be the constant companion of your walks." A ramble through the country with your gun is manifestly not service in the militia.[9]

The meaning of the Second Amendment is also clarified by a look at comparable provisions in eighteenth-century and nineteenth-century state bills of rights. Here I will cite only the Texas Constitution of 1876: "Every citizen shall have the right to keep and bear arms in the lawful defense of himself or the State; but the Legislature shall have power, by law, to regulate the wearing of arms, with a view to prevent crime."[10] Here as elsewhere, there is no question that an individual right of self-defense exists alongside but separate from any militia issues. The point about the "wearing" of arms, and the state's right to regulate that, brings up some issues as to the scope of the Second Amendment within a federal system.

The original understanding—if we may use this phrase—was that the Bill of Rights applied against the new and feared general government and not against the several states. The language of the Second Amendment is so broad that it might be argued that the states bound themselves by it ("the right . . . shall not be infringed" versus "*Congress* shall make no law" in the First Amendment). Usage suggests, however, that protection of the right was left—at the state level—to bills of rights in the state constitutions where the actual details might vary. The Fourteenth Amendment (if actually ratified) may alter matters. The Supreme Court has proclaimed that the Fourteenth Amendment "incorporates" those rights in the first ten amendments to which the Court is partial. So far, it has not seen fit to extend this reasoning to the Second Amendment.

## The Bad Faith of the Gun Grabbers

If the gun opponents were honest, they would—like George Will—concede the overwhelming case against their "interpretation" of the amendment, and then go out and work to get their own amendment. The opponents want to get by with "interpreting" the amendment away, or simply ignoring it as so much "irrelevant" eighteenth-century metaphysics, while Congress gets on with the important work of overriding, "infringing," and eliminating the right to keep and bear arms. They wish to proceed as if we were living under the Anti-Constitution composed by Rexford G. Tugwell, ex-New Deal technocrat and planner. Tugwell's version of the amendment reads, "No person shall bear arms or possess lethal weapons except police, members of the armed forces, or those licensed under law according to rules established by the Court of Rights and Duties." In 1941, Clarence G. Streit, Anglophile proponent of federation between the United States, Britain, Australia, New Zealand, and South Africa, wrote a draft "based on the U.S. Constitution" that simply left out any right to bear arms. More to the point may be the plan of government for the Philippine Islands drawn up in 1913 by the U.S. Secretary of War, which, as Philip Jessup put it, "secured to the Philippine people all the guarantees of our Bill of Rights except trial by jury and the right to bear arms"—that is, all but the two most important ones. Of course the American colonialists, having just fought a brutal counter-insurgency war to make good their claim to the islands, and which led to the death of some 200,000 Filipinos, were not in a mood to encourage unreliable Filipinos to bear arms.[11] It may be significant, however, that proponents of gun control think it appropriate to treat Americans the way an imperial power treats its far-off colonial subjects.

The gun-controllers, to put it another way, can't see why Americans are so reluctant to submit themselves unquestioningly to the benevolent rule of a social-democratic welfare-warfare state of the sort in place in the happy and peaceful nations of western Europe. In such a state things will be very orderly—and there is absolutely nothing to fear because we will all have that all-important right to trudge to the polls every so often to show (perhaps under threat of fines) our acquiescence in whatever the politicians decide to do with our lives, incomes, and property. No matter how detailed bureaucratic oversight of people's lives may become, they can always vote for a change in personnel—if not about anything substantive. This happy scenario looks to a re-creation of the Old Order in which priests and warriors rule over the economic producers who, after all, need only do what they are told.

## Why Bother with Republican "Discourse"?

Law professor William Van Alstyne writes that the Second Amendment is not "mysterious, equivocal, or opaque"—"today it is simply unwelcome." As for those who dislike it, "it is for them to seek a repeal." He adds that "the essential claim" made by the NRA "is extremely strong."[12] Even so, it is likely that Congress will go on infringing the amendment and order the states to infringe it further, and that the courts will regard the right as "irrelevant" and of mere antiquarian interest. People will still believe in their right of self-defense.

So what do we gain by going over all this? We learn the truth, and that is probably a good thing in itself. We learn something about the American revolutionary synthesis and, alas, the difference between ourselves and our forefathers. And we may learn something about constitutional morality as against "stealth" amendment by Congress and the courts, which present us every few years with a brand new "constitution" they have found lurking inside the real one. □

1. For a discussion of the various themes and references, see my article "Tensions in Early American Political Thought," *The Freeman*, May 1999.

2. Wendy Kaminer, "Second Thoughts on the Second Amendment," *The Atlantic Monthly*, March 1996, p. 32.

3. Ibid., p. 43.

4. See Robert A. Nisbet, *Tradition and Revolt* (New York: Vintage Books, 1970), "Rousseau and the Political Community," pp. 15–29.

5. James Otis, "On the Writs of Assistance" in *Orations of American Orators*, I (New York: The Co-operative Publication Society, 1900), pp. 19–24.

6. English Bill of Rights, 1689, in Irwin Edman, ed., *Fountainheads of Freedom: The Growth of the Democratic Ideal* (New York: Reynal & Hitchcock, 1941), p. 338. The Whig landlords who ousted the Stuarts soon passed the draconian Black Act, which almost made it a capital crime to even think about shooting any game on their vast estates. See E.P. Thompson, *Whigs and Hunters* (New York: Pantheon Books, 1975). The connection between game laws, arbitrary search and seizure, and gun confiscation seems fairly obvious.

7. The full text of ratifications is in Charles C. Tansill, ed., *Documents Illustrative of the Formation of the Union of the American States* (Washington, D.C.: Government Printing Office, 1927), pp. 1009–1059.

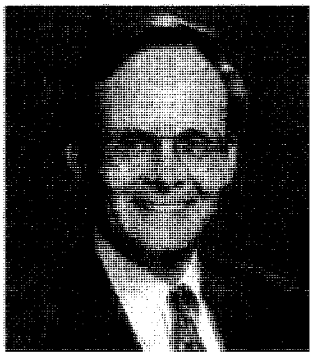
8. Joseph Story, *Familiar Exposition of the Constitution of the United States* (Lake Bluff, Ill.: Regnery Gateway, 1986), p. 319.

9. Stephen P. Halbrook, "What the Framers Intended: A Linguistic Analysis of the Right to 'Bear Arms,'" *Law and Contemporary Problems*, Winter 1986, pp. 151–162, and Robert E. Shalhope, "The Armed Citizen in the Early Republic," ibid., pp. 125–141.

10. *Texas Almanac, 1980–1981* (Dallas: A.H. Belo Company, 1979), p. 482.

11. Rexford Guy Tugwell, *Model for a New Constitution* (Santa Barbara: Center for the Study of Democratic Institutions, 1970), p. 81; Clarence G. Streit, *Union Now with Britain* (New York: Harper & Brothers, 1941), pp. 215–16; and Philip C. Jessup, *Elihu Root*, vol. I (Hamden, Conn.: Archon Books, 1964 [1938]), p. 354.

12. William Van Alstyne, "The Second Amendment and the Personal Right to Arms," *Duke Law Journal*, April 1994, p. 1250.



# A Tax Is Not a User Fee!

Politicians and bureaucrats are notorious for manufacturing euphemisms—clever but deceptive substitutes for what they really mean but don't want to admit. That's how the phrase "revenue enhancement" entered the vocabulary. Some of our courageous friends in government couldn't bring themselves to say "tax hike."

At all levels of government, a bipartisan effort to impose new or higher taxes and mislabel them as seemingly less onerous "user fees" provides another example. Sometimes, a user fee is indeed a user fee. Other times, it's not that at all. Instead, it's a tax hike disguised by a misnomer.

When someone chooses to use a government service and pays for it, he's paying a user fee. Furthermore, what he pays should cover the cost of the service he is receiving; if it goes for something he isn't getting or doesn't want, then he's paying a little of both—a user fee *plus* a tax. Taxes differ from user fees in that paying them isn't a matter of choice and what you pay is not tied directly to what you're using.

In principle, true user fees make a lot of sense, especially if you want people to understand that nothing from government is truly "free." Indeed, the more government finances itself through user fees instead of taxes, the less it looks like government and the more it gets out of the redistribution business and begins to resemble private firms operating in free markets.

Instinctively, most people sense a certain fairness about true user fees. You pay for what you get, and you get what you pay for. Most people understand and support user fees for such things as toll roads, harbors and waterways, and even parks and recreational facilities. If they understand that private enterprise would probably do a better job with these things, they know that at least a user fee approach for government services gives them an opportunity to make a rational economic choice: buy it if it's worth the price, patronize an alternative, or do without. All this makes for useful background to a victory that advocates of liberty and sound economics recently won in my state of Michigan.

In 1978, Michigan voters approved the Headlee Amendment to the state constitution. Among other provisions, the amendment requires voter approval before a tax can be imposed or increased. In its 1994 report, the Headlee Amendment Blue Ribbon Commission found that a growing number of Michigan townships, counties, and cities were skirting that requirement by mislabeling certain taxes "user fees." The commission recommended that the legislature clarify the difference between a tax and user fee. The Michigan Supreme Court now has done what the legislature never got around to doing. Here's how the case arose:

*Lawrence Reed is president of the Mackinac Center for Public Policy (www.mackinac.org), a free market research and educational organization in Midland, Michigan, and chairman of FEE's Board of Trustees. As a member of the Headlee Amendment Blue Ribbon Commission, he helped write the portion of the commission's report dealing with the user fee versus tax issue in 1994.*

In 1995, the city of Lansing adopted Ordinance 925, known by many as the "rain tax." It provided for the creation of a storm water enterprise fund "to help defray the cost of the administration, operation, maintenance, and construction" of a new storm water system that would separate sanitary and storm sewers. Heavy rains had occasionally caused the city's combined sanitary and storm sewer system to overflow, discharging untreated and partially treated sewage into the Grand and Red Cedar rivers. Fifty percent of the 30-year, $176 million cost of the system was to be financed through an annual "storm water service charge" imposed on each parcel of property in the city. The city maintained that the service charge was a user fee and therefore did not have to be put before the voters for approval. But Lansing citizen Alexander Bolt had read the constitution and knew a tax when he saw one.

Bolt challenged the Lansing "rain tax," taking the case all the way to the Michigan Supreme Court, a majority of which on December 28, 1998, declared, "We hold that the storm water service charge is a tax, for which approval is required by a vote of the people. Because Lansing did not submit Ordinance 925 to a vote of the people as required by the Headlee Amendment, the storm water service charge is unconstitutional and, therefore, null and void." The decision established an important precedent that puts municipalities on notice that the voters who approved the amendment intended for it to be enforced, not subverted.

The Court's majority opinion refreshingly argues that "a primary rule in interpreting a constitutional provision . . . is the rule of 'common understanding.'" In other words, in this case the intent of the voters should be of utmost importance, as opposed to some judicially activist fabrication. The Court affirmed that the voters intended to place limits on taxes and governmental expansion.

Just what exactly distinguishes a user fee from a tax? The Court advanced three main criteria: (1) a user fee is designed to defray the costs of a regulatory activity (or government service), while a tax is designed to raise general revenue; (2) a true user fee must be proportionate to the necessary costs of the service, whereas a tax may not be; and (3) a user fee is voluntary, whereas a tax is not.

The Lansing ordinance failed all three tests of a user fee. The Court determined that it constituted "an investment in infrastructure as opposed to a fee designed simply to defray the costs of a regulatory activity" and agreed with the dissenting opinion in a lower court ruling that the revenue from the charge was "clearly in excess of the direct and indirect costs of actually using the storm water system." The Lansing rain tax applied "to all property owners, rather than only to those who actually benefit," contrary to a genuine user fee. Moreover, the ordinance "failed to distinguish between those responsible for greater and lesser levels of runoff."

Most plainly, the rain tax was utterly involuntary. True user fees are only "compulsory" for those who choose to use a service, but Lansing property owners in this case had "no choice whether to use the service" and were "unable to control the extent to which the service" was used.

The Court's majority concluded by quoting the Headlee commission report, "This is precisely the sort of abuse from which the Headlee Amendment was intended to protect taxpayers." Amen!

The message is clear to Michigan municipalities: You now have no legitimate excuses for mislabeling taxes as "user fees." Be honest. If it's a tax, put it before the voters as the Headlee Amendment requires and make your best case. You can't junk the constitution just because you want the money. It's a refreshing message that ought to be applied everywhere. □

THE FREEMAN
Ideas On Liberty

# The Reserve Requirement Debacle of 1935–1938

by Richard H. Timberlake

The principal thrust of Treasury-Federal Reserve monetary policy throughout the 1920s and 1930s was by turns restrictive, contractionary, and depressive. Even as the economy was floundering helplessly in a financial environment of monetary austerity, no one in the Treasury-Fed bureaucracy seemed to understand the ongoing disequilibrium. Most economists and bankers could not grasp it either. Federal Reserve spokesmen claimed that "low" interest rates were a sign of monetary ease and plenty of credit. Since market interest rates had almost disappeared into the woodwork, "money" was supposedly plentiful. In fact, the quantity of money—the money the central bank was supposed to provide scientifically and opportunely to the economy—was suffocatingly inadequate.[1]

Part of the problem was the flawed real bills doctrine that most commercial bankers and, subsequently, Federal Reserve officials embraced to fashion credit policy. If bankers and businessmen were not borrowing at the minuscule rates then current, the argument went, their enterprises were just not productive enough to warrant additional monetary resources. According to this view, the production of goods, services, and capital led to the production of money through the operation of banks and the gold standard. In fact, with the production of money in the province of human design, it was the other way around: Without *some* human provision on *some* basis for supplying money to the economy, the economic machine was derelict.

A related policy shortcoming that aggravated the Federal Reserve's restriction of money was the official attitude toward "the" gold standard. Since 1920, the gold standard in practice had become an unwelcome nuisance to be fit into the government's monetary-fiscal program in ways that would not interfere with the current hands-on priorities of current policy. Especially was this stance clear after 1933.

## Eclectic Model

Treasury and Federal Reserve excuses for past mistakes were highly successful. Fed spokesmen then trotted out their eclectic model of the economy, which claimed that the depression was worldwide and developed from a number of independent causes. One of their favorite slogans was, "Monetary policy is like a string. You can pull with it, but you can't push on it." Those who had a collectivist bent were only too happy to hear that a market order based on individual property rights and the rule of law could not thwart a great depression.

Another factor that obscured a path out of the depressionary forest was the policy of raising the price of gold after all the gold had gone to Washington and been buried in the Treasury's dungeons. Government ownership of the gold, and the actual illegality of private

*Richard Timberlake is a professor of economics retired from the University of Georgia. This is the last in a series.*

ownership, left gold with no more function than ballast in the basement that would prevent the U.S. Treasury building from rocking in a windstorm.

The middle 1930s witnessed an even more astonishing event. The belated recovery, helped in part by monetary expansion from the massive gold monetization, was just beginning to show some vitality when Treasury-Fed officials decided that the continuing gold inflows were leading to the acute danger . . . *of an inflation*! Official opinion in the two agencies concluded that the proper tactic now was for the Fed to increase member-bank reserve requirements using the new power it had been granted by the Banking Act of 1935. Simultaneously, the Treasury would reinstitute the gold-sterilization procedures that the Fed had used so conspicuously in the 1920s. The Board of Governors regarded the monetary conditions of the mid-thirties as a made-to-order opportunity to experiment with its new reserve-requirement gadget.

## Reserves and Reserve Ratios

Before going further, the reader might find useful an explanation of banks' reserve ratios and the central bank's authority over legal reserve requirements. A bank's reserve ratio is the fraction of the bank's effective reserves relative to its demand obligations (that is, checking deposits). It is stated either as a decimal or as a percentage. Reserves always included currencies and cash, such as gold, silver, and other legal tender. All legal tender currency is government issued or government guaranteed, and has included greenbacks, silver certificates, gold certificates, national bank notes, and Treasury notes. Since 1913, the principal currency has been Federal Reserve notes issued by the twelve Federal Reserve Banks.

Reserves also include reserve-deposits that member banks maintain in Federal Reserve Banks. These accounts are the balances that Fed Banks use to clear the demand obligations of their member banks to other banks. They are similar to the commercial bank accounts households and businesses write checks against for conventional transactions. All these reserve items are ultimate legal satisfaction for redeeming the demand deposits (and in the nineteenth century, bank notes) that the commercial banks issue(d) as a byproduct of their lending and investing operations.

Before governments imposed legal reserve requirements, bankers maintained their own reserve accounts. The typical banker considered a variety of circumstances to determine the fraction of reserves he should keep against the bank's demand obligations: the volatility of his lending business, his bank's geographical location—rural or urban and its proximity to financial centers, the season of the year, and the general state of business. Especially did he consider banking laws that added institutional restrictions to his other concerns. Banking laws have been especially onerous for banks, probably because all legislators know that banks somehow create money and the legislators feel that it is their duty to protect their constituents from these "predators."

Clearly, the importance of the many factors determining the volume of reserves the banker felt he needed would vary over time. The banker would then adjust the ratio by extending or diminishing his loans and accommodations to the borrowing community. Whatever his reserve position, the banker had his reserves on hand and knew he could use them to the fullest if any panic or emergency threatened.

At first blush, specification of minimal reserve requirements seems to be a logical function of government—something akin to police protection. Indeed, that was the view when Congress first considered the idea in the mid-1830s, as the U.S. Treasury deposited the money from land sales and tariffs in private banks. Congress then deliberated a plan that called for a 20 percent legal reserve minimum for all banks holding U.S. Treasury balances. At first, the proposal had a good deal of support. On reflection and "reconsideration," however, the lawmakers of the time backed away from a specific prescription. They decided to let the secretary of the treasury stipulate the reserve qualifications for banks that held government balances.[2]

Some state governments began specifying legal reserve requirements for banks as early as the 1840s. Then the National Bank Act passed during the Civil War included reserve requirements for all national banks. It listed three classes of banks (described last month): central-reserve-city banks, reserve-city banks, and "country" (all other) banks. Only state laws governed the reserves of non-national banks, and some states had no formal reserve requirements at all.[3]

Of course, no bank, regardless of state law, can operate without a contingency or providential reserve of some amount. Competition among banks for deposits and loan-making opportunities, and clearing of banks' checks through clearinghouses, force banks to maintain some level of reserves. *Legal* minimal requirements simply mandate what solvent and responsible banks would do anyway to stay in business as cost-recovering enterprises—with this exception: legal minimums are usually a fixed percentage for a wide classification of banks, and are, therefore, somewhat greater than most banks would keep if left to themselves. They are greater because a governmental regulatory agency must cover a wide spectrum of banks that have diverse exposures to risks and other reserve maintenance requirements.

Though minimum legal reserve requirements seem sensible and have become part of the conventional wisdom, their presence has proven in practice to be destabilizing to the banking and monetary system. First, the "correct" ratio is highly variable from bank to bank, depending on all the factors listed. Since it is also highly variable from season to season for the same bank, it is not a parameter that a government agency, even with perfect wisdom, can specify for banks collectively. It is another example of the synoptic regulatory delusion.

Finally, the very nature of a *legal* reserve requirement raises this unresolvable question: if a bank must keep a minimal ratio of reserves to deposits, how can it use those reserves when redemptions of its notes or deposits would bring its reserve ratio down below the legal minimum?

This dilemma has never been satisfactorily solved. Some banking laws have allowed banks to trench on their required reserves by paying substantial penalties. Often, however, the reserve requirement was treated as an ironclad minimum, which if breached, gave banking authorities cause to shut down the offending bank. In other cases, the bad publicity banks received when their reserve ratios became deficient practically put them out of business. Under such opprobrium, the legal minimum percentage converted what would have been a cushion of usable reserves against unusual redemptions into an unusable fixture that banks only dared breach when they were at the end of their other resources.

## Uncertain Effects

The potential effect on the money supply from the reserve-requirement manipulation the Banking Act of 1935 vested in the Federal Reserve Board was very uncertain. The greatly increased quantity of monetized gold had expanded bank reserves to double the dollar amounts that current requirements—7, 10, and 13 percent for the different classes of banks—specified. Banks had plenty of reserves but they were not using them to make loans and investments to households and businesses. Given that dollar reserves were double the amount legally required, the banking system, by expanding credit and deposits to the legal limit, could have doubled the quantity of demand deposits.[4] This unused potential implied two questions: First, what was the probability of such a bank credit expansion? Second, if it happened, what would be the effect on prices?

Marriner Eccles, the new chairman of the Federal Reserve Board, was one of many Treasury and Fed officials who thought that the reserve overhang was dangerous. These reserves, he observed in late 1935, "could become the basis of a potential expansion of bank credit of such proportions that the Federal Reserve could lose all control or influence over the supply and cost of money."[5] He noted, however, that the Board of Governors still saw "no evidence of overexpansion of business activity or of credit."[6]

In the next six months the continuing gold inflow raised total bank reserves to $6 billion, and excess reserves to $3 billion. These numbers convinced Eccles, other Fed and Treasury officials, and much of the financial community that an increase in reserve requirements was advisable. What the policymakers especially disliked was the fact that the banks, with all their excess legal reserves, could operate outside the control of the Fed. Once the excess reserves became required, Fed policymakers would have a tight rein on the banks. "Even if the increase was as much as fifty per cent," Eccles concluded, "the remaining reserves would still be beyond current or prospective needs of business and would provide a more than adequate basis for legitimate credit expansion."[7]

The Fed Board, under the urging of the Fed Bank of New York, raised reserve requirements by 50 percent in August 1936. The increase, as far as the banks were concerned, made half—$1.5 billion—of their existing reserves unavailable. However, they still had excess legal reserves of $1.5 billion. So the Fed Board in early 1937 raised requirements again, effective in March and May, to "mop up" the remaining legal excess. The total volume of reserves moved from "excess" to "required" came to $3 billion.

The magnitude of this change is understood best when it is viewed in equivalent dollar value to an open-market sale of government securities. As Friedman and Schwartz point out, $3 billion "amounted to nearly one-quarter of total high-powered money." Since the total amount of government securities in the Fed Banks' portfolio at the time was only $2.4 billion, the Federal Open Market Committee could not possibly have carried out such a momentous open-market sale. Neither would it have considered the idea for an instant.[8]

Raising reserve requirements had a good deal of support outside the Fed and Treasury. Benjamin M. Anderson, a conservative critic of both New Deal policies in general and monetary policy in particular, expressed a typical view. The great increase in excess reserves, Anderson noted, had had very little effect on interest rates. Therefore, decreasing reserves by raising requirements would have very little reverse effect.[9]

Anderson's arguments reflected the conventional economic reasoning of the time. Monetary policy could only influence financial and business conditions by its limited effect on interest rates. Since rates were already at rock bottom, excess bank reserves made no difference, and their elimination would do no harm.[10]

## Contradictions in Reasoning

Both Anderson's and Eccles's comments, and also those of many other observers, were clearly contradictory. On the one hand, excess reserves did not have any monetary thrust for restoring normal levels of business activity; on the other hand, they gave rise to inflationary levels of credit expansion. Now which view was correct?

No one at the time had the energy or initiative to do so, but a simple empirical analysis can estimate the price-level potential of the excess reserves then current. The questions to be answered are: (1) How much money could the banking system have generated with all the reserves it held before the policy actions that reduced excess legal reserves to virtually nothing? (2) What were the chances that this expanded money stock would produce an inflation? (3) Finally, what was the probability that commercial bankers would expand their loan and deposit accounts to this maximum?

The table on the next page includes the monetary, employment, and price-level data of the period to suggest practical answers to the first two questions. Columns (1) and (2) show member-bank deposits and reserves for the dates listed. Column (3) shows required reserves as of those dates. The difference between columns (2) and (3), excess legal reserves, is in column (4).

If the banks had used these excess reserves at the various dates to extend their loans and investments to the limits then current, bank deposits would have increased by the values shown in column (5). Column (6) is the M2 money stock—the sum of currency and demand deposits, plus time deposits in commercial banks—for the dates shown. Therefore, the maximum money stock that could have appeared because of bank-credit expansion is column (7), "maximum money

**Deposits and Reserves of Member Banks, Various Money Stocks, Unemployment, and Prices, 1935–1938***

| Date | Member bank deposits (1) | Member bank reserves (2) | Member bank required reserves (3) | Member bank excess reserves (2)-(3) (4) | Possible increase in member bank deposits (5) | M2 money stock (6) | Maximum M2 money stock (5)+(6) (7) | Full employment money stock (8) | Inflationary potential of (7) (9) | Unemployment as percent of labor force (10) | Prices, 1929=100 (11) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1935 | | | | | | | | | | | |
| Dec. 31 | 28.9 | 6.28 | 3.30 | 2.98 | 26.1 | 40.3 | 66.4 | 59.2 | +12.2 | 18.5 | 80.5 |
| 1936 | | | | | | | | | | | |
| June 30 | 31.3 | 6.17 | 3.58 | 2.59 | 22.6 | 43.3 | 65.9 | 62.4 | + 5.6 | 16.9 | 80.9 |
| Dec. 31 | 32.2 | 7.33 | 5.28 | 2.05 | 12.5 | 45.0 | 57.5 | 63.5 | –9.5 | 15.6 | 82.3 |
| 1937 | | | | | | | | | | | |
| June 30 | 37.3 | 7.38 | 6.50 | 0.88 | 4.4 | 45.2 | 49.6 | 61.5 | –19.3 | 14.3 | 83.8 |
| Dec. 31 | 31.7 | 7.71 | 6.64 | 1.07 | 5.0 | 44.0 | 49.0 | 61.6 | –20.5 | 16.6 | 83.1 |
| 1938 | | | | | | | | | | | |
| June 30 | 31.6 | 8.61 | 5.85 | 2.76 | 14.9 | 44.1 | 59.0 | 64.4 | –8.4 | 19.0 | 82.3 |

*Monetary data in $ billions; unemployment data and prices in percentages.

*Sources:* Philip Cagan, *Determinants and Effects of Changes in the Stock of Money, 1875–1960,* National Bureau of Economic Research (New York: Columbia University Press, 1965), table F-8, p. 350; Board of Governors of the Federal Reserve System, Banking and Monetary Statistics (Washington, D.C., 1943), pp. 396–97; Friedman and Schwartz, *Monetary History of the United States, 1867–1960,* table A-1, pp. 714–15.

stock," the sum of columns (5) and (6).

Column (8), the "full employment money stock," is a constructive estimate of how much common money (M2) the U.S. economy would have required to achieve full employment on the dates shown. It is based on two conceptual adjustments to the existing money stocks. First, a greater quantity of money would have been necessary to transact the increased volume of goods and services that a fully employed labor force would have produced. Second, an additional quantity of money would have been necessary to get the price level back to the value it had in 1929, the last time at which the economy enjoyed substantially full employment.[11] In a market economy suffering from severe unemployment, increases in the money stock simultaneously stimulate both revived output and higher prices. (In technical terms, the aggregate supply function is neither perfectly elastic nor perfectly inelastic.)

Column (9) is the percentage excess (+) or deficiency (–) of the money stock for the date. It is a measure of potential inflation calculated by dividing (8) into (7) and subtracting 1 in order to state the excess (or deficiency) as a percentage. On these terms, column (9) estimates the inflation that the banking system *could* have generated given the institutional constants then present. Columns (10) and (11) are the data for unemployment and prices as conventionally measured by the Bureau of Labor Statistics. For simplicity, the price index value for 1929 is given as 100.

As Column (9) shows, the maximum potential inflation in the system was only 5.6 percent in June 1936, just before the first massive increase in reserve requirements of August 1936. After the increase, the inflationary potential became negative (–9.5 percent) implying that the economy could no longer reach full employment under the conditions then prevailing, no matter how prodigally commercial banks expanded their accounts.

On the basis of well-intentioned ignorance, the first increase in reserve requirements could be forgiven. It undid part of the immense increase in gold monetization that Roosevelt's inexcusable increase in the price of gold had induced. The second round of increases in March and May 1937, however, turned what had been an ongoing recovery into another cyclical disaster. "Inflationary" potential came down to –20.5 percent, and all the leading indicators of business activity turned negative. By September the recession was unmistakable. Both the Treasury and the Fed undid some small part of their restrictive measures in mid-1938, but a state of healthy economic activity did not appear again until the wartime monetary increases of 1941–1942. So, to answer the first question posed above: No inflation of any size could have occurred between 1937 and 1941. What did appear as a result of Fed-Treasury policies was a sharp *recession* that further undermined confidence in the market system.

The third question—What was the probability that commercial bankers would expand their loan and deposit accounts to this maximum?—cannot be answered with monetary data. To answer this question, the observer must imagine the mindset of a typical banker of the time who has survived the Great Contraction, many unsavory New Deal shenanigans, and now the extraordinary reserve requirement increases.

## Cautious Bankers

Bankers, to begin with, are not by occupation very radical. They operate institutions that have only fractional reserves with which to meet liquidity demands. Assume this bank has survived eight years of monetary turmoil, and now finds its legally required reserves doubled in less than a year. Four to six years earlier it had perhaps sought accommodation from its regional Fed Bank, as anxious depositors filled its lobby during one of the banking crises in the early 1930s. To extend his reserves and satisfy his clients, the banker may have taken some of his "eligible paper" to his regional Fed Bank for discount. The Fed Bank loan committee might well have replied in "shaggy dog" terms that his bank's paper "was not eligible enough," and refused the loan application.

This response surely would have conditioned the banker not to rely on the Fed Bank to save him from liquidity shortages. Milton Friedman, who reviewed this episode in minute detail, remarked: "Bitter experience during the years from 1929 to 1933 had taught banks that it was not enough to keep . . . only the minimum amount [of reserves] required by law; legally required reserves could not be drawn on to meet emergency demands without the banks being liable to closure [by order of governmental banking authorities]. . . . Little wonder that the survivors of the holocaust felt it necessary to provide their own protection against unexpected demands. [Bank] deposits in excess of required legal reserves were essentially uncovered [bank] liabilities for which only the *excess* of high-powered money over required reserves provided an effective reserve."[12]

The experience of having survived the banking crises of the times because he had been more conservative in lending operations than his fellows would have added to the banker's conservatism. Now the Federal Reserve Board suddenly *doubles* his reserve obligations before his bank has recovered any significant fraction of its pre-depression income. In addition, the Supreme Court has just upheld abrogation of the gold clauses in government contracts, labor unions are showing increased virulence, and Social Security taxes have appeared. What are his profitable lending prospects at this point? What problem can he next expect from the "lender of last resort," who is supposed to be his protector?

Required reserves are not just numerical artifacts, and paradoxically they fail in practice to protect bank obligations. However, they have very important side effects on banker behavior. Since the horrendous blunders in their implementation during the 1930s, the Federal Reserve has used them less and less for monetary control purposes. Today, the Fed relies almost exclusively on open-market operations to manage the economy's money stock. Even if not used, however, legal reserve requirements should be abolished completely so that the Federal Reserve Board could not blunder again into the monetary catastrophe it fostered in the 1930s. Banks would manage their own reserves, and reserves would once again fulfill their traditional purpose. □

1. This article draws heavily from the outstanding and exhaustive account of the Great Contraction and Great Depression carefully detailed and analyzed by Milton Friedman and Anna J. Schwartz in their monumental *A Monetary History of the United States, 1867–1960* (Princeton, N.J.: National Bureau of Economic Research and Princeton University Press, 1963). I have supplemented their account with some material from my *Monetary Policy in the United States: An Intellectual and Institutional History* (Chicago: University of Chicago Press, 1993).

2. See *Monetary Policy in the United States*, chapters 4 and 5, for an explanation of this episode.

3. The state of Illinois, for example, required no legal reserves of banks chartered by that state until the Monetary Control Act of 1980 made legal reserve requirements mandatory for all banks regardless of the states in which they were chartered. Practically no other country in the world imposes reserve requirements on its commercial banks.

4. It is important to emphasize here that the commercial banking system could not carry out such an expansion deliberately and purposively. Any expansion that banks undertook necessarily would be a result of decisions made by individual banks, and their intent would be to earn profits from successful financial operations. In short, commercial banks could not (and cannot) make monetary policy. Only the central bank can do that.

5. Marriner Eccles, *Beckoning Frontiers* (New York: Alfred Knopf, 1951), p. 287.

6. Ibid.

7. Ibid., pp. 288–89.

8. Friedman and Schwartz, *A Monetary History of the United States*, p. 532. The authors discuss the political and intra-government power factors behind the policy. The scenario they document reveals how important noneconomic causes were and are in the actions of an agency supposed to be devoted completely to the good stewardship of the monetary system and the economy.

9. Benjamin M. Anderson, *Economics and the Public Welfare: A Financial and Economic History of the United States, 1914–1946* (Indianapolis: Liberty Press, 1979 [1949]), p. 405.

10. Ibid., pp. 432–33.

11. These adjustments do not include a possible change in the velocity of money. Cyclical experiences of monetary velocity confirm that it changes only sluggishly and belatedly. For a more detailed analysis of the "full employment money stock," see *Monetary Policy in the United States*, pp. 292–94. *If* the dollar price structure were perfectly flexible downward, "full employment" could result at any level of prices. In the real world of the 1930s, however, prices were no longer flexible downward as they had already gone through the floor. More to the point, government programs had actively worked against money price declines for almost ten years.

12. Milton Friedman, *A Program for Monetary Stability* (New York: Fordham University Press, 1960), p. 46; emphasis added. In their *Monetary History*, Friedman and Schwartz comment similarly on page 348. Every bank panic that occurred in the presence of governmentally mandated reserve requirements bore witness to this paradox: Set up a system of legally required reserves for banks, and the reserves will not be used for their intended function.

# The Great Gold Robbery

by James Bovard

The New Deal established much of the moral framework of contemporary political life. Though some of the programs and policies of that era have been terminated, the moral heritage of the New Deal continues to permeate American government and political thinking.

In 1936 Franklin Roosevelt declared, "I should like to have it said of my first Administration that in it the forces of selfishness and of lust for power met their match. . . . I should like to have it said of my second Administration that in it these forces met their master."[1] No American president has rivaled Roosevelt in his denunciation of what he called "economic royalists." He sought to "master" the "forces of selfishness" by making government master of every person's private financial destiny. Like today, the citizen who wanted to retain control over his own life was selfish, while the bureaucrat who wanted to seize power over the citizen was automatically presumed benevolent.

One of the most controversial New Deal policies was the seizure of citizens' gold.[2] During the Great Depression, several foreign nations repudiated their promises to redeem their currencies for gold. In 1933, when Roosevelt became president, the United States had the largest gold reserves of any nation in the world. He announced on March 8, 1933, a few days after taking office, that the gold standard was safe. But three days later, he issued an executive order forbidding gold payments by banks; Treasury Secretary Henry Morgenthau, Jr., announced on March 11 that "the provision is aimed at those who continue to retain quantities of gold and thereby hinder the Government's plans for a restoration of public confidence."[3] Thus, according to Morgenthau, any limit on government power was bad for public confidence. And whatever confidence people might seek to achieve must be left in abject dependence on politicians' latest salvation scheme.

The ban on bank gold payments created widespread doubts about the Roosevelt administration's intentions. Ogden Mills, who had served as President Herbert Hoover's treasury secretary, observed that "it was not the maintenance of the gold standard that caused the banking panic of 1933 and the outflow of gold. . . . [I]t was the definite and growing fear that the new administration meant to do what they ultimately did—that is, abandon the gold standard."[4] People naturally sought to get rid of their paper currency and to put their savings into something with more secure value—gold.

## Gold as Contraband

Fear of devaluation spurred a panic, which Roosevelt invoked to justify seizing people's gold. On April 5, 1933, Roosevelt commanded all citizens to surrender their gold to the

*James Bovard is the author of* Freedom in Chains: The Rise of the State and the Demise of the Citizen *(St. Martin's Press, 1999).*

government. No citizen was permitted to own more than $100 in gold coins, except for rare coins with special value for collectors. Morgenthau announced on the same day that "gold held in private hoards serves no useful purpose under present circumstances."[5] Gold was thus turned into the same type of contraband as Prohibition-banned rum. Roosevelt announced, "Many persons throughout the U.S. have hastened to turn in gold in their possession as an expression of their faith in the Government and as a result of their desire to be helpful in the emergency.

There are others, however, who have waited for the Government to issue a formal order for the return of gold in their possession."[6] To speak of the "return of gold" implied that government was the rightful owner of all the gold in the nation, and thus that no citizen had a right to possess the most respected store of value in history. Roosevelt assured the country: "The order is limited to the period of the emergency." But the order stayed on the books until 1974.

Roosevelt labeled anyone who did not surrender his gold a "hoarder." His executive order defined "hoarding" as "the withdrawal and withholding of gold coin, gold bullion or gold certificates from the recognized and customary channels of trade."[7] Actually, Roosevelt was not concerned with the gold being in the "customary channels of trade"; instead, he wanted government to possess all the gold. And the notion that people were "withholding" their gold merely because they did not rush to the nearest Federal Reserve bank to surrender it was political logic at its best.

Roosevelt, in a later note to his *Public Papers*, justified the order because it "served to prevent the accumulation of private gold hoards in the U.S."[8] Roosevelt used the same "hoarding" rhetoric against anyone who owned gold that Stalin used against Ukrainian peasants who sought to retain part of their wheat harvest to feed their families. But while Stalin sent execution squads to kill peasants who had a few bushels of grain hidden in their hovels, Roosevelt was kinder and gentler, seeking only ten-year prison sentences and $250,000 fines for any citizen who defied his edict and possessed more than five Double Eagle gold coins.

Roosevelt was hailed as a visionary and a savior for his repudiation of the government's gold commitment. Citizens who distrusted the government's currency management or integrity were branded as social enemies, and their gold was seized. And for what? So that the government could betray its promises and capture all the profit itself from the devaluation it planned. Shortly after Roosevelt banned private ownership of gold, he announced a devaluation of 59 percent in the gold value of the dollar. In other words, after Roosevelt seized the citizenry's gold, he proclaimed that the gold would henceforth be of much greater value in dollar terms.

Citizens who had desired to hold gold as a hedge against government inflation policies were completely vindicated. FDR's administration subsequently did everything possible to inflate prices, foolishly confident that a mere change in numerical prices would produce prosperity. Citizens had accepted a paper currency based on the government's pledge to redeem it in gold at $20 per ounce; then, when Roosevelt decided to default on that pledge, he also felt obliged to turn all citizens holding gold into criminals. Roosevelt stated that the ban on private ownership "was the first step also to that complete control of all monetary gold in the United States, which was essential in order to give the Government that element of freedom of action which was necessary as the very basis of its monetary goal and objective."[9] But the primary "freedom" government acquired was the freedom to default on its promises and to manipulate the lives of everyone depending on U.S. dollars in their daily transactions.

Curiously, FDR retained his denigrating tone toward so-called gold-hoarders even after he defaulted on the federal government's gold redemption promise. Even though people who distrusted politicians' promises were vindicated, they were still evil people because they had not obeyed FDR's demand to surrender their gold. In the moral world of the New Deal, justice consisted solely of blind obedience to political commands. FDR had absolutely no sense of embarrassment or shame after he defaulted on the federal government's gold promises—it was simply political business as usual.

Senator Carter Glass of Virginia, chairman of the Senate Finance Committee, denounced the gold seizure: "It's dishonor. This great government, strong in gold, is breaking its promises to pay gold to widows and orphans to whom it has sold government bonds. . . ."[10]

## Free to Inflate

The refusal to convert paper dollars into gold meant that the government was "free" to flood the country with paper money and sabotage the currency's value. The stability of the value of currency is one of the clearest measures of a government's trustworthiness. Before Roosevelt took office, Americans clearly recognized the moral implications of inflation. Vice President Calvin Coolidge had bluntly declared in 1922: "Inflation is repudiation." Inflation is a tax whereby government prints extra money to finance its deficit spending. The value of money is largely determined by the ratio of money to goods; if the quantity of money increases faster than the increase in the amount of goods, the result is an increase in the ratio of money to goods and an increase in prices. Thus, the government's printing presses devalue people's paychecks and effectively allow government to default on the value of its debt.

The threat of inflation was invoked in the early 1940s to justify imposing payroll tax withholding[11] (protecting people from their own paychecks) and in the 1970s to impose price controls over the entire economy. Apparently, politicians who decide to flood the money supply automatically become entitled to increase their coercion of their victims who hold increasingly worthless currency.

Since Roosevelt banned citizens from owning gold in 1933 and forced people to rely on the unbacked promises of politicians for the value of their currency, the dollar has lost about 93 percent of its purchasing power.[12] The collapse in the dollar's purchasing power severely disrupted the ability of scores of millions of Americans to plan their own lives and save for retirement. If someone proposed a law to give government the right to explicitly default by 2 to 3 percent a year on all its debts, the proposal would be widely denounced. Yet, this is what the government has been doing for decades. Though inflation has slowed since 1980, the purchasing power of the dollar has fallen by over 50 percent in subsequent years according to the government's own numbers (which slightly exaggerate the damage to the dollar), making a mockery of people's attempts to calculate and save for the future. A 1997 study by Congress's Joint Committee on Taxation found that because of how capital gains taxes are calculated, many citizens are forced to pay taxes on investment "gains" when in reality they have suffered losses due to the deterioration of purchasing power.[13]

Roosevelt's gold seizure was based on the doctrine that in order for government to save the people, it must be permitted to breach all the promises it made to the people. According to modern conventional wisdom, government has no obligation to do justice or treat any specific individual citizen fairly—instead, government's only duty is to achieve "social justice" or some other abstraction perfectly suited for evasion. □

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1. *The Public Papers and Addresses of Franklin Roosevelt, 1936* (New York: Random House, 1938), pp. 232–33.
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3. Gustav Cassell, *The Downfall of the Gold Standard* (New York: Augustus Kelley, 1966 [1936]), pp. 118–19.
4. Barry J. Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression* (New York: Oxford University Press, 1992), p. 321.
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8. Ibid., p. 114.
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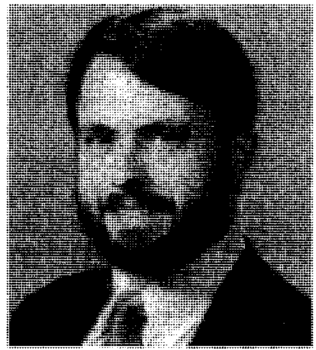
10. Benjamin Anderson, *Economics and the Public Welfare* (Indianapolis: Liberty Fund Press, 1979 [1949]), p. 314.
11. Charlotte Twight, "Evolution of Federal Income Tax Withholding," *Cato Journal*, Winter 1995. See http://www.cato.org/pubs/journal/cj14n3-1.html.
12. For information on the deterioration of the dollar's purchasing power, see the Web site of the U.S. Bureau of Labor Statistics at http://www.bls.gov/cpihome.htm.
13. Bruce Bartlett, "How Inflation Hikes the Capital Gains Bite," *Washington Times*, March 31, 1997.



# Balkans Bungling: Why Only Congress Can Declare War

When the U.S. attacked Yugoslavia earlier this year, it inaugurated war against another sovereign state that had not attacked or threatened America or an American ally. The President, and the President alone, made the decision. The constitutional requirement that only Congress shall declare war is obviously a dead letter. Yet the administration's embarrassing bungling in Kosovo illustrates just why the Framers intended that the decision to go to war be vested in the legislature.

Presidential war-making has become a constant. Ronald Reagan invaded Grenada; George Bush attacked Panama. Neither bothered to consult Congress. Bush planned to attack Iraq irrespective of Congress, explaining that "I don't think I need it" when asked if congressional approval was necessary. Why? "Many attorneys," he said, had "so advised me." He apparently didn't bother to read the Constitution himself.

President Clinton ended up only a Carter-brokered agreement away from invading Haiti and has promiscuously attacked other nations or groups within nations—Afghanistan, Bosnia, Iraq, Somalia, Sudan, Yugoslavia—without appropriate legislative authorization. Like his predecessor, Bill Clinton has resisted any attempt to restrict his war powers. In late 1993 the one-time law professor and state attorney general claimed that "the Constitution leaves the President, for good and sufficient reasons, the ultimate decisionmaking authority." He opposed congressional attempts to restrict his plans in both Bosnia and Haiti and more recently pressured Congress not to vote on his plan to launch air strikes on Yugoslavia and place 4,000 peacekeeping soldiers in Kosovo.

Alas, this executive presumption goes back to Richard Nixon, Harry Truman, and, indeed, much further. It was also shared by the various potentates who once ruled Europe. Observed President Abraham Lincoln: "Kings had always been involving and impoverishing their people in wars, pretending generally, if not always, that the good of the people was the object." America's founders intended to take a different path.

Article 1, Sec. 8 (11) states that "Congress shall have the power . . . to declare war." As Lincoln explained: "This, our Convention, understood to be the most oppressive of all Kingly oppressions; and they naturally resolved to so frame the Constitution that no one man should hold the power of bringing this oppression upon us."

Of this there is no doubt. James Madison wrote in 1793 that it is necessary to adhere to the "fundamental doctrine of the Constitution that the power to declare war is fully and exclusively vested in the legislature." Pierce Butler of South Carolina proposed giving the president the power to start war, causing Elbridge Gerry of Massachusetts to exclaim that he "never expected to hear in a

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*Doug Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books, including* Tripwire: Korea and U.S. Foreign Policy in a Changed World.

republic a motion to empower the executive to declare war." The convention rejected Butler's motion.

Why? The founders wanted to make it more difficult to go to war. Thomas Jefferson wrote that "We have already given . . . one effectual check to the dog of war by transferring the power of letting him loose." The nationalist Alexander Hamilton reassured early Americans who feared that the proposed Constitution granted the president powers too similar to those of Britain's king. The president's authority, he said, was "in substance much inferior to it. It would amount to nothing more than the supreme command and direction of the land and naval forces . . . while that of the British King extends to the declaring of war and to the raising and regulating of fleets and armies; all of which by the Constitution would appertain of the legislature."

Virginia's George Mason, who favored "clogging rather than facilitating war," was blunt: the president "is not safely to be entrusted with" the power to make war. This view has certainly been validated by history. President Franklin Delano Roosevelt schemed to get America into war; both George Bush and Bill Clinton conducted dubious propaganda campaigns to build public support for their executive war-making. The pervasive dishonesty of and abuses perpetrated by executive leaders in the United States and elsewhere demonstrate the importance of circumscribing their power.

The requirement of a declaration of war obviously offers no guarantee against ensnaring the nation in costly and unnecessary overseas conflicts. But the need to win legislative assent still limits presidential discretion, while a debate puts the issue before voters and allows them to hold Congress responsible for government policy.

In a complex world filled with a variety of potential threats, there will always be unclear instances, perhaps retaliation against a terrorist group, where a president might claim colorable constitutional authority for unilateral military action. But the number of hard cases are few. There is no doubt that congressional approval is required to launch an aggressive war against Yugoslavia.

Presidents have been able to ignore the Constitution's clear strictures only because successive Congresses have allowed them to do so. The partisan flip-flops have been dazzling: Republicans raged against Truman's actions but defended Nixon; Democrats demanded that Bush go to Congress but encouraged executive war-making by Clinton. Many legislators care less about dead soldiers than dead careers. Avoiding a vote allows them to avoid taking any responsibility on the most serious of issues, war and peace.

It is time for all sides to re-examine their commitment to the Constitution. Presidents take an oath to support the Constitution; that means going to Congress for a declaration of war. Legislators, who make the same pledge, should want to protect not only the Constitution, but also their institutional authority. Yet the issue is far more fundamental than just a political struggle between the executive and legislative. The nation's security is at stake.

As a result of presidents' routinely plunging America into overseas conflicts that are at best tangentially related to U.S. security, hundreds of thousands of soldiers have been killed, hundreds of billions of dollars squandered, numerous civil liberties lost, and a host of government bureaucracies spawned. The issue of war and peace is simply too important to leave to the president.

Perhaps this never has been more obvious than after watching this administration turn a minor tragedy into a monumental crisis in Europe's tar baby, the Balkans. The President and his advisers were surprised when the Albanian Kosovars first rejected the Rambouillet diktat, surprised when bombs did not compel Belgrade's acquiescence, surprised when the Serbs struck back at the Kosovo Liberation Army and the Albanian Kosovars, surprised when refugees overwhelmed neighboring countries, surprised at the capture of U.S. soldiers stationed in Macedonia, and surprised that the conflict continued, week after week. A full and unfettered congressional debate could have prevented the looming debacle. □

# Market-Share Sophisms

by Christopher Mayer

There are few more widely held fallacies than equating market share to power over consumers and competitors. That great companies maintain dominant positions in their markets is a red flag for regulators and anticapitalist moralists, rather than a sign of hard-won success and ingenuity worthy of admiration and study. Weaker competitors use the market share of others as an excuse for their own failures when they turn to the government for assistance. Witness the pursuit of such great companies as Microsoft and Intel.

Market share is a reward for serving consumers better than competitors do. It does not confer special privileges or powers to a producer, which is subject to the same economic laws and will of the consumer as any other company. Market share can be easily lost by poor decisions and inefficiency.

These conditions hold true on a free market. But there are many influences in the real world that are not consistent with a free market. Minimum-wage laws, the plethora of entitlements, union privileges, government grants, state-managed money, regulations, and a host of interventions change the pattern of production in unknowable ways from what might have been in the absence of these things. We can only imagine where some of the capital deployed in the steel industry would have gone had the U.S. government not protected it from foreign competition.

*Christopher Mayer is a loan officer at a bank in Maryland and an MBA student at the University of Maryland.*

## What's the Market?

Another complication is how a given market is defined. Do manufacturers of corn flakes compete only against one another? Or do they also compete against makers of other ready-to-eat cereals? What about hot cereals? What about bacon and eggs? The answers to those questions make a big difference for the market shares of companies. Regulators base their claims on arbitrary assumptions. What counts is how consumers see things.

One final element that's often neglected in the analysis of market-share data: time. Market positions are snapshots. They change. The market leaders of ten years ago are different from today's. They'll be different years from now. In a free market, the continued long-term dominance of a firm reflects its superior ability to satisfy consumers.

Size doesn't determine a firm's degree of control over prices and production. Large and small companies may produce in whatever quantity they wish and attempt to charge whatever price they wish. Ludwig von Mises got to the heart of the matter when he wrote that "What those who blame the economies of big-scale production for the spread of monopoly prices are trying to say is that the higher efficiency of big-scale production makes it difficult or even impossible for small-scale plants to compete effectively."

That inefficient firms are kept from the market is no vice. In fact, this is one of the market's virtues. But that doesn't mean small companies have no chance. Large firms are not always best at providing value to customers. There may be diseconomies of scale that make it increasingly difficult to compete effectively beyond a certain size.

This is not to deny certain advantages that large dominant firms enjoy. Large firms with deep pockets have the financial wherewithal to respond to opportunities and weather storms better than smaller, less well-capitalized rivals. A bountiful corporate treasury provides a margin for error that smaller firms may not have. This is not a market failure, but the reward for past successes.

## Calculation Problem

There is something that limits the size of firms in the free market: the need for economic calculation. The application of the calculation problem to private firms, an extension of Mises's refutation of socialism, was an important insight of Murray Rothbard in *Man, Economy and State*. Ronald Coase's analysis of the firm concluded that the free market would establish a size that tended to optimize transaction costs. (See Max More, "Small is Awesome," in the February 1999 issue of *The Freeman*.) But the problem of economic calculation is more fundamental.

While the economist can say little about the optimal size of a specific firm, he can say the market will tend to establish the best possible arrangement thanks to the calculation that market prices make possible. Imagine a firm that grew so big that it swallowed up the external markets for its inputs. In the absence of market prices for those inputs, the firm could not engage in economic calculation and thus could not know if it was deploying its capital in the most efficient manner. As Rothbard wrote, "When any of these external markets [for inputs] disappears, because all are absorbed in the province of a single firm, calculability disappears, there is no way for the firm rationally to allocate factors to that specific area. The more these limits are encroached upon, the greater and greater will be the sphere of irrationality, and the more difficult it will be to avoid losses"(p. 585).

The upshot is we can let the free market take its course. Let us not worry about the alleged power of dominant firms and instead focus on creating an environment in which the free market is free to function. □

# The Permanent War

Some years ago Stanley McGill, 93, mailed a check for $7,000 to the Internal Revenue Service. When he died, his daughter discovered that Mr. McGill had made a mistake. The money should not have been sent. Marian Brockamp explained to the IRS that her father was senile and asked for a refund.

The IRS said no. Requests for refunds must be made within three years.

Mrs. Brockamp took the case to court—all the way to the U.S. Supreme Court.

She lost.

In the grand scheme of things, that was a small event. The Internal Revenue Service has done far worse in its time. It has harassed and tormented people. It has seized property and frozen bank accounts. It has ruined credit records. It has driven people to suicide. Nevertheless, the Stanley McGill story sums up a great deal about the IRS and the American tax system. The IRS concedes that the $7,000 should not have been sent. Mr. McGill made a mistake. His daughter informed the IRS as soon as she discovered the error. No one questions the facts. But the IRS won't surrender the money. And the U.S. Supreme Court said the IRS doesn't have to.

Speaking for a unanimous court, Justice Stephen G. Breyer wrote:

> The nature and potential magnitude of the administrative problem suggest that Congress decided to pay the price of occasional unfairness in individual cases . . . to maintain a more workable tax enforcement system.

*Congress* decided to pay the price? How noble. Except that in this case it appears Congress has forced Mr. McGill's heirs to pay the price. Why? Because the rights of the individual must not be permitted to create administrative problems for the IRS or to interfere with the maintenance of a workable tax enforcement system.

Yes, that incident occurred in the United States of America.

Imagine if the tables were turned and after Mr. McGill's death the IRS discovered that he "owed" the government $7,000. Imagine further that Mrs. Brockamp politely replied that the IRS was too late in its request. What would have happened? The IRS would have seized the money and perhaps have made hell out of Mrs. Brockamp's life. And the Supreme Court would have sided with the IRS.

The IRS—tax historian Charles Adams equates it with "a miniature Soviet state"—is something we have unfortunately grown accustomed to. It is time to put the income tax, and the Sixteenth Amendment that permits it, into historical context and show its implications for morality, the relationship between citizen and state, and the quest for prosperity. The verdict on the tax is not favorable: ratification of the amendment and passage of the tax was a major turning point in

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*Sheldon Richman is editor of* The Freeman. *This is excerpted from the first chapter of his recently published book,* Your Money or Your Life: Why We Must Abolish the Income Tax *(The Future of Freedom Foundation).*

the transmogrification of America from republic to democratic despotism. More than anything else, it converted Americans from citizens to subjects.

In carrying out its mission, the IRS is only serving a higher power: the legislators who need a never-ending flow of cash to the federal treasury. They wrote the laws that loosed the IRS on the American people. They can repeal them. Why don't they? They want the money, pure and simple.

As bad as any taxation is, the income tax is worse. It is aggravated theft, robbery with malice aforethought. Theoretically, all forms of taxation could be draconian. But in practice, the income tax has been more abusive of the people's rights than other taxes. It lends itself more readily to draconian enforcement. That justifies singling it out for special condemnation. But merely replacing the income tax with another tax designed to raise more than a trillion dollars would be a shallow victory.

The moment the principle of income taxation is granted, the ground is prepared for myriad abuses of the people. If the government is permitted to tax incomes, it will demand reams of personal information about each citizen's financial endeavors. It will compel people to report on the peaceful financial activities of others. But more than that, it must have the muscle to check that information, to spy on people, to conduct inquisitions, and to punish—hard. Why? Because there is nothing more natural than people's trying to keep what they worked to acquire. Regardless of their explicit political philosophy, most people are implicit advocates of property rights. They don't like being dispossessed of their belongings. Even thieves don't like to be robbed.

## Man versus State

Income taxation inaugurates a permanent war between the people, who want to keep what they earn, and the government, which wants as much of it as it can get. The government tries to make the war less obvious by deadening the pain when possible. The withholding tax makes it unnecessary for most Americans to write checks to the IRS; indeed, they eagerly await their refunds. But the war is part of the American psyche nonetheless. All Americans sense that an awesome power lurks, ready to grab an increasing portion of anything they earn. That adversary relationship has far-reaching consequences for a society founded on the principles of the Declaration of Independence, according to which government was the rights-guarding servant and the people the master. But the income tax turns that relationship on its head.

Americans lived without the fears and burdens imposed by the income tax for over 100 years (except in the Civil War era). They built a decent and prosperous society.

The income tax has been a key factor in the growth of government. When enacted, only the few richest people in America paid the tax. It became a tax for the masses during World War II, under that reputed champion of the masses, Franklin Delano Roosevelt. Today, it accounts for over 43 percent of the revenue raised. Payroll taxes for Social Security and Medicare account for about 35 percent. Americans' incomes have provided a rich vein for the government to mine.

Thus we can see that the income tax has:

- Given the government unprecedented access to the American people's wealth;
- Provided the rationale for the government to intrude into our personal affairs;
- Reversed the traditional rule-of-law relationship between government and those suspected of lawbreaking;
- Confused "cheating" the government in order to keep one's own property with cheating one's fellow citizens;
- Bewildered the American people with constantly changing technical rules that no one can possibly comply with perfectly; and
- Permitted lawmakers to influence our conduct through selective tax deductions and exemptions.

All this has come from the principle that government may tax incomes. That is why repealing the tax, along with the Sixteenth Amendment, is an essential blow in the struggle against power and for liberty. □

THE FREEMAN
Ideas On Liberty

# The Market and Political Freedom

by John Marangos

The history of civilized societies is a timeless effort to enhance freedom. Freedom must be viewed as a whole, and anything that reduces it in one aspect of life is likely to reduce it in others as well.

Free people make decisions through their independent minds and have the courage to pursue their own convictions through exchange relations in the market. Thus a free person rejects attempts by others to exercise power over his own choices. He treats other people as equals, thus limiting interaction to voluntary transactions. The market is the expression of economic freedom. In the absence of any form of discretionary power, it is an institutional process in which individuals interact with each other in pursuit of their economic objectives.

The economic and political processes are linked: one generates and sustains the other. Thus a society's economic process would have ultimate consequences for the kind of political process it ends up with. This is because the state, as a monopoly of legitimate force, is in the position to impose restrictions on the individual's action. A free person realizes the benefits derived from free-market relations, that is, the absence of discretionary power, and seeks a compatible political process. Political freedom means freedom from coercion in the sense of arbitrary power—freedom even from the coercion exercised by the government.

In a historical context, politically free societies and the market have a common origin. In *Capitalism and Freedom*, Milton Friedman states: "I know no example in time or place of a society that has been marked by a large measure of political freedom and that has not used something comparable to a free market to organize the bulk of economic activity."[1] The rise of the market is associated with the rise of political freedom and the gradual removal of governmental and religious constraints on the individual.

However, it appears that while a market system is necessary for political freedom, it is not sufficient.[2] R.E. Lane agrees that "historically, a free market has seemed to be a condition of political freedom, as exemplified in the bill of rights and free elections, but it has not been a sufficient condition."[3]

I am skeptical about this argument. I believe it was developed because in the 1960s and 1970s the political situation of the world was bleak with respect to political freedom. Suppression of political freedom was widespread in the form of authoritarian political structures, especially military dictatorships, where tenure was based on power instead of reason and irresponsible political power functioned outside the discipline of law. The argument raised by Friedman and Lane is an

*John Marangos teaches in the department of economics at Monash University in Melbourne, Australia.* *This article is adapted from "Market and Political Freedom" in D. Kartarelis, ed.,* Business & Economics for the 21st Century, *proceedings of the Business and Economics Society International Conference, Athens, Greece, July 18–22, 1997, volume I.* *The author wishes to thank John King for his valuable comments.*

unfortunate simplification that does not correspond to reality anymore; in fact, while in the short run within a market system political freedom may be restricted, in the long run authoritarian political processes cannot survive alongside markets. This is demonstrated by the fall of military dictatorships in the end of the 1970s and in the 1980s and the collapse of authoritarian socialism that stimulated the re-establishment of political freedom.

In essence, people enjoying the benefits of the market process will question and undermine the power of authoritarian governments. Individuals who experience the benefits of freedom through market relations are likely to require freedom in the political process. The market and political freedom are internally linked: one generates and sustains the other.

## Markets and Authoritarianism

The point is not obvious. Some countries have developed political systems featuring a hierarchically structured bureaucratic organization that gives privileges to an elite class. While the market is the main process for decision-making, political freedom is restricted in order to serve the purposes of this elite minority. In these instances the political process results in a loss of personal control and encourages dependency. It rewards conformity, obedience, and affiliation instead of innovation, enterprise, and autonomy. Individuals feel powerless and helpless. Such people perform less efficiently in a market system than do self-interested, competitive individuals. In addition, political authorities distort the market by allocating resources by coercion. They control a large part of the resources, and the influence of their decisions on the remainder is substantial; that results in effective control of the entire spectrum of economic decisions.[4]

## Market-Produced Opposition

But the market plays an important role in providing the mechanisms of opposition to the suppression of political freedom. The market should be evaluated not only as a process for achieving the optimal allocation of resources but also as one of learning and personality development. In the market, individuals learn to be free and independent and to follow their own convictions. Freedom is a skill that is generated and sustained by the market.[5] People preserve these values throughout their adult life once they have been developed in their formative years.[6] If the market encourages self-direction, how can that behavior be restricted only to economic relations and not extended to the political process in the form of political freedom?

Despite differences among markets, they have essential features that tend to promote the acquisition of qualities important for personality development. Lane identified the qualities necessary for maximizing the development of personality: [7]

*Cognitive complexity*. This involves the capacity to understand abstractions, to hold preferences, to be able to judge others and oneself, to change concepts to fit reality rather than fitting reality to fixed conceptions, and finally to hold several ideas in order to arrive at original solutions.

*Autonomy*. This is the desire and ability to remain independent, which encourages free initiative and free expression in all areas of life. Through this quality an individual is at liberty to conform to tradition and authority—or not. Each authority is treated as a source of information rather than of command.

*Sociocentricity*. The thoughts and claims of others are understood and given recognition. Sociocentricity comprises socialization, experience, understanding, and reasoning. Individuals learn the rules of the game and conform to them. It is a guide to social reality and a necessary ingredient in good interpersonal relations.

*Attitudes towards self*. A combination of self-knowledge, self-acceptance, and self-respect are necessary for the establishment of an identity. With these qualities people avoid internal conflict and uncertainty about values.

*Identification with moral values*. This is necessary to secure moral reasoning and moral behavior without taking refuge in tradition and authority.

Lane aimed to identify the effects of markets and politics on personality development.[8]

Unfortunately, in his analysis the influence is one way: markets and politics influence development of personality, but individuals are unable to influence markets and politics.

But contrary to Lane, social processes are reflexive. Individuals in the market acquire qualities for personality development that will influence the political system. A market participant will require a politics based on freedom.

In the market people develop through trial and error the skills, qualities, and behavior necessary to participate effectively. They need to think for themselves. They slowly reject intellectual dependence on others. They dismiss dependency on family, village, community, ethic group, or social class. They need to make difficult complex decisions with respect to education and careers. As the market becomes increasingly complicated, with more sophisticated products, proliferating brands, and aggressive advertising, people need to search, examine, and analyze what is offered. Thus they are faced with difficult, complex choices that require complex cognition.

A sense of autonomy is achieved through the market, since the participants learn that the environment around them is responsive to their actions. Individuals work, get paid, and buy goods through the market process; this enables them to control their own destinies. Within the market individuals can afford to be self-dependent, since they have alternatives. They can follow their own convictions. Rewards are individual instead of collective. So the market participant learns that effort will be rewarded and wrong decisions penalized; he will need to bear the burden of his mistakes, but also enjoy the outcome of correct decisions. The market thus contributes to the desire for, value of, and belief in one's own competence to control one's own destiny and to develop along a unique path. It instills an appreciation for the same in others.

Economic transactions bring people together under the rule that any exchange must be voluntary and thus mutually beneficial. Participants thus need to understand one another's point of view. Agreement will only be reached when market participants realize they need to work together, communicate, bargain, and compromise. In this way, individuals become sociocentric, since success in the market requires good interpersonal skills.

Participation in the market process encourages self-knowledge, self-acceptance, and self-respect. Through successes and failures, participants realize their potentialities. They learn through their mistakes rather than through tutelage, and they succeed through their own analytical and planning strategies. The market increases awareness of the participants' potential in solving problems and realizing goals. The sense of accomplishment contributes to one's satisfaction with life.

Lastly, the market encourages fair dealing since exchange is voluntary. Capitalism contributes to identification with moral values.

## Transference of Virtue

Behavior learned in one aspect of life may be applied in others. The qualities gained through the market process can be used in politics, for example, because those qualities become part of the personality. The political structure does not exist in a vacuum. Moreover, market participants equipped with the five qualities discussed will require a political process that protects their personality, that is, political freedom.

Thus economic freedom and political freedom are internally linked. One generates and sustains the other. While in the short run political freedom may be restricted in a market-oriented society, individuals enjoying the fruits of economic freedom will eventually question and undermine an authoritarian political process. Because the value of self-control is taught, exercised, and mobilized by the market, in the long run, authoritarianism cannot exist alongside free markets. □

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2. Ibid., p. 10.
3. R.E. Lane, "The Dialectics of Freedom in a Market Society," The Edmond James Lecture, April 16, 1979, University of Illinois, Urbana-Champaign.
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6. R. Inglehart, *The Silent Revolution* (Princeton: Princeton University Press, 1977).
7. R.E. Lane, "Markets and Politics: The Human Product," *British Journal of Political Science*, 1981, p. 5.
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THE FREEMAN
Ideas On Liberty

# Against the Tide: The Life of Francis W. Hirst

by Mark Brady

Sadly, it is only an exceptionally well-informed reader who will recognize the name of Francis W. Hirst, whose stalwart advocacy of personal freedom, free trade, and peace during the first half of the twentieth century, and especially during the First World War and its aftermath, surely earns him an honored place in the pantheon of individual liberty.

Francis Wrigley Hirst ("Frank" to his family) was born on June 10, 1873, at Dalton Lodge, two miles east of Huddersfield in the West Riding of Yorkshire. He was the third of five children (two sons, three daughters) of a prosperous wool-stapler, Alfred Hirst, who went blind at 27, and his wife, Mary Wrigley.

On both sides of his family Frank Hirst had nonconformist ancestors who had worked and voted for the Great Reform Bill and the repeal of the Corn Laws. His maternal grandfather, Joseph Woodhead of Huddersfield, had supported Richard Cobden and John Bright in their opposition to the Crimean War and had voted for Cobden at Huddersfield in 1857. His paternal grandfather, Charles Hirst, had enjoined his son, Alfred, "always be against war; nine times out of ten you will be right, and the other time it will not matter."

As a young boy in the early 1880s, Frank Hirst met a few of the old handloom weavers who spoke of the hungry years during and after the French wars, when work failed and the taxed grain rose to impossible prices. Thus during his childhood, which seems to have been a happy one, he imbibed the great Liberal tradition of peace, retrenchment, and reform, causes that he held dear throughout his long life.

In 1891 Hirst won an open scholarship in classics to Wadham College, Oxford, where he had a distinguished university career. He was elected successively librarian and president of the Oxford Union, the renowned debating society, where he was a contemporary of Hilaire Belloc and F. E. Smith, later Earl of Birkenhead. In 1899 he won the Cobden Prize and was called to the bar by the Inner Temple. Although for some years he had entertained hopes of making an income as an attorney, these hopes faded away as few clients sought him out and he found he had no natural talent for court work. So Hirst practically abandoned the law for journalism and book writing.

In 1903 he married Helena Cobden, a great-niece of Cobden, at Heyshott and eventually they were to live in Cobden's old home, Dunford House, in Sussex, where he was chairman of the Dunford House Association. They had no children.

## Liberal Author

As early as 1897 Hirst had co-edited and contributed to *Essays in Liberalism* by "Six Oxford Men," who included Belloc and J. L. Hammond, later to become famous as one half

*Mark Brady, who was born and grew up in England but now lives in America, has been a libertarian for almost 30 years.*

of the Hammonds, the labor historians. Hirst's own contribution was a stalwart defense of "Liberalism and Wealth." The book was dedicated to John Morley, the writer and Liberal statesman, with whom Hirst was to have a close relationship until Morley's death in 1923.

On February 14, 1900, with the Boer War under way, Hirst was a founding member of the League of Liberals against Aggression and Militarism. The following month Hirst and Hammond decided to collaborate on a volume of essays expressly devoted, as the eventual title said, to *Liberalism and the Empire*. It proudly appealed to the memory of "the older school of English liberals."

One unspoken target was George Bernard Shaw's celebrated pamphlet of May 1900, *Fabianism and the Empire*, which argued for what historians now call Fabian social imperialism. Hirst's essay on "Imperialism and Finance" showed how militarism and excessive expenditure on armaments both feed and are fed by calculated panics and "inevitable war," which also prevent reforms at home. It should be added that Hirst was never a pacifist. He wrote in his memoirs, *In The Golden Days* (1947), that "a clearly aggressive attack on one nation by another—e.g. that of Soviet Russia on Finland or of Germany on Holland—should be resisted until resistance is hopeless. But in nearly all the wars recorded in history it may be said that there were two sides to the quarrel; and nearly all wars have been initiated by rulers who have forced their peoples to fight, relying upon conscription or the pugnacity of the human species, especially when patriotism and the cry of 'my country right or wrong' can be evoked."

His work for *Essays in Liberalism* and his contribution to a popular life of W. E. Gladstone, the Liberal prime minister, brought him to the attention of Morley, who engaged him to help go through Gladstone's papers and later read the proofs of Morley's monumental *Life of Gladstone*, which finally appeared in November 1903. Hirst wrote *Adam Smith* (1904) for Morley's *English Men of Letters* series; he edited a useful anthology of speeches and writings under the title *Free Trade and Other Fundamental Doctrines of the Manchester School*; and he also translated and edited Josef Redlich's *Local Government in England*, a much-acclaimed work. It was also at this time that he threw himself into the fight for free trade and helped revive the Cobden Club, which published *Fact versus Fiction* (1904), a reply to Joseph Chamberlain's tariff reform speeches, and *The Burden of Armaments* (1905), a plea for the reduction of military and naval expenditures, both of which Hirst helped write. He was therefore overjoyed when in 1906 the Liberal Party swept into power under the banner of free trade.

In 1906, Hirst's *The Arbiter in Council* was published anonymously, financed by J. P. Thomasson, a Cobdenite from Bolton. Written as a series of imaginary conversations between a former associate of Cobden and others, Hirst sought to analyze the follies of war principally on economic grounds. In *Monopolies, Trusts and Kartells* (1906) he explored another timely question in some depth. Subsequently he wrote several books on money, investment, public finance, international trade, the law of the sea, and a book on the stock exchange for the Home University Library in 1911.

## Years at *The Economist*

In 1907 Hirst was appointed editor of *The Economist* and proceeded to make important innovations in the publication and to extend its appeal beyond the business community. He wrote his own policy editorials and recruited a competent staff to assist him. He also printed contributions from such distinguished foreign scholars as Josef Redlich and Luigi Einaudi. Hirst remained editor until he was forced to resign in 1916 owing to his opposition to World War I. Like his friend John Morley, who resigned from the cabinet in protest at the decision to declare war in August 1914, he viewed the Great War as a tragedy from the start.

His valedictory leading article said: "Since the war began, the function of an editor who believes that truth and patriotism ought to be reconciled has been difficult and even hazardous." To his great credit he never displayed the bitterness that one might expect of someone who had been forced to give up such a prestigious position.

Hirst's *The Political Economy of War* was published in 1915. He was a zealous supporter of (the Conservative) Lord Lansdowne's Letter in 1917, which rejected a policy of unconditional surrender and sought a negotiated peace. He also helped Earl Loreburn, the former Liberal Lord Chancellor, on his book *How the War Came* (1919). He was opposed to aspects of the punitive anti-German peace treaty that came out of Versailles.

From 1916 until 1921 he edited *Common Sense*, a weekly journal of commerce that later merged with the Manchester *Guardian Commercial*, and thereafter devoted his life to writing and travel.

## Collectivism on the Rise

Hirst had come of age at a time when the New Liberalism that advocated an expansive role for the State was in the ascendant, although his own sympathies lay with an older, more individualist liberalism. And he attained middle age just as the Great War began. Thereafter he observed and wrote about Britain and the world in an era when collectivist ideologies of various stripes dominated intellectual debate, and increasingly interventionist and sometimes tyrannical governments disrupted and on occasion destroyed the market order and civil society.

A notable moment in Hirst's life was his speech before the Lords of Appeal on behalf of Arthur Zadig, a naturalized British citizen of German parents, who had been interned under the Defence of the Realm Act in 1915. Although Zadig lost, Lord Shaw of Dunfermline gave a dissenting judgment that recognized Hirst's arguments grounded in English legal history, and Zadig was released two weeks later. Nearly 20 years later Hirst reprinted Lord Shaw's judgment in full in his account of *The Consequences of the War to Great Britain* (1934). He also traced the history of English liberty in one of his best books, *Liberty and Tyranny* (1935), which he wrote as "a reasoned defence of political and civil liberty." Describing the dark age for individual liberty worldwide that had been inaugurated by the Great War, he wrote: "Two centuries of emancipation have been followed by two decades of reaction." That same year also saw the publication of his *Economic Freedom and Private Property*, a defense of economic liberty.

After the war Hirst continued to write on behalf of the cause of free trade. His *From Adam Smith to Philip Snowden: A History of Free Trade* (1925) was a short political history of free trade in Britain. In *Safeguarding and Protection*, first published in 1926 as a Cobden Club pamphlet and expanded into a book the following year, he explained how the Conservative government, despite Prime Minister Stanley Baldwin's pledge against protection, had extended customs duties under the guise of "safeguarding" (a euphemism for protectionism). This had reassured voters and enabled the Tories to exploit fears of Bolshevism and defeat the pro-free trade Labour and Liberals in the 1924 general election. Hirst criticized the "American customs union," contrasted the free-trade Democrats with the protectionist Republicans, and explained how high American tariffs made it difficult for European nations to pay off their war debts to the United States. He also described how the "tariff walls of Europe" prevented economic recovery.

Hirst also wrote *Life and Letters of Thomas Jefferson* (1926), *Early Life and Letters of John Morley* (1927), and the introduction to Morley's *Memorandum on Resignation, August 1914* (1928), which Morley had written immediately after his resignation from the cabinet. In his entry on Morley in the *Dictionary of National Biography*, Hirst wrote that Morley's "loyalty indeed was to the faith rather than to the party," a statement that applied as much to Hirst himself. (Hirst stood unsuccessfully as a Liberal candidate in the general elections of 1910 and 1929, but subsequently moved away from the official leadership of the party, even supporting the Munich agreement.)

## Pure Individualism

During the Second World War, Hirst was involved in the foundation of Sir Ernest Benn's Society of Individualists in 1942 and wrote some pamphlets for it. But he found this body more conservative than he had supposed and withdrew his support. In *Free Markets or Monopoly* (1941, revised 1944) he wrote: "When I was an Oxford undergraduate, I met pure individualism in the person of Auberon Herbert, and in later life I have become acquainted with disciples of Karl Marx. I call myself an Individualist, not because I object to State activity, either central or local—such as existed in England before 1914—but because I hold that the State exists for the individual citizens who compose it and ought to control it." He also wrote: "Private Property, Free Competition, the right to make profits, the right to save and to employ your savings (the reward of skill or thrift) as you like are all the rights of a free citizen in a free State. They are the precious inheritance of Englishmen." It greatly pleased him that the Cobden Club was on the Gestapo's infamous Black List of people and organizations to be suppressed were the Nazis to conquer Great Britain.

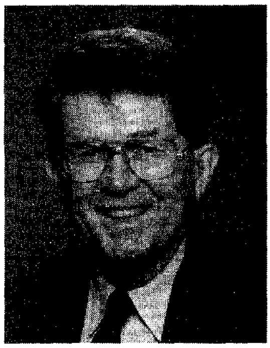
Hirst denounced the welfare state as the "Beveridge hoax," after the Liberal Sir William Beveridge, author of the report that bore his name and was accepted by the Labour, Liberal, and Conservative parties as the basis for the postwar welfare state. He also disapproved of redistributive taxation and was critical of Keynesian economics. Regarding Marxism, he wrote: "Those who favour class war, while denouncing capitalist war, cannot be counted among the forces favourable to peace."

A volume of Hirst's memoirs, going only to 1906, was published in 1947 and he died at Singleton in Sussex on February 22, 1953, after an attack of influenza.

*Truth* described him as "one of the greatest libertarians of all time" for his work as an apostle of civil liberty and personal freedom. A book of reminiscences by his family and friends appeared in 1958, in which his lifelong friend and brother-in-law, J. E. Allen, wrote that he had a "genius for friendship" and the historian G. P. Gooch declared, "I have never known a man whose character and convictions underwent less change with advancing years."

Hirst was a prolific writer, skillful biographer, and scholarly exponent of basic principles, who devoted his life to the cause of individual liberty when at times it must have seemed that collectivism had triumphed. It is therefore appropriate that we salute Francis W. Hirst as a valiant defender of the Cobdenite tradition of peace and free trade. □

Economics



# Private Property and Opportunity Costs

In three previous columns I discussed opportunity cost and the importance of this concept to understanding economics. We have considered the advantage the market has over government at incorporating opportunity costs into the calculus of decision-makers. Markets promote the general interest by revealing costs while governments commonly favor special interest by concealing those costs. In this column I shall extend the discussion of opportunity costs by introducing the critical role of private property. Private property lies at the foundation of market economies because without private property, and the exchange it fosters, people would be unable to consider the full costs of their decisions.

## Too Costly to Drive

Assume you win a Rolls Royce Silver Shadow, with insurance, maintenance, gas, and taxes paid. While this isn't quite as nice as winning the state lottery, the going price for a Silver Shadow is around $250,000. That's the good news. The bad news is that you're probably not wealthy enough to drive this car. Your first reaction is likely: What do you mean I can't afford to drive it? Everything is paid for by someone else.

True, but I still predict that you will find the car too costly to drive. Regardless of how you got the Rolls Royce, the cost of driving it is the price someone else is willing to pay for it. And because the car is your private property, you can't ignore that cost. As the owner you can sell it at a price that reflects the highest value someone else places on it. So you will continue driving your Rolls only if you value it by at least as much as, or more than, what you could buy with the approximately $250,000 that some Rolls Royce aficionado is willing to pay you for it. Most likely you will sell the Rolls, buy a perfectly nice and serviceable car for $20,000, and have $230,000 left over to save or spend on other things.

This story is fanciful, or course, since you are not likely to win a Rolls Royce. But it illustrates a real and important point—private property prompts people to consider the opportunity cost (the value forgone) of their decisions. Because of private property, this consideration is the hallmark of market action and explains the market cooperation that directs resources and products into the hands of those who value them most.

## Cooperation Between Bird Watchers and Hot Rodders

Members of the Audubon Society are interested in protecting fragile habitat for birds and other animals. It is easy to predict how it would come down on a choice between protecting wildlife habitat and increasing the availability of gasoline for high-powered cars, or any other cars for that matter. For example,

*Dwight Lee is Ramsey Professor of Economics in the Terry College of Business at the University of Georgia.*

the Audubon Society strongly opposes offshore drilling for oil. Oil companies promise to, and in fact do, take extraordinary precautions to prevent oil spills, but the Audubon Society is not convinced. Regardless of precautions, its position is: No offshore drilling—*none!*

How can hot rodders possibly communicate their desire for cheaper gas to the Audubon Society so as to convince it to accommodate them by risking wildlife habitat? In fact, they have succeeded at doing just that. Hot rodders, along with all other gasoline consumers, have convinced the Audubon Society that the value they place on gas is an opportunity cost of protecting habitat that the Society shouldn't ignore. They have done so through market communication based on private property.

The Audubon Society owns a wilderness area in Louisiana known as the Rainey Preserve. It is an ideal habitat for birds and other wildlife, but it also contains commercial quantities of petroleum and natural gas that oil companies are eager to recover. One might conclude that since the Audubon Society owns the land and can easily prevent oil companies from drilling on it, they would do so. Wrong! The Audubon Society allows oil companies to drill there.

Of course, it requires the companies to take strong precautions against oil leaks, but not as strong as it claims to be necessary with offshore drilling. Why the difference? Because the Audubon Society owns the Rainey Preserve, the money others are willing to pay for the oil represents an opportunity that would be sacrificed if it refused to allow drilling. But the Society doesn't face an opportunity cost on offshore sites because it doesn't own them. It thus has no motivation to take the interest of others in offshore oil into consideration.

Private property not only motivates the Audubon Society to cooperate with hot rodders, it also motivates hot rodders to cooperate with the Audubon Society. Their purchase of gas allows the Audubon Society to obtain and protect wildlife habitat that it believes is more valuable than what it sacrifices in the Rainey Preserve because of oil drilling. Members of the Audubon Society may despise hot rodders and hot rodders may laugh at bird watchers, but because of private property, each takes the concerns (and opportunity costs) of the other into consideration and acts to promote the other's interests.

## The Opportunity Cost of Prisoners of War

European wars during the Middle Ages were often rather peaceful affairs, with prisoners typically well treated. It was not uncommon for opposing armies to count the number of soldiers on each side, before the smaller army surrendered. Such nonviolent "combat" occurred because at that time soldiers had a property right in the prisoners they captured. That legal right included the power to sell prisoners back to their families, creating an opportunity cost for the victors if they killed their prisoners. Private organizations, some of them religious orders, began specializing as middlemen between those who had prisoners to sell and those who wanted to purchase them.

Unfortunately for prisoners of war, when long-range weapons became available and hand-to-hand combat became uncommon, it was less likely that individual soldiers would capture prisoners. Wars then became more brutal, not only because the technology of slaughter improved, but also because the ownership of prisoners shifted to the state. Because opportunity costs to individuals diminish when property belongs to the state, it became far more common to kill or mutilate prisoners. Human beings obviously should not be treated as private property. But because of the phenomenon of opportunity cost, captured soldiers are far better off as "private property" than "public property."

Private property is essential to the cooperation that emerges from market interaction, because it ensures that people consider the opportunity cost of their actions. It is both sad and ironic that so many people blame private property for problems that exist because of the lack of private property. This will be the topic of my next column. □

THE FREEMAN
Ideas On Liberty

# Educational Savior?

by Daniel Hager

George S. Counts is not a widely recognized figure in twentieth-century American education, but he was extremely influential. Twenty-five years after his death, the damage caused by this one-time president of the American Federation of Teachers lives on.

The first step in counteracting his effects is to challenge the premise on which he operated and which remains entrenched in public thinking—that governments should be involved in elementary and secondary schooling.

Counts carried the premise beyond simple involvement. Tax-funded teachers, he maintained, must enlarge their task past mere classroom instruction and become primary forces in fundamentally restructuring the nation socially and economically. From the eminence of Columbia University's Teachers College, where he was a faculty member from 1927 to 1955, he was in demand as a speaker to professional educators, and in 1932 he delivered three speeches that he combined into a book titled *Dare the School Build a New Social Order?* Although he muted the radicalism of his thesis by phrasing it interrogatively, he clearly answered the question in the affirmative. Powerfully organized teachers using the medium of the classroom should steer the young away from the bankrupt American individualism of the past toward a future in which all would work for the common good. Strong social and economic planning, according to his vision, would deliver bounty and the good life for all.

In Counts's view, the masses were helpless victims of twentieth-century industrialism. Their rescue would have to be effected by persons anointed to that noble calling, messianocrats who knew better than the people themselves what the people needed. Teachers should become part of the self-appointed elites that must carry out that mission.

## Uncommonly Common

The ironies endemic to messianocracy abounded in Counts's life. For instance, he fancied himself a champion of the common man but lived uncommonly well. He purchased a Pennsylvania farm to which he repaired often from his New York City home. In 1931, when the unemployment rate was 15.9 percent, he had a salary of $15,000, the equivalent of a six-figure income today. During the same period he was referring to "the most terrible form of human madness—the struggle for private gain."[1]

Counts believed that because "the urge for private gain tends to debase everything that it touches,"[2] capitalism had to go. "With its deification of the principle of selfishness, its exaltation of the profit motive, its reliance upon the forces of competition, and its placing of property above human rights, it will either have to be displaced altogether or changed so radically in form and spirit that its identity will be completely lost."[3]

*Daniel Hager is a freelance writer in Lansing, Michigan.*

He grew up on a northeastern Kansas farm in the waning days of the agrarian order, which fostered self-reliance. But industrialization had raised "the most profound issue" of the day—"the issue of the control of the machine. In whose interests and for what purposes are the vast material riches, the unrivaled industrial equipment, and the science and technology of the nation to be used? . . . [A]ll of these resources must be dedicated to the promotion of the welfare of the great masses of the people."[4] He stated, "If property rights are to be diffused in industrial society, natural resources and all important forms of capital will have to be collectively owned."[5] He concluded that "the growth of science and technology has carried us into a new age where ignorance must be replaced by knowledge, competition by cooperation, trust in providence by careful planning, and private capitalism by some form of socialized economy."[6]

Counts was enamored of the Bolshevik experiment then under way in the Soviet Union and in 1929 made a 6,000-mile automobile journey through the nation. In an irony that apparently escaped him, he did not secure a vehicle in that collectivized economy, where automobiles were scarce and ownership tightly controlled by the government. Instead, he bought a new Ford, the product of the capitalist system he scorned, and paid only $661.42 for it, delivered in Leningrad, including $23.57 in spare parts.

He traveled through the Soviet Union like a wide-eyed farm boy just arrived in the big city. Although he acknowledged the stifling inefficiency of the bureaucracies he encountered, he stated that "as an intellectual achievement the revolution has been an astounding success."[7] The vast 1928 Five-Year Plan for industrialization and agricultural collectivization was being implemented, and he admired its visible results. Already in 1929, however, as Vladimir V. Tchernavin documented in *I Speak for the Silent: Prisoners of the Soviets*, the Five-Year Plan was in a shambles, and the nation was being kept afloat by the GPU, the secret police that operated an economy within an economy through wealth produced by expendable slave labor.[8]

But Counts glowed "that a new morality is emerging. . . . The welfare of society as a whole is being placed above the narrow self-interest of the individual."[9] When he looked at the children, "I thought of the latent powers which a rational system of nurture and education would bring to full fruition."[10] As he traveled the "workers' republic," he found that "the workmen know that they rule the country and take great pride in the belief that theirs is the first society in history to be so governed."[11] Against the backdrop of "centuries of poverty" under the czars, now "both pessimists and optimists . . . dream of an era of material plenty" because "the new order will be realized through the introduction of machines and the careful ordering of the processes of production."[12]

Back home a year later Counts read a copy of a Russian schoolbook on the Five-Year Plan and responded that "practically every page carries the mark of genius."[13] He translated it into English, including a chapter that caricatured capitalism and claimed the system inevitably collapses because "they work without a plan." In his preface Counts wrote, "Perhaps the most challenging feature of the little book . . . has to do with the relation of education to social planning. . . . The American teacher will be forced to put to himself the question: Can we not in some way harness the school to the task of building a better, a more just, a more beautiful society?"[14]

## Retreat from Bolshevism

By the mid-1930s Counts had to retreat from his ardor for the Soviets as their internal repression became widely known. He was active by then in advancing organized teachers as a political force. In 1939 he was elected to the first of his three terms as national president of the American Federation of Teachers (AFT). He had recently discovered that international communists had been infiltrating the organization, and during his tenure three large AFT locals were purged for being under communist control. He affirmed his anti-communism in 1949 by co-writing, with his administrative assistant, Nucia Lodge, *The*

*Country of the Blind: The Soviet System of Mind Control.*[15]

But Counts remained throughout an adherent of collectivism, committed to the principles of benevolent messianocracy. In 1941 he began a political career on a local level with the American Labor Party. That career included an unsuccessful run for the U.S. Senate from New York in 1952 for the American Liberal Party. Following his compulsory retirement from Columbia University at 65 in 1955, he took several short-term positions with education schools. He then spent nine years, until 1971, at Southern Illinois University, where he was so admired and influential that in 1980, six years after his death, the university press published a tribute, *George S. Counts: Educator for a New Age.* The new age in education had turned increasingly collectivist as the National Education Association (NEA) became in the 1960s and 1970s as militant as its smaller rival, the AFT.

In a free society, collectivists have a right to their beliefs but not a right to other people's money to propagate their beliefs. The legacy of George S. Counts is that successive generations of protégés have leveraged public money to their own advantage and the advancement of their agendas.

Counts complained in 1932 that "almost everywhere it [the existing school] is in the grip of conservative forces and is serving the cause of perpetuating ideas and institutions suited to an age that is gone."[16] His final irony is that his intellectual descendants are now the conservative forces seeking to preserve a status quo unsuited to the present age. He was considered a progressive, but now the progressives are those who want to detach all schooling from state control.

Today's reactionaries balk at even a hint of competition, such as charter schools and tuition vouchers. Such devices give only an illusion of competition, however, because they still depend on coercively obtained funds. As long as this "free" money funneled through the public treasury exists, it distorts the market and the seller-buyer relationship.

The genuine new age in schooling will be one that rids itself of messianocracy, which is no more appropriate in that field than in any other. A freed schooling market stripped of public funding will determine which suppliers offer customers the best value according to the customers' own interests, irrespective of the windy aspirations of the contemporary Countses.

But what about those who can't afford to pay for schooling? The marketplace will drive prices down. Entrepreneurs will see to that, just as Henry Ford brought a road tour of Russia within the grasp of George S. Counts.

But if the price is still too high? As Leonard Read is said to have responded, "If you had to pay the entire costs of your child's schooling yourself, wouldn't you do it?" □

1. George S. Counts, *Dare the School Build a New Social Order?* (New York: The John Day Company, 1932), p. 17.
2. Ibid., p. 47.
3. Ibid.
4. Ibid., p. 43.
5. Ibid., pp. 45–6.
6. Ibid., p. 48.
7. George S. Counts, *A Ford Crosses Soviet Russia* (Boston: The Stratford Company, 1930), p. 186.
8. London: Hamish Hamilton, 1935.
9. *A Ford Crosses Soviet Russia*, p. 181.
10. Ibid., p. 145.
11. Ibid., p. 172.
12. Ibid., p. 191.
13. M. Ilin, *New Russia's Primer: The Story of the Five-Year Plan* (Boston and New York: Houghton Mifflin Company, 1931), p. v.
14. Ibid., pp. viii–ix.
15 . Boston: Houghton Mifflin Company, 1949.
16. *Dare the School Build a New Social Order?*, p. 5.

# CAPITAL LETTERS:

## Does Survival Trump Morality?

**To the Editor:**

I welcomed the article "Philosophy 1 On 1" (*The Freeman*, March 1999), because James Otteson makes the moral case for a free society. Usually, libertarians focus upon utilitarian issues, seemingly unaware that we often lose on this basis because our adversaries have taken the moral high ground. Moreover, frequently the very cause of economic and material loss is an outgrowth of the violation of moral principles, as when incentives are given for destructive behavior while penalties are given for responsible behavior. Consequently, the author is right to raise the fundamental question as to whether slavery and theft are wrong.

However, there is a stumbling block to the suggestion that we adhere to moral principles. People respond that although they find murder and theft abhorrent, there are times when they are called for. Here it does not suffice to simply repeat that what is wrong is wrong. Rather, one needs to acknowledge the conditions under which morality must be violated (as when a soldier kills, or an escapee from a concentration camp steals). The guide is simple: survival trumps morality. It is this requirement that necessitates government, and which should provide its limits. Consequently, theft and taxation can be justified, even as they violate morality—provided there is no realistic alternative, and they are limited to their minimum extent. By this criterion, almost all intervention is precluded. However, it remains for libertarians to acknowledge that liberty is not indivisible, but on rare occasion must be compromised for survival (as when the Continental army fought the British). With that modification, the position of Dr. Otteson can establish "the philosophical underpinnings of the free society."

—Allen Weingarten
Morristown, New Jersey

**James Otteson responds:**

I thank Dr. Weingarten for his letter, but I am not sure what his disagreement with my position is. The two exceptions he offers to the moral principles I discuss in my essay both presuppose prior violations of those same principles: if a soldier is justified in killing someone, presumably this is because some violation of life, liberty, or property has already taken place; similarly, if an escapee is justified in stealing from (perhaps even killing) his captors, it must be only because a similar violation has already taken place.

I assume Dr. Weingarten agrees with me that if there had been no such violations, then the killing and stealing would not in fact be justified. If so, his examples actually underscore, not undermine, the importance of respecting others' life, liberty, and property.

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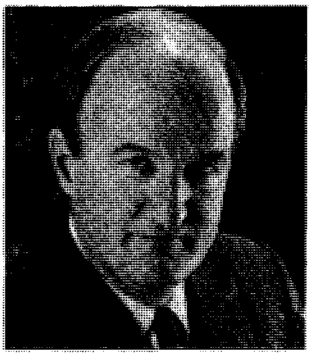
THE FREEMAN (Ideas On Liberty)
JUNE 1999



# New Possibilities for Our Grandchildren

"It would not be foolish to contemplate the possibility of a far greater progress still."
—JOHN MAYNARD KEYNES[1]

In 1930, after the Roaring Twenties, John Maynard Keynes wrote an optimistic essay titled "Economic Possibilities for our Grandchildren." After lambasting his disciples who predicted never-ending depression and permanent stagnation, Keynes foresaw a bright future. Through technological improvements and capital accumulation, mankind could virtually solve its economic problem within the next hundred years, he said. Goods and services would become so abundant and cheap that leisure would be the biggest challenge. According to Keynes, capital could become so inexpensive that interest rates might fall to zero.

Interest rates have not fallen to zero, but our standard of living has advanced remarkably since the Great Depression. In fact, we have probably already fulfilled Keynes's prediction that "the standard of living in progressive countries one hundred years hence will be between four and eight times as high as to-day."[2]

*Mark Skousen* (http://www.mskousen.com; mskousen @aol.com) *is an economist at Rollins College, Department of Economics, Winter Park, FL 32789, a* Forbes *columnist, and editor of* Forecasts & Strategies. *See the next page for details on his newly published textbook,* Economic Logic.

## Can We Grow Faster?

Today's economists don't appear to be as optimistic as Keynes, even as we enter another year of a dynamic, full-employment economy. I asked several well-known economists for recommendations that would give us sustained (long-term, not short-term) economic growth rates of 6, 7, or maybe even 10 percent a year, eventually fulfilling Keynes's economic nirvana.

"Not possible!" most of them exclaimed. "I think it's impossible to double the long-term growth rate in the U.S.," answered Harvard economist Robert Barro. David Colander of Middlebury College agreed. "The idea of doubling economic growth in ten years sounds very much like a central planning goal of the former Soviet system." He quoted Herbert Stein: "Economic policy is random with respect to the performance of the American economy, but thank God there isn't much of it."

Recently a whole book of essays was devoted to charting a course toward higher growth rates. In the foreword to *The Rising Tide*, Dana Mead, CEO of Tenneco and former chairman of the National Association of Manufacturers, rejects the notion that the U.S. economy can't exceed its secular long-term growth pattern of around 3 percent a year. He argues that faster economic growth is achievable without creating shortages, rising labor costs, and higher interest rates. As Jack Kemp states, "We can raise the ceiling on growth by judicious changes in policy."[3]

Of course, not all the economists in the book agree with Mead and Kemp. James Tobin, Yale professor and Nobel laureate, declares, "Although politicians freely promise faster growth, governments have no handy set of tools for effecting it."[4] Apparently he hasn't found the formula to fulfill his mentor Keynes's dream of universal opulence.

Despite their skepticism of substantially higher growth rates, major economists do offer several ways to improve long-term prospects. Rudi Dornbusch of MIT recommends privatizing Social Security and education. Robert Barro urges a flat-rate consumption tax, exemption of savings from taxation, deregulation of labor and business, and a 10 percent cut in the size of government. Robert Mundell warns against inflating the money supply as a growth tool and instead favors slashing capital gains and income tax rates to encourage entrepreneurship and investing. "A lower level of government spending would make more of the surplus of society available for capital formation and growth. A shift in government priorities from consumption and redistribution to social overhead capital, improved education, and investment in scientific and medical research would go far in raising the productivity of capital with a permanent effect on growth."[5]

## The Future Is Boundless

My own view is that we are selling our country short by thinking that super-growth cannot be sustained over the long run. Imagine how much advanced our standards of living could become if we

- slashed government spending to its legitimate functions, which undoubtedly means less than 10 percent of GDP;
- replaced the current tax code with a simplified 10 percent flat tax;
- privatized Social Security, or better yet, let Americans make their own plans for retirement;
- established a sound money standard that discouraged malinvestment and the boom-bust business cycle;
- established a fair system of justice that freed 90 percent of the lawyers in this country to become productive citizens; and
- stopped interfering in foreign military affairs.

Imagine the breakthroughs in medicine, transportation, housing, telecommunications, and science that could take place by adopting this laissez-faire program. It boggles the mind to think that we could double or triple our living standards in a short time. To quote Keynes: "Thus for the first time since his creation man will be faced with . . . how to use his freedom from pressing economic cares, how to occupy his leisure, which science and compound interest will have won for him, to live wisely and agreeably and well."[6] □

1. John Maynard Keynes, "Economic Possibilities for Our Grandchildren," *Essays in Persuasion* (New York: Norton, 1963), p. 365.
2. Ibid.
3. Quoted in Jerry J. Jasinowski, ed., *The Rising Tide* (New York: John Wiley & Sons, 1998), p. xxi.
4. James Tobin, "Can We Grow Faster?," in ibid., p. 44.
5. Robert A. Mundell, "A Progrowth Fiscal System," in ibid., pp. 203–04.
6. *Essays in Persuasion*, p. 367.

# BOOKS

## A Life of One's Own: Individual Rights and the Welfare State

by David Kelley

Cato Institute • 1998 • 174 pages • $18.95 cloth; $9.95 paperback

Reviewed by Ellen Frankel Paul

David Kelley, erstwhile professor of philosophy, social commentator, and executive director of the Institute for Objectivist Studies, has written a marvelous yet slim volume exposing virtually everything that is wrong with the welfare state. Kelley's writing is always pellucid—an academic's word for clear—and utterly comprehensible, which no doubt explains why he left college teaching. This book is simply outstanding.

Kelley is a superb synthesist, and one could hardly do better than to purchase a copy of *A Life of One's Own* to acquire an understanding of the defects of the welfare state. Here one finds elegant refutations of the key arguments that opponents of America's tradition of individual liberty have employed to undermine our freedom. Primary among these is the notion of "welfare rights," which he argues are spurious because they are parasitic on the efforts of other people: one person's right to welfare payments as an unwed mother, for example, is dependent on the coerced transfer of money from its rightful owners, the taxpayers who actually earned it. In contrast, the natural rights of life, liberty, and property are not parasitic on the efforts of others, and ask of others only that they not interfere with what is mine and thine. What is fundamentally wrong with "welfare rights" is that they cannot be implemented without violating liberty rights.

Kelley is at his most instructive when he analyzes why the welfare state developed out of the Industrial Revolution. Defenders of individual liberty, free markets, and limited government often are weak on the question of why such appealing doctrines have fared so poorly in the twentieth century. Kelley provides some interesting answers. Tracing the origins of the welfare state back to Bismarck's Germany of the 1880s—with its payroll taxes to fund unemployment, accident, health, and old-age insurance—Kelley shows how American resistance to this Prussian model broke down under the pressure of the Great Depression and the exhortations of prominent social activists and academics.

Fundamentally, these welfare state initiatives were a response to changes in the way people led their lives during the Industrial Revolution. In the new economy based on employment for a wage, the vagaries of economic cycles, chance, and bad luck played a much more significant role in people's lives, and they desired protection against those risks. Disabling accidents in the factory, sickness of the breadwinner, old age, and unemployment were potential calamities that wage earners and their families faced. This broadened the constituency for governmental remedies beyond the narrower band of the chronically poor.

While conceding that these risks were real, Kelley shows how they were being addressed by insurance, friendly societies, and other voluntary charitable associations. In other words, he sees nothing inevitable about the development of the welfare state. For such voluntary remedies to have been usurped by state programs, a "sea change in thinking about the problems of poverty and economic risk" had to have transpired. The transformation from private to public provision of assistance could not have happened from economic causes alone, Kelley contends, but rather, resulted from a revolution in "ideas, values and philosophical outlook."

Virulent critics of individualism set the moral stage for the welfare state's assault on liberty. Ideas essential to liberty—such as the morality of self-interest and the efficacy of reason—were ridiculed and repudiated. The "new liberals" paved the way for the welfare state in five key ways, Kelley argues: (1) by redefining freedom into a spurious "positive freedom" to be taken care of by the state, (2) by redefining "coercion" to mean what employers do to their employees by offering them a wage, rather than the threatening of people with harm if they don't obey, (3) by undermining individualism with the claim that we are all helpless creatures of social forces, (4) by advocating a secular variant of altruism that replaced service to God with service to society, and (5) by undermining the distinction between society and the state, and deifying the latter.

Kelley concludes his demolition of the welfare state on an optimistic note. Just as communism imploded when its myth of a workers' paradise wrought by central planning lost its credibility, so might the welfare state collapse under the weight of its myths and nearly bankrupt programs.

Not as sanguine by nature as Kelley, I do hope that his powers of prognostication are keen. I wonder, though, whether a system based on pure evil, like communism, is more vulnerable to collapse than one grounded on smaller, subtler evils, like the welfare state. We shall see. □

*Ellen Frankel Paul is professor of political science and philosophy and deputy director of the Social Philosophy and Policy Center at Bowling Green State University.*

## Mugwumps: Public Moralists of the Gilded Age

by David M. Tucker

University of Missouri Press • 1998 • 160 pages • $27.50

Reviewed by Burton Folsom

At last, the Mugwumps have their modern-day champion: Professor David Tucker, a historian at the University of Memphis. The Mugwumps are best known as civil service reformers who worked within the Republican party to quash the spoils system with the Pendleton Act of 1883. As Tucker shows, however, the Mugwumps were much more than mere moral reformers. They were eloquent and persuasive spokesmen for free markets and free trade throughout the late 1800s.

The Mugwump name came from the Algonquian word for "chief." Tucker looks at, among others, the careers of Mugwump "chiefs" William Graham Sumner, professor at Yale University; E. L. Godkin, editor of *The Nation*; Carl Schurz, senator from Missouri; David Wells, a government statistician; and Henry Adams, popular writer descended from two presidents.

The Mugwumps greatly admired the writings of British thinkers Adam Smith, Richard Cobden, and John Stuart Mill. The ideas of free markets, strong property rights, sound currency, and limited government were hallmarks of Mugwump thinking. As Tucker notes, "They mastered historical and statistical material that demonstrated that steam and electricity had multiplied the productivity of workers and would create an abundance if only individuals learned personal virtue and if governments withdrew their market interferences."

Not only would society function more smoothly if entrepreneurs were unleashed and government restrained, but poor people and immigrants would have greater chances for success. Protective tariffs, according to Mugwump research, helped fewer than 10 percent of American workers and pushed prices upward for the rest. Tariffs further created lobbies of special interests who corrupted government by pressuring politicians to vote special favors for them.

The Mugwumps deplored the political arena and preferred to write rather than run for office. Their big political success was when they bolted the Republican party in 1884 and helped Grover Cleveland win the presidency. Cleveland proved to be a strong free-market thinker and his two terms were the high point of Mugwump influence.

In the late 1800s, the Mugwumps were challenged by the Populists, who wanted government aid for farmers; silver miners, who wanted the government to buy large amounts of silver at high prices; and some intellectuals, who saw government as a useful tool to create a more perfect society. Tucker describes these challenges to free-market ideas and observes that Mugwumps opposed federal tinkering because "government policies violated liberal beliefs in absolute individual rights of life, liberty, and property."

Tucker does an excellent job of presenting the Mugwumps and their ideas, which he says were compelling and logical. They won some battles, lost others, and, by the early 1900s, were overshadowed by the Progressives. "Politicians," Tucker says, "always needed encouragement to do the right thing, and even if the advice was rarely followed, critics were not necessarily failures."

In the past, historians have ridiculed Mugwumps as priggish, selfish, and suffering from declining status in society. Tucker argues that this view says more about the historians than it does about the Mugwumps. "Mugwumps were given their reputation for failure by later cheerleaders for the welfare state," he observes. "[A]fter the Great Depression of the 1930s turned educated opinion to Keynesian economics, nineteenth-century liberals who feared government as the enemy of freedom and progress were recast as selfish, wrongheaded agents for the middle class."

Tucker's research is solid and he explores a wealth of primary and secondary sources. His writing is clear and crisp and his chapters are well organized. Most historians assume that free-market ideas lost because they were not sound; Tucker, by contrast, assumes that the Mugwumps held ideas that were solid and enduring. To explain their ultimate defeat, he explores how the German ideas of statism and empire-building began to permeate American society in the late 1800s.

Tucker's book is an excellent addition to the literature on the Gilded Age and a valuable correction to the standard books by historians Richard Hofstadter, Ari Hoogenboom, and John Sproat. □

*Burton Folsom is senior fellow with the Mackinac Center for Public Policy in Midland, Michigan. His book* The Myth of the Robber Barons *is in its third edition.*

**Who Killed Homer? The Demise of Classical Education and the Recovery of Greek Wisdom**

by Victor Davis Hanson and John Heath

Free Press • 1998 • 288 pages • $25.00

Reviewed by Fred D. Miller, Jr.

Over a decade ago, Allan Bloom's explosive book, *The Closing of the American Mind*, opened the floodgates of criticism of American higher education for perverting its ostensible mission and values. Professors of the humanities, in particular, have been excoriated for behaving like politically correct ideologues and overspecialized self-promoters and careerists rather than teachers and scholars in the traditional sense. *Who Killed Homer?* presses the attack into that most venerable citadel of the academy: the discipline of classics, which studies the languages and literature of the ancient Greeks and their intellectual heirs, the Romans.

Authors Hanson (professor of Greek at California State University-Fresno) and Heath (professor of classics at Santa Clara University) start with a paradox: In 1992 classicists published over 16,000 books, articles, and reviews, double the output of 1962. Yet during this time, enrollments in Latin have plummeted and Greek has all but disappeared. As a result, "there are now five or six Classics professors in the country for every senior Classics major, and over thirty articles and books each year for every graduating student." This is having dire effects: retiring classicists are not replaced, and ever fewer courses in classics are being taught. How did this happen? Or, as the authors ask, who killed Homer?

There has been a drastic decline in the quality of American public education (partially concealed by grade inflation and the "dumbing down" of standardized tests), and the elimination of foreign language requirements has had a disproportionate effect on Latin and Greek. But the authors place much of the blame on classicists themselves who are unimpressed with or unaware of the values of Greek and Roman civilization and have little interest in explaining them to the general public. This is in part the result of the hyperreaction against Western civilization that has seeped into the university professoriate along with postmodernism and multiculturalism. The Greeks, especially, have been ignored, debunked, or denigrated, although they bequeathed to us enduring ideals such as rationality, scientific inquiry, and freedom of speech.

Classical scholarship has unfortunately followed the lead of literary criticism, "adding a vacuous jargon and sophistic superstructure on top of the multiculturalist perspective." Books in classics are routinely praised by reviewers for being "densely argued" or "challenging," rather than panned for their turgid, unintelligible verbosity. The authors document this with a series of outrageous and sometimes hilarious examples of pretentious verbiage, which receive adulation from other academic reviewers. For example, one book review in the esteemed *Journal of Hellenic Studies* concludes:

> In sum, this book might be refigured as revealing the contradictions between a mainly "pessimistic" post-structuralist/deconstructive discourse and a more "optimistic" Marxizing discourse, contradictions through which—could one say?—glimmer sights of the Althusserian "real conditions of existence." Or not.

Why do academics publish such stuff? Because they learn that the key to success is recognition within their academic guild. So they strive to earn Ph.D.'s from illustrious universities, find jobs at similarly illustrious universities, secure tenure, and ultimately ascend to stardom, which is measured in terms of grants, endowed chairs, appointments to editorial boards, professional recognition, reduced teaching loads, extended leaves, and prestigious fellowships. In pursuing these goals, however, scholars are making themselves collectively irrelevant.

The authors show from experience that teaching Greek and Latin is not easy. In order to motivate students, teachers must be highly dedicated and view the task of teaching as their primary responsibility. They must communicate to students the light at the end of the tunnel: the power and beauty of classical literature and the values it contains.

An effective jeremiad must exaggerate somewhat, and this book is no exception. The profession of classics includes many dedicated teachers who devote long hours to their students and many scholars who conscientiously search for the truth. But the book's thesis is correct that the discipline of classics as a whole is "in crisis."

The solution proposed in this book is a fundamental change in how universities do business: professors should be expected to teach a lot more, they should be expected to motivate their students to learn, and they should be hired, promoted, and rewarded on the basis of their teaching to a much greater extent than they are now.

The prospects for such reforms seem dim. Academics generally, and classicists in particular, have little incentive to alter their behavior. Until and unless there are fundamental changes in how higher education is offered to students, it is unlikely that Homer will rise again from the dead. □

*Fred Miller teaches the classical Greek language and is professor of philosophy and executive director of the Social Philosophy and Policy Center at Bowling Green State University.*

## Secession, State & Liberty

edited by David Gordon

Transaction Publishers • 1998 • 344 pages • $44.95

Reviewed by George C. Leef

Herbert Spencer argued in a famous essay that individuals have a right to ignore the state. If so, it follows that a group of individuals also has the right to ignore the state, and enter into some new political arrangement if they choose. That is, they may secede. Although secession has had a bad press in the United States since the Civil War, with the secessionist cause and slavery almost invariably linked, this book brings together 11 essays which collectively make the case that it merits serious consideration.

The essays fall into three categories—those examining American history for fresh insights on the legality and morality of secession, those taking a theoretical look at secession generally, and those applying secession theory to the contemporary world.

In the first category are Donald Livingston's "The Secessionist Tradition in America," Joseph Stromberg's "Republicanism, Federalism and Secession in the South, 1790 to 1865," Thomas DiLorenzo's "Yankee Confederates: New England Secession Movements Prior to the War Between the States," and James Ostrowski's "Was the Union Army's Invasion of the Confederate States a Lawful Act?" If you enjoy challenges to conventional wisdom, these essays are a feast.

Livingston takes great pains to attack "the absurd nationalist theory of the Constitution propounded by Story and Webster," maintaining that the prevailing philosophy of the Founders was that the country was a voluntary union of sovereign states, each possessing as much right to depart as they had to depart—secede—from the British Empire. Stromberg, traversing much of the same ground, quotes Madison that ratification of the Constitution was "the act of the people, as forming so many independent states, not as forming one aggregate nation." DiLorenzo makes the historically deft point that talk of secession did not originate in the South, but rather in New England in the years before and during the War of 1812. Hostility to Jefferson's trade embargo and the war caused leaders in New England to convene in Hartford to discuss secession. The movement fizzled, of course, but DiLorenzo concludes that "there was virtually universal support—from Republicans and Federalists alike—for the right of secession."

Arguably the most affecting in this group is Ostrowski's essay, an extended analysis of the arguments advanced by President Lincoln for the legality of sending troops into Confederate territory. Ostrowski finds no constitutional support for any of those arguments. Instead, he marshals considerable support for the opposite proposition, that the war was conducted in violation of the Constitution, concluding that "the purposes of the Constitution do not envision the use of armed force against a state that has concluded it is no longer benefiting from the union." Ostrowski ends his piece with his thoughts on the present-day legality of secession, holding that the Civil War and subsequent constitutional amendments did not change underlying legalities: the Ninth and Tenth Amendments still protect the right to secede.

In the second group of essays, Steven Yates asks, "When is Political Divorce Justified?" and answers that because the federal government has ignored its legitimate functions and has undertaken many illegitimate ones, "Americans are morally justified in taking action to restore limited government, including, as a last resort, secession." Scott Boykin explores "The Ethics of Secession" and, among other things, refutes arguments that have been made purporting to limit the right to secede. The late Murray Rothbard's "Nations by Consent: Decomposing the Nation-State" is classic Rothbard. He writes, "One goal for libertarians should be to transform existing nation-states into national entities whose boundaries could be called just . . . that is, to decompose existing coercive nation-states into genuine nations, or nations by consent." As Clyde Wilson's "Secession: The Last, Best Bulwark of Our Liberties" argues, "The right of self-government rests on the right to withdraw consent from an oppressive government. That is the only really effective restriction on power, in the last analysis."

In the third category of essays, Hans-Hermann Hoppe contends that secession is a healthy trend in "The Rationale for European Secession." Pierre Desrochers and Eric Duhaime examine the case of Quebec. Lastly, Bruce Benson contributes "How to Secede in Business Without Really Leaving," an essay exploring arbitration as a means of "seceding" from the government's system of law and courts. Of particular interest here is the battle that the "anti-secession" forces (mainly lawyers who fear the loss of business if arbitration provides an attractive alternative method of dispute resolution) have waged with considerable success to undermine the advantages of arbitration.

A most intriguing book! □

*George Leef is book review editor of* The Freeman.

**Money and the Nation State: The Financial Revolution, Government and the World Monetary System**

Edited by Kevin Dowd and Richard H. Timberlake

Transaction Publishers • 1998 • 453 pages • $34.95 cloth; $19.95 paperback

Reviewed by Bert Ely

This is a book on a vital—and much misunderstood—topic. It is sometimes excellent, but largely disappointing.

The book consists of 13 chapters divided into three sections: The History of the Modern International Monetary System, Modern Money and Central Banking, and Foundations for Monetary and Banking Reform. The editors' introduction provides a good summary of each chapter. As Merton Miller notes in the foreword, the authors felt free to "disagree among themselves in their interpretations of key events, empirical evidence on devaluations, and a variety of other monetary issues."

The book's first section is its strongest. The late Murray Rothbard's contribution, "The Gold-Exchange Standard in the Interwar Years," alone is worth the price. Rothbard is especially effective in differentiating the "gold-exchange" standard, which Britain adopted in 1925, from pre-World War I monetary arrangements when gold coins circulated freely. Another noteworthy chapter is Frank van Dun's "National Sovereignty and International Monetary Regimes," in which the author draws on the work of political philosophers to explain why governments seek to dominate monetary systems at the expense of market efficiency.

The latter two sections generally reflect a weakness characterized by the first word in the book's title—an excessive emphasis on *money* that disregards how electronic technology has altered the financial marketplace in recent years. By failing to describe how this marketplace actually works today, particularly in the industrialized nations, the authors misinterpret recent monetary events, which leads to policy prescriptions based on outdated understandings of that marketplace.

Today, all forms of money are merely credit instruments that also readily serve as media of exchange. That is, coins, currency, and checkable bank deposits represent credit extended to the issuers of media of exchange.

The authors seem not to understand that inflation is caused by excessively rapid credit expansion, because it is *credit*, not media of exchange per se, that gives individuals, businesses, and governments the ability to own assets or mortgage future income and tax collections. Media of exchange merely represent one way to facilitate a purchase; using a credit card or a check drawn against a pre-established line of credit represents an increasingly common way of buying something without any "money" changing hands.

Such transactions create credit; credit growth in turn is controlled by interest rates. If rates are too low, in real or inflation-adjusted terms, credit will grow too rapidly, causing inflation, *regardless of what happens to the money supply*. If rates are too high, credit demand will contract, eventually causing a recession, again regardless of changes in the money supply.

Interest, of course, is a price. Therefore, price stability depends on how accurately the credit markets price interest. Inflation's decline in recent years reflects the improved functioning of the increasingly globalized financial marketplace in which debtors and creditors, acting out of self-interest, negotiate interest rates whose cumulative effect is to foster non-inflationary credit growth.

Unfortunately, the essays provide no sense of how the credit markets work and the overriding importance of properly priced interest even as they acknowledge the importance of the pricing mechanism generally. Consequently, they present worn-out, statist solutions, usually involving central banks, for ensuring price stability. For example, Steve Hanke and Kurt Schuler advocate currency boards (backing the local currency with the currency of another country). However, currency boards are unnecessary: merely guaranteeing the convertibility of government-issued currency into debt carrying a market rate of interest will protect any economy from a currency-driven inflation.

Lawrence White, Richard Timberlake, and others write fondly of a gold-based monetary standard. Gold and other specie standards, however, have never provided price stability, except over the very long term, nor have they been sustainable.

Several authors advocate fixed exchange rates, but they are unsustainable and wreak economic havoc when the inevitable devaluation occurs—witness today's Asian crisis. Robert Keleher, for example, argues in "Global Economic Integration: Trends and Alternative Policy Responses" that fixed exchange rates "minimize the variability and dispersion of many other prices, and so further improve the workings of the price system." Such price smoothing, though, distorts important price signals coming from the rest of the world. What advocates of fixed exchange rates ignore is that an exchange rate is a price, and therefore should no more be manipulated than the price of crude oil or toothpaste. Instead of distorting the pricing mechanism, public policy should ensure price stability by relying on market-determined prices, especially the price of credit and prices expressed in other currencies.

The subject of this book—ideal modern monetary and credit policies and institutions—desperately needs a penetrating analysis. Sadly, this book fails to deliver it. I hope that the next book to address this subject will. □

*Bert Ely is a financial institutions and monetary policy consultant in Alexandria, Virginia.*

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## Policy Analysis and Public Choice: Selected Papers

by William A. Niskanen

Edward Elgar • 1998 • 448 pages • $95.00

### Reviewed by Bruce Yandle

This volume has much to recommend it. First off, William Niskanen, chairman of the Cato Institute, presents an organized collection of 34 papers that span his interesting and productive 40-year career as a professional economist. Never so technical as to restrict access to readers of policy analysis, the papers cover issues as diverse as school choice, drug policy, Reaganomics, trade policy, voting rules, and the prospects for a liberal economic order. In short, the papers represent a delightful smorgasbord of policy analysis by one who is at once a respected scholar and a friend of liberty.

But the range and quality of the papers is just one gainful reason for reading the book. The second reason, and perhaps the more interesting one, is that the collection reveals the author's preferences regarding the work of his long and impressive career. In that regard, Niskanen shows that he is as much concerned about rules of just conduct and constitutional constraints that assure a liberal order as he is about good economic analysis and the powerful insights offered by Public Choice. The papers demonstrate thoughtful appreciation of both the normative and positive aspects of public policy.

To Public Choice scholars, the name Niskanen brings an immediate association with his seminal work on bureaucratic tendencies to increase budgets and bargain with politicians in all-or-nothing deals to expand activities beyond efficient margins. To industry economists, the name generates memories of Ford Motor Company's chief economist who resigned after attempting to counter the firm's protectionist stance. To defense and government economists, Niskanen is known for his work at the Pentagon and as acting chairman of President Reagan's Council of Economic Advisers. And to those who know none of this, the collection demonstrates the power of careful analysis to offer useful and sometimes unexpected insights.

Niskanen's 1994 paper on crime and police offers an example of the power of his thinking. After his analysis of the data, one begins to doubt the generally held idea that crime rates rose; for one thing, crime reporting has improved considerably. Moreover, what can be done to counter any possible crime increase? The author's conclusion: not much. To a large degree criminal activity represents tolerance for crime, the demise of rules of just conduct. The best thing the federal government could do would be simply to get out of the way by repealing its own crime legislation and encouraging state and local experiments.

A strong believer in looking at the data, Niskanen does this in spades when he deals with drug policy. After modeling the problem, he concludes that legalization would reduce drug-control expenditures by as much as $10 billion annually, reduce violent crime and AIDS transmission, and generate substantial tax revenues from an excise tax on drugs. But Niskanen has a habit of recognizing all sides; so he describes the fallout that might be generated by a more open market for drugs: cocaine babies, increased health-care costs borne by taxpayers, and additional welfare dependency. Weighing the evidence, he concludes that legalization could generate net benefits, but that some new costs would be produced along the way.

Niskanen's paper on economists and politicians overflows with insights into the activities in the higher reaches of government. He begins with a question: Why do politicians hire economists? He stakes out his answer by describing canons of good policy analysis, which are worth studying. Niskanen then describes the rising status of economic advisers in government, noting the arrogance that developed among those who thought Keynesian economics would solve the nation's unemployment problems. Finally, Niskanen returns to his Public Choice roots by observing that politicians hire economists to serve political interests. On the whole, the record of economists as policy advisers has been more congenial to the growth of government power than to liberty.

Of all the papers in this stimulating book, my favorite is a graduation address given at Suomi College in Michigan in 1983. Here Niskanen lays out some simple but profound rules for living: recognize and reinforce your natural abilities, be willing to take risks, learn from the errors risk-taking generates, be humble, keep a sense of humor, and develop respect, but not fear, for the many mysteries of life.

Public Choice scholars, anyone who appreciates strong policy analysis, and readers interested in political economy should put this book on their reading list. □

*Bruce Yandle is Alumni Professor of Economic and Legal Studies at Clemson University.*

# Nothing's Free

My brother and I have a game we play from time to time. He calls me with a can't-miss investment opportunity, and my job is to figure out what's wrong with it. There is always something wrong with it. In fact, the better it looks on the outside, the worse it looks on the inside when you take a closer look. That doesn't necessarily make it a bad investment. But it's never the bargain it appears to be at first.

Such is the economist's burden and blessing. There is no free lunch. The bigger the bargain, the more likely it is that something worrisome lurks beneath the surface that needs to be examined. There's always a catch. Usually it's easy to discover: the bargain is of questionable quality; the bargain has a hidden payment that comes later; the bargain involves an unforeseen risk. But every once in a while a bargain comes along that looks so good, you wonder if it might actually be a genuine bargain. This should make you especially nervous. For that means the catch is especially hard to see. So look carefully before you leap, then look some more.

## State Lotteries

So it is with the "free" education that is being offered in some states with lotteries. In Georgia, for example, any student with a sufficiently high grade point average gets "free" education at any public Georgia college. The funds come from sales of lottery tickets. It sounds like the ultimate bargain. Who can quarrel with free education?

Let's take a closer look. There are many senses in which a University of Georgia education is not free. Resources get used up to provide it. Those resources could have provided something else of value.

But who provides those resources? If the education is not really free, someone must be paying. It would seem to be the losers in the lottery. And that's why the education seems free. We know there have to be losers in the lottery. They help pay for education. Sounds great. And besides, no one forces anyone to play the lottery, so the whole thing is more like a voluntary contribution than a tax.

To see the flaw, suppose the government decided to fund free education by opening a chain of dry-cleaning stores. Profits from the store are used to pay for "free" education. To make sure the stores are sufficiently profitable, the government decides to charge a dollar more per shirt than dry cleaners currently in operation. And to keep those privately run stores from attracting customers at lower prices, the government decides to ban all private competition and enjoy a monopoly.

We would all understand that in this world the "free" education is being paid for by people who enjoy pressed and clean clothes. Such people would be paying in two senses. The first sense is literal: they fund the education with their excess payments above the compet-

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*Russell Roberts* (roberts@mail.olin.wustl.edu) *is director of the Management Center at the John M. Olin School of Business at Washington University in St. Louis. He is the author of* The Choice: A Fable of Free Trade and Protectionism *(Prentice Hall).*

itive prices that would prevail without a government monopoly. They also pay in the sense of having their clothes cleaned less often than they would under a private system. Given the higher prices, some people are going to do less dry cleaning and some are going to do none at all. Under such a system, it would be ludicrous to claim that the education is free. It's clearly being paid for by the users of dry-cleaning services. Funding education from the pockets of dry-cleaning customers also raises a question of morality. Why should the burden of funding education fall arbitrarily on those who like clean clothes?

## Government Monopoly

Now, let's return to the state lotteries. About 55 percent of the receipts go to prizes, 10 percent to expenses, and 35 percent to education or some similar unimpeachable cause. Because 35 percent goes to neither winners nor losers, the real cost of the lottery is that you win less often and the prizes are smaller than would be the case without a government monopoly. If government allowed competition or made gambling legal, people who like to gamble would have a higher chance of winning and there would be more money distributed to winners.

So lottery-funded education is not free after all. Subsidizing education out of lottery proceeds punishes people who like to gamble. Those turn out on average to be people who are relatively poor with less education. Can you think of a more immoral solution for funding education than to take the money from those with the least education?

People like to defend the lottery by saying it's voluntary. After all, you don't have to play. It's also true you can avoid the income tax by not working. So I guess that's voluntary, too. But it's hard to argue that the lottery is a voluntary tax when the government has a monopoly. Can you imagine how many people would play state lotteries if there were competing private lotteries that paid 90 percent of the proceeds in prizes instead of the typical 55 percent?

Under a private, competitive lottery system, the prizes would be bigger and the odds of winning would be higher. It would be a better world than the one we now live in, where people in search of hope are forced to pay a 35 percent tax to finance the college education of mostly upper-class children. That's why I like my dry-cleaning proposal. Sure it's unfair. But it's better than using the money from a government lottery. □