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Ideas On Liberty

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Cover portrait of Albert Einstein: CORBIS/Bettmann.

PERSPECTIVE

Who's Who in the School Voucher Movement

Watching the shifting line-ups in the school voucher contest is revealing. The voucher is one of those insidious "reforms" that its advocates herald as an achievable "step in the right direction." The direction varies depending on who's speaking. For some it's improvement of the government's monopoly schools through competition. For others, it's elimination of the government's role in education. That's one problem with the voucher movement: it's a coalition with incompatible objectives.

To date, the coalition has consisted mainly of conservatives, with a significant minority libertarian element. Many other libertarians, however, have warned that the voucher is a Venus flytrap. It looks pretty, but stay away.

It was only a matter of time before someone other than conservatives and libertarians became attracted to vouchers. Considering that key constituents of the Democratic Party, inner-city minority residents, poll in favor of vouchers, it was inevitable that leaders of that party would take an interest.

An editorial in the May/June *New Democrat*, published by the Democratic Leadership Council and Progressive Policy Institute (the "moderate" Democrats with whom Bill Clinton has long been associated), embraced vouchers in a new defense of government schools. These New Democrats are "gloomy" that the public response to vouchers and private scholarships has been so enthusiastic. Recent developments "should be a wake-up call to liberal Democrats who have blocked, watered down, or gummed up reforms such as charter schools and other types of public school choice," the editorial states. Sensing that government schooling is in peril, it recommends that any voucher bill be amended to force private schools to admit all children and "meet or exceed specified performance standards to continue receiving taxpayer funds."

Here's the punch line: "Such an amendment would effectively turn voucher-supported private schools into public charter schools." As the editorial correctly points out, "A public school is not defined by who 'owns' it, but rather by two features: universal access and accountability to the public for results." The implicit third feature is tax financing.

The New Democrat anticipates that many voucher champions will object. "Fine," it says. "Let's separate the sheep from the goats on education: let's find out who's really interested in improving student achievement and who's interested in simply gutting public education." Education separationists understand that these two goals are not in conflict.

The question for voucherians who favor separation of school and state is: who is more likely to shape the voucher legislation that eventually gets enacted?

I am not the first to predict it, but I foresee a day when the voucher advocates and voucher opponents (excepting the libertarians) switch sides. It won't be long.

* * *

With slightly more than a year to go before the start of the new millennium, it's worthwhile to contemplate how much wealth human beings have created over the last one. Calvin Beisner takes an inventory.

The theory of spontaneous order holds that social cooperation and coordination occur without a central plan and with minimum force. Andrew Morriss has studied a particularly striking example—involving elementary schoolchildren.

Once upon a time American coins honored liberty not political leaders. The country's founders insisted on it. That all changed. Stephan Gohmann teaches a revealing lesson.

The newspapers heralded the finding: Einstein's brain *was* different? What does that mean? Steven Yates gives the gray matter some thought.

The U.S. Constitution contains terms that strike the modern ear as unfamiliar. The specific practices referred to may be passé, but as Wendy McElroy notes, the terms may not be as outmoded as one might think.

For classical liberals, welfare is bad, charity is good. Really? Daniel Oliver points out that it all depends on what the meaning of "charity" is.

The Clinton administration has plans to use the FBI to monitor all traffic on the Internet—for our own protection, of course. Prudent policy or another leech on liberty? Aeon Skoble e-mailed his conclusion.

Freud said that sometimes a cigar is just a cigar. The Food and Drug Administration would have you believe that in light of its alleged effect on health, a cigar is actually a pack of cigarettes. Jacob Sullum scrutinizes the latest call for warning labels.

A quarter century ago many people believed the world's supply of fossil fuels would run out. Considering that a gallon of milk (a "renewable resource") costs more than a gallon of gasoline, that prediction seems flawed. It's even more flawed than you think, says Robert Bradley, Jr.

Once again Big Steel wants help from Washington. How good is its case that foreign steelmakers are "dumping"? And is that a bad thing? Dale DeBoer has the unalloyed truth.

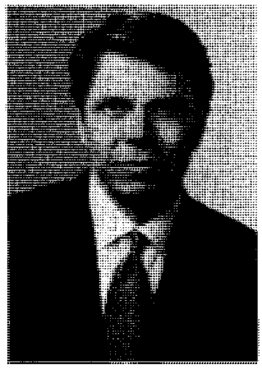
Western Germany, once the post-World War II economic dynamo, today looks like any other European welfare state. Norman Barry identifies the causes of decline.

Our columnists offer a smorgasbord of insights: Donald Boudreaux pounces on "predatory pricing." Lawrence Reed examines the connection between the size of state governments and economic success. Doug Bandow analyzes post-Columbine gun policy. Dwight Lee continues his discussion of comparative advantage. Thomas Szasz dissects the metaphor of "mental illness." Mark Skousen relates the story of a private bank in the world's poorest country. Charles Baird takes the pulse of the AFL-CIO. And Roy Cordato, meditating on the claim that the "invisible hand" will be irrelevant in the 21st century, protests: "It Just Ain't So!"

Reviewers this month assay books on a free education market, prospects for a civil society in China, political correctness on campus, the principles of a free society, the automobile, and Ulysses S. Grant.

—SHELDON RICHMAN

by Donald J. Boudreaux



Stop Stopping Price Cutting

"There's nothing new under the sun." This aphorism speaks volumes about Uncle Sam's antitrust suit against Microsoft. One of the government's principal accusations in this suit is that Microsoft is a predator—meaning that the attractive deals that Microsoft today offers to consumers cannot be matched by its rivals. When the hapless rivals eventually are bankrupted by Microsoft's pestiferous artifice, Bill Gates and his lieutenants will use the monopoly power they've acquired to raise prices, restrict output, and slow the pace of innovation. The benefits that consumers get from Microsoft's good deals today will be swamped by the costs that consumers endure tomorrow when Microsoft is a monopolist.

This predation theory was endorsed by MIT's Franklin Fisher, the government's chief expert economist in the Microsoft lawsuit. When asked on the witness stand to explain why Microsoft currently charges so little for its Web browser, Fisher testified that "while the [predatory pricing] campaign is going on, consumers are getting a better deal." But beware the future! Fisher affirmed Judge Thomas Penfield Jackson's suspicion that Microsoft is pursuing a strategy of "delayed gratification"—increasing its prospects for future profits by purposely earning unnecessarily lower profits today. (As an aside, I find it curious that many people who insist that Microsoft purposely sacrifices profits today in hopes of earning higher, monopoly profits tomorrow also allege that modern American capitalism compels business leaders to maximize short-run profits at the expense of long-term growth.)

Microsoft isn't the only firm accused today of predatory pricing. The U.S. Department of Transportation accuses major airlines of lowering their fares whenever their markets are entered by upstart carriers. The sole purpose of these fare cuts, the department alleges, is to run the upstarts out of the market so that the major carriers face less competition.

And so it has been for all of antitrust's history. From accusations in the 1880s that Chicago meatpackers charged too little for their beef and pork, through accusations in the 1930s that A&P's low prices unfairly hurt mom-and-pop grocers, to accusations in the 1990s that Wal-Mart predatorily prices downtown retailers into bankruptcy, antitrust has commonly been used to prevent entrepreneurial firms from improving the lot of consumers. Sadly, the current harassment of Microsoft is simply the latest episode in 110 years of this anti-entrepreneur, anti-consumer campaign.

What Is Predation?

Is predation real? Yes—but not in the way that government and many economists believe. In my view, predation occurs only when a firm relies on force or fraud to harm its rivals. For example, if Microsoft dynamites Sun Microsystem's production facilities, that's predation. If Delta Airlines advertises vicious lies about Southwest Airlines' safety record, that's predation. If Barnes & Noble

Donald J. Boudreaux is president of FEE.

successfully lobbies Congress to ban on-line book selling—thereby bankrupting Amazon.com—that's predation. But it's not predation for a firm to offer consumers better deals. A firm is not a predator if the advantage it wins over its rivals results from voluntary consumer choices.

None of this denies that each firm wants to be a monopolist. But desiring monopoly power is not akin to acquiring monopoly power. A chief justification for free-market competition is that by seeking maximum profit, firms yield benefits—as if by an invisible hand—not only to their owners, but also to their suppliers and consumers. Competition is supposed to encourage firms to compete for consumers. It is supposed to encourage firms to try to "harm" their rivals by offering consumers better deals and, therefore, attracting consumers away from rivals. That's how competition works; that's the only way that competition *can* work.

It is theoretically possible that Acme Corporation today offers deals so attractive to consumers that its rivals soon are bankrupted and, as a result, Acme tomorrow charges monopoly prices. But this possibility hardly justifies government policing against low prices.

First, this possibility is too remote. Not only does the historical record contain scant evidence of predatory pricing, but even successful predators cannot count on their monopoly power lasting. The reason is that any market monopolized by a predatory pricer is one in which the "monopolist" today enjoys excessively high profits *only* because it earlier charged prices that were below its costs. That firm has no special cost or quality advantages. (If the firm did enjoy such advantages, it could have bankrupted its rivals without charging below-cost prices.) Entrepreneurs will surely sweep in rapidly to challenge that firm. Profits in such an industry are low-lying fruit.

Second, there's nothing special about low prices to distinguish them from a million and one other strategies that firms use to attract more business. Anything a firm does to attract more business—cutting prices, improving quality, or more intensely advertising its services—"harms" its rivals. (Again, that's what competition is about!) There's no justification for singling out a firm's low prices as a source of potentially fatal harm to rivals.

Suppose, for example, that Delta Airlines seeks more business not by lowering its fares but instead by investing in safer aircraft (and advertising the improved safety of its fleet). Won't consumers then be more likely than before to fly on Delta? Of course—and a consequence is that United, USAir, AirTran, and other airlines will suffer. If they can't turn to government, Delta's rivals can avoid losing customers only by following its lead by making their airlines more attractive to consumers. These other airlines might cut their fares, or they might also invest in a safer fleet, or they might improve the quality of their in-flight service. They can compete with Delta in countless ways, all of which are to be expected—and applauded—in a market economy. Any airline that doesn't adequately respond to Delta's competitive move to increase the safety of its fleet might well go bankrupt. Indeed, it's remotely possible that Delta's investment in a safer fleet will bankrupt every last one of its rivals, leaving Delta with a monopoly. Surely, though, no one would seriously argue that government regulators ought to have the authority to stop Delta from increasing the safety of its fleet.

When firms cut prices (rather than use other methods) to compete, it is because in those cases price cutting is deemed to be the most effective way to satisfy consumers. In other cases, firms deem other methods to be best. Trusting bureaucrats and judges to second-guess entrepreneurs on how best to please consumers unleashes the possibility of a genuine (and dangerous) form of predation—namely, disgruntled rivals filing predatory pricing suits against entrepreneurial price cutters.

All price cutting should be legal. □

Invisible Hand Obsolete?

It Just Ain't So!

Allen Murray's *Wall Street Journal* article "Pushing Adam Smith Past the Millennium" (June 21, 1999) purports to discuss the relevancy of Adam Smith's invisible hand for the 21st century. In reality, Murray is not talking about Smith or his invisible-hand metaphor at all. The assumption beneath his conclusion that "Smith's ideas will need some rethinking in the years ahead" is based on a false premise, namely, that Smith's ideas are valid only when markets conform to the world of perfect competition.

The validity of the invisible hand does not depend on market structures or "excludability" in the provision of goods or any of the other "problems" addressed by Murray and associated with perfectly competitive markets. Smith was drawing out the implications of a Lockean world based on "natural liberty." In this world, property is privately owned and freely exchanged. The idea that in pursuing their own interest people will be led as if by an invisible hand to promote the well-being of others is a logical implication of this institutional setting.

In Smith's system of natural liberty, if someone wants to significantly advance his material wealth he must produce things that will advance the well-being of others, and hence society's wealth. If Murray wanted to investigate whether the invisible hand would be an appropriate metaphor for the 21st century, he should have focused on the extent to which private property and freedom of exchange will be secure. Amazingly, this fundamental issue wasn't even raised.

Unrealistic Conditions

Perfect competition is an unrealistic set of conditions which, *when present in all markets simultaneously*, leads to an economy operating with "perfect efficiency"—that is, with all firms producing at the lowest possible cost. These conditions include perfect knowledge by all market participants, many price-taking buyers and sellers, complete homogeneity within product lines, and zero transaction costs. When one or more of these conditions are absent, most contemporary economists argue that markets are "failing." The obscure and otherworldly conditions of perfect competition are used as a benchmark to judge the success of real-world markets.

Murray implicitly takes this benchmark, illegitimately equates it with the invisible hand, and converts the neoclassical theory of market failure into a theory of "invisible hand failure." With no textual reference, Murray characterizes Smith's views with the following three statements: "In Smith's economy, if you consume a good, I cannot"; "In Smith's world [rapidly declining marginal cost] leads to monopoly"; and "In order for Smith's economy to work, sellers must be able to force consumers to become buyers and pay for what they use." This analysis all came about 150 years after Smith wrote and is integral to the world of perfect competition, not the world of *The Wealth of Nations.*

The invisible hand and perfect competition have little to do with each other. This is easily seen in the "problems" that Murray associates with the markets and technologies he expects will dominate the next century. He argues that "The cost to Microsoft of developing Windows software may be huge; but the marginal cost of putting it on one more computer is virtually zero." But this is only a problem within the realm of perfect competition, where efficient pricing requires that firms sell at marginal cost—an illogical result for any real-world market. Under perfect competition, if marginal cost is zero, a positive price generates "market failure."

But this has nothing to do with the invisible hand. The fact is, unless he uses force, a person selling a product whose marginal cost is zero cannot sell to anyone who doesn't value it more than the price asked. No matter how far above zero the price, the seller—even one as powerful as Bill Gates—cannot make himself better off without making someone else better off. Nothing Murray says negates that fact.

Murray goes on to suggest that this zero-marginal-cost world could lead to monopolies in industries where network effects are important. He states that "in the network economy . . . tens of millions sharing the same e-mail system may have distinct advantage over those who don't. . . . In Smith's world, that leads to monopoly." Murray conflates Smith's world with the world of perfect competition and presents no historical evidence to support his claim. Under Smith's natural liberty, this "monopolist" would still have to make others better off in order to make himself better off. And so long as there were no legal barriers to entry, he would always have to be concerned about innovations and potential competitors.

Murray states that "the danger comes . . . if the pace of innovation slows and temporary monopolies become more permanent." But this is only a danger in the absence of entrepreneurial freedom. The real threat comes from governments that are likely to create barriers to entry with protectionism, franchises, or regulations that allow large firms to operate free of any threat from the outside. This real and historically relevant danger, which was Adam Smith's most important concern, goes completely unrecognized by Murray.

Free-Rider Problem

Finally, Murray frets about "the absence of excludability." His concern? "Digital data are cheap and easy to copy." To the extent that this is true, it may be too costly to exclude nonpayers from using software once it is in use. The theory of perfect competition suggests that this will cause the product to be "underproduced."

The "problem" is that the assumption of zero transaction costs is being violated. The costs of excluding free riders are too high. To the extent that these costs make production of the good less profitable, the good will not be produced. But, of course, this is true of transportation costs, labor costs, and all other costs. Outside the world of perfect competition there is no logical reason for placing transaction costs in a separate category. To the extent that the good facing free-rider problems is not produced, resources are freed for other productive endeavors. Resources will flow to where the full costs of production, including transaction costs, are perceived to be less than the potential revenues.

Furthermore, Murray offers no historical evidence to support the underproduction hypothesis. Indeed, his point has been true of software from the beginning, and yet this is one of the fastest growing areas of commerce in the world. To some extent, "nonexcludability" has always been present for all kinds of products—radio and television broadcasts, books and magazines, fashions. Indeed, non-excludability to some degree may be the rule rather than the exception. Yet, those preoccupied with perfect competition seem unswayed by the lack of real-world verification of their theory.

The invisible hand may not be an appropriate metaphor for the workings of economies in the next century. But this would be for the same reasons that it has not been an appropriate metaphor for most economies in the twentieth century. Liberty and the invisible hand are corollary. If liberty is treated with the same disdain in the next century as it has been in the present one, then the invisible hand may indeed be a relic of days gone by.

—Roy Cordato
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Material Progress Over the Past Millennium

by E. Calvin Beisner

Reginald Labbe, an English farmer better off than most in his time, died in 1293. His will listed the following possessions:

- one cow and one calf
- two sheep and three lambs
- three hens
- a bushel and a half (about 90 pounds) of wheat
- a seam (about 400 pounds) of barley
- a seam and a half of fodder for cattle
- a seam of mixed grain
- clothing comprising a hood, a tunic, and a tabard (a short, heavy cape of coarse cloth)
- a bolster (a long, narrow pillow or cushion)
- a rug (used as a blanket)
- two sheets
- a tripod or trivet (for cooking food over a fire)[1]

Like most English farmers of the time, he had used tools (probably little more than a hoe and a scythe) belonging to his landlord—which meant, too, that he owned neither land nor dwelling. He had no money. The money value of his estate in his day was figured at 33 shillings 8 pence (1 pound 73 pence), or about $2.75 at today's exchange rate. But of course in his day a shilling bought a great deal more than it does now, after seven centuries of inflation.

What would his possessions have been worth had he died today? Precise calculation is impossible; we don't know the age, weight, or health of his livestock or the quality of his other possessions. But rough estimates put the total value of his livestock today at around $1,000 (assuming that they were smaller and less healthy than typical livestock today), his grain and fodder at around $475 wholesale, his tripod at around $10, and his clothing and bedding at nothing (because they would have been both very worn and of such inferior make that no one today would be willing to use them). The total value of his estate, then, might have been around $1,485 (or £935). For comparison, the average value of farms in the United States today is about $350,000.

When Labbe died, the executor sold off his possessions to pay expenses. He paid a penny sterling (about $8.65 today) for the grave to be dug; twopence ($17.28) for the tolling of the church bell; sixpence ($51.84) for making his will; eightpence ($69.12) for court fees; 46 pence ($397.44) for food for the mourners and pallbearers; and threepence ($25.92) for the clerk who drew up the account for the estate—a total of 66 pence ($570.25), or a little over a third of the value of his estate. (Of course, he was not embalmed and had no hermetically sealed, velvet-lined, stainless steel

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casket to preserve his body for a thousand years.)

If Labbe lived to the average age of people born in the thirteenth century, he was under 30 when he died. More likely, since he had survived infancy and childhood (about half did not), he died in his 30s or 40s. Probably at least one wife had preceded him in death, perhaps in childbirth—one of the most common causes of death for women at the time. Assuming he had fathered eight children in his years of marriage, he would probably have buried four of them in their infancy, perhaps another before its fifth birthday, and another before puberty. If he was fairly typical, then, two of his children survived him.

Slow Population Growth

Such was life, for the moderately better off, in a society in which the death rate was normally so close to the birth rate that population grew at only about 0.17 percent per year, doubling about every 425 years instead of every 42 years, as it would at the world's average growth rate in the 1980s, or every 51 years, as it would at the average rate for the 1990s.[2] Even for the wealthy, life wasn't much more secure. Infant and child mortality rates were little better for the very rich—royalty and nobility—than they were for farmers and peasants, even into the eighteenth century. Britain's Queen Anne (1665–1714) was pregnant 18 times; five of her children survived birth; none survived childhood.

To be more precise, such is a tiny glimpse of life for people throughout most of the past millennium in countries that now are among the richest in the world. There is a good deal more to describe. Most of it is about as dismal by comparison with our experience.

You might have been surprised at the cost of the food served to the mourners and pallbearers at Labbe's funeral—by far the largest cost associated with his death. That is because food was far more expensive in the past, in comparison with labor and practically any manufactured product, than it is today. Agricultural yields were far lower, both per acre and per man-hour of labor.

Eighteenth-century French farming, for instance, produced about 345 pounds of wheat per acre; modern American farmers produce about 6.2 times as much, 2,150 pounds.[3] Early fifteenth-century French farmers produced about 2.75 to 3.7 pounds of wheat per man-hour, and the rate fell by about half over the next two centuries;[4] modern American farmers produce about 857 pounds per man-hour[5]—about 230 to 310 times as much as their French counterparts around 1400 and 460 to 620 times as much as French farmers around 1600. (By the way, this means modern farmers also manage to farm from 37 to 100 times as many acres as their earlier counterparts did. Chalk it up to mechanized equipment.) As the great French historian Fernand Braudel pointed out, life was difficult to live when productivity in wheat fell below 2.2 pounds per man-hour, but for most of the 350 years from 1540 to 1890, productivity was well below that.[6]

Such facts help to explain why earlier generations spent a major part of their incomes just on food (excluding its preparation, pack-

aging, transport, and serving), while we spend far less (under 6 percent of total consumer expenditures in the United States in the 1980s). These developments—along with the advent of glass windowpanes (to admit light and heat but exclude cold and pests) and screens (to admit fresh air and exclude disease-bearing insects); treatment of drinking water and sewage; mechanical refrigeration (to prevent food spoilage and consequent waste and disease); adoption of safer methods of work, travel, and recreation; and the advent of sanitary medical practices, to say nothing of antibiotics and modern surgical techniques—also help to explain why people live about three times as long now.

All this is just one way of looking at changes in human material conditions over the past millennium. Others also are important and instructive.

When Would You Rather Have Lived?

Try a thought experiment. Would you rather live as you do today, with your present income and expenditure patterns, or as royalty lived throughout the last millennium up to the late nineteenth century? It is tempting to pick the life of past royalty. But consider just a few of the things you would have to do without:

- Electricity and all it powers: lights, telephones, radios, televisions, refrigerators, air conditioners, fans, VCRs, X-rays, MRIs, computers, the Internet, high-speed printing presses, and all other industrial automation.
- Internal combustion engines and all that they power: cars, trucks, buses, planes, farm and construction equipment, and most trains and ships.
- Hundreds of synthetic materials like plastic, nylon, orlon, rayon, vinyl, and the thousands of products—from grocery bags and pantyhose to compact disks and artificial body joints and organ parts—made from them.

None of these things were available to anyone, at any price.

No matter how rich you might have been a millennium—or even 150 years—ago, if you'd contracted a bacterial disease, you could not have been treated with antibiotics. If you had wanted to travel from Great Britain to Australia, you could not have done so in less than months, at great discomfort and great risk, not in less than a day and at less risk than driving across London. You could not have enjoyed air conditioning or iced drinks during a hot summer. You could not have talked with anyone by any means other than direct voice. Until the advent of the telegraph in the second quarter of the nineteenth century, you could not have communicated at a distance in writing any faster than you could have traveled; and it was decades later before telegraphic communication was readily available to most cities and towns. You could not have taken or viewed photographs, listened to recorded music, or viewed—let alone made your own!—motion pictures.

Yes, the few rich of the past lived in opulence. (Don't think of castles, most of which were cramped and quite uncomfortable, built for defense rather than comfort.) Think of the great mansions like Blenheim Palace in Oxfordshire, the Château Fontainebleau in France, or even, here in the United States, the Biltmore House in Asheville, North Carolina. Or picture the homes of royalty, like Buckingham Palace or Hampton Court in London, or the Palace of Versailles in France.

But however opulent the surroundings, with their magnificent architecture, gardens, carpets, furniture, china, silver services, and art collections, they were not very comfortable. Heating and especially cooling these mansions were constant problems. They were far less sanitary, and far more smelly, than most lower-class dwellings today. Indeed, the very magnificence of the dwellings of the rich is testimony to the absence, in a pre- or primitive-market culture, of other, more attractive uses of their wealth. A higher proportion of people in advanced countries today can afford to build and furnish great mansions than could in centuries past. But they don't. Why not? Because most of them invest their wealth in productive enterprises or spend it on travel and entertainment instead.

And sanitation? The literary historian James Clifford, after years of note-taking on every reference he could find to sanitation in London, wrote an article that American historian Bernard Bailyn described simply as "horrifying."[7] "A bathroom was a very rare luxury in . . . seventeenth- and eighteenth-century houses. Fleas, lice and bugs conquered London as well as Paris, rich interiors as well as poor," wrote Braudel. "So if we moderns were to enter into an interior of the past, we would very soon feel uncomfortable. However beautiful it might be—and it was often wonderfully so—what seemed like luxury to the people of the past would not be enough for us."[8]

Overland travel even for the rich was by horseback or carriage, and the 450-mile journey from London to Edinburgh, driven by lower-class car owners today in a comfortable seven hours or flown in an hour, required two 18-hour days in a bumpy carriage with neither air conditioning nor heat. For the poor, travel was almost entirely on foot.

Keep the Doctor Away

Medical care? You don't even want to imagine most of it. There were no more effective anesthetics than alcohol and cloves, so when limbs gone gangrenous from infections that would be cured or more likely prevented easily today had to be amputated, patients gritted their teeth and hoped they would pass out from the pain of the crude saws. Germ control? Nonexistent. The germ theory of disease didn't become current until the late eighteenth century, and the use of antiseptics didn't begin until half a century later. Even then, what your doctor didn't know could kill you. The high rate of maternal death in childbirth in early nineteenth-century America is attributable in part to belief in "laudable pus." Doctors believed pus itself was curative, so they would purposely spread it from patient to patient, including to mothers in childbirth.[9] Got a fever? Don't call the doctor; he's likely to bleed you to death trying to cure it. In fact, medicine was so primitive it was a favorite cover for spies; physicians were trusted everywhere, but it took little knowledge to pass for one.[10]

Education was the province of the rich. Few countries before the Reformation had widespread education, and even afterward, schooling was available principally to the rich. A major exception was Scotland after John Knox's followers, convinced that personal knowledge of the Word of God was essential to the maintenance of religious as well as civil liberty, arranged a parish-by-parish system of church-run grammar schools which ensured that practically every child could at least become strongly literate. Scotland's high literacy rate, coupled with its Calvinist ethics of work and saving, were important factors in its making contributions to the Industrial Revolution far out of proportion to its small population. But even there, few were schooled for more than five or six years, and only a tiny percentage attended college, let alone graduated.

Today, by contrast, in the United States, 81 percent of persons 25 years old and over are high school graduates and 23 percent are college graduates, and the growth in availability of education is worldwide. That is a particularly crucial factor in predicting the world's material future, because the creation of wealth depends primarily not on brawn but on brain.

The bottom line? Materially, the world is a far, far better place today than it was not only a millennium ago but even a century ago. Today, every raw material—mineral, plant, and vegetable—is more affordable (which economists will recognize as meaning more abundant), in terms of labor costs, than at any time in the past. Every manufactured product is more affordable than it has ever been. And in producing all this great abundance, we have also reduced health-threatening pollution. Put simply, the world is both a wealthier and a healthier place today than ever.

The most crucial measures of material welfare are mortality rates and life expectancy, since most people value preserving life more than any other material good. A thousand years ago, life expectancy everywhere was under 30 years; today, worldwide, it is over 65 years, and in high-income economies it is over 76 years. The under-five mortality rate has plummeted from about 40 percent everywhere as late as the nineteenth century to under 7 percent worldwide today, and under 1 percent in high-income countries. And improved life expectancy comes not just from declining child mortality but from declining mortality rates at every age of life.

The late economist and statistician Julian Simon, a friend and mentor, produced in 1995 as his last major editing effort a big book, *The State of Humanity*, to show long-term trends in hundreds of material measures of human well-being. Parts cover such categories as life, death, and health; standard of living, productivity, and poverty; natural resources; agriculture, food, land, and water; and pollution and the environment. Want to know long-term trends in slavery, housing quality and affordability, leisure time, energy resources, forest growth, crop and livestock productivity, air and water pollution, disease, murder and suicide, even accident rates? They're all there, in chapters by 60 world-class scholars.

"This is the central assertion of this book," Simon wrote: "Almost every absolute change, and the absolute component of almost every economic and social change or trend, points in a positive direction, as long as we view the matter over a reasonably long period of time. That is, all aspects of material human welfare are improving in the aggregate.[11]

Simon's view has raised eyebrows through the years, but the empirical evidence supports it overwhelmingly. If you're looking for a good way to get a grasp of the material changes we've experienced over the last millennium, *The State of Humanity* would be a great place to start. □

1. Russell Kirk, *Economics: Work and Prosperity* (Pensacola: A Beka Book, 1989), pp. 250–51.
2. Fernand Braudel, *Civilization and Capitalism: 15th–18th Century*, 3 volumes, volume 1, *The Structures of Everyday Life*, trans. Sian Reynolds (New York: Harper & Row, 1985), p. 41.
3. Computed from ibid., p. 121, and *Statistical Abstract of the United States, 1996*, Table 1105.
4. Computed from Braudel, p. 135.
5. Computed from E. Calvin Beisner, *Prospects for Growth: A Biblical View of Population, Resources, and the Future* (Wheaton, Ill.: Crossway Books, 1990), p. 127.
6. Computed from Braudel, p. 135.
7. Bernard Bailyn, *On the Teaching and Writing of History* (Hanover, N.H.: Dartmouth College, 1994), p. 51.
8. Braudel, pp. 310–11.
9. Private communication from Philip T. Newton, M.D.
10. Alan Marshall, *Intelligence and Espionage in the Reign of Charles II, 1660–1685* (Cambridge: Cambridge University Press, 1994).
11. Julian L. Simon, ed., *The State of Humanity* (Cambridge, Mass.: Blackwell Publishers, 1995), p. 7.

THE FREEMAN
Ideas On Liberty

Spontaneous Order on the Playground

by Andrew P. Morriss

I recently observed an intriguing example of the evolution of a private property, market-based spontaneous order at my children's elementary school. A group of fourth and fifth graders created a set of playground rules analogous to those I learned about in my work on spontaneous orders in the nineteenth-century gold rushes throughout the western United States. I was pleased, but not surprised, to find that fourth and fifth graders created a solution to a playground problem based on property rights and markets.

My children attend a Montessori elementary school in Cleveland Heights, Ohio. My older daughter, Kathleen, is in the fifth grade. At this school, as in all Montessori schools, children are grouped in multi-grade classrooms—Kathleen's has fourth and fifth graders together in each of two classrooms. Although the classrooms work separately on most academic subjects, activities like recess are joint. There are thus about 60 children (with four teachers and aides) in the two classes, with a slight preponderance of girls.

The school grounds are not large, although there is a playground plus a large playing field shared with a neighboring Catholic girls' high school. One of the locations that attracts many of the fourth and fifth graders is "the woods," an area of bushes and trees that lies along the border between the school parking lot and playground and the shared athletic field. Here the fourth- and fifth-grade children have created a series of "houses" under various bushes and trees and an economy based on a pinecone currency. I found what my daughter told me about their games fascinating, so I interviewed a large group of her classmates about how they play in the woods.

Establishing Property Rights

On the first day of a school year, children claim their houses by marking off boundaries with various materials (rocks, sticks, logs) that they find in the woods. They then devote considerable effort to improving their houses—adding furniture constructed from materials found in the woods (by common agreement outside materials cannot be brought into the woods). Some create "stores" in which they "sell" materials they create such as "paints" made by pounding plants and rocks into dusts. Others have "hotels" where the homeless (children who come late to the game) can rent rooms until they can negotiate to join an existing house. Additional rooms are added to houses by clearing space under nearby bushes and trees or by purchasing them from neighbors. The rights to a space demarcated in this fashion appear to be widely accepted by both those playing in the woods regularly and the fourth and fifth graders who choose to do something else. (A regular soccer game is a major alternative.)

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Only two groups failed to respect the property rights the children had established. One was a group of three-, four-, and five-year-olds (who have a different recess period) and who, although technically forbidden from playing in the woods, sometimes crashed through the houses in a herd. The second was a group of elementary-age children from another school who sometimes used the adjacent athletic field.

In creating their property rights in this fashion, the children are behaving like the miners who flooded into the American west in 1848–1849 and later years. Like the children at my daughter's school, miners would appear in large numbers in an area of limited physical resources. Like the children, the miners quickly developed simple rules that guaranteed their property rights. Like the rules developed at the school, the miners' rules were respected by latecomers.

Also like the miners (and like most legal systems), the children have developed a concept of adverse possession. Houses left vacant for extended periods (all agreed it was more than one week and less than a month) could be occupied by others, whose title to the property would be recognized by the group. Use of property was thus encouraged. Similarly the miners in the gold rush respected claims left unoccupied for short periods while their owners went for supplies, so long as the claim was marked in some fashion.

Property claims in both systems extended to moveable property. The western miners often left piles of gold ore and valuable supplies in their camps, unguarded out of necessity, while the miners sought more gold. By all accounts, thefts from the unguarded camps were comparatively rare. Similarly, the children leave their stashes of pine cone currency unguarded as well as their collections of materials.

Dispute Resolution

While no children's game would be complete without disputes, this game seems remarkably free of disputes in many respects. In part this is because the clear property rights in their houses give each child a space free from outside interference to play as each wishes. Unlike the commons of a playground, where one group's fantasy game on the jungle gym could be interrupted by another group that insists on its equal right to occupy the space for a game of tag, no group of children can impose on another by disrupting a game in progress. I suspect that one of the major attractions of the woods as a play space stems from the control those property rights provide.

Only one major property rights dispute occurred during the past school year. One child claimed a house occupied by another group of kids. The issue was not decided on a "might makes right" basis. Instead all agreed to choose an uninvolved child as the "judge" and to conduct a court to settle the issue. After the first candidate for judge was rejected as potentially biased, they settled on a child whom several described as the "smartest kid in the class." Each side then found a "lawyer" to present its case, and presented and cross-examined witnesses. After a reportedly dramatic presentation of factual inconsistencies in one side's story, the judge decided for the other side. All accepted the decision—no appeal was lodged with the teachers.

This brings us to another important point. One question always raised about privately based legal systems is the extent to which such systems ultimately depend on external enforcement of the rules they create. There was no such outside authority during the gold rush because the miners were too far from established centers of political authority to appeal to the state. In the rare case that there were nearby military authorities, the tendency of troops to desert to the mines at every opportunity restricted the availability of government force. Surely children in an elementary school, however, could appeal to their teachers to settle disputes.

As part of the Montessori teaching method, the teachers at the school emphasize that the children must solve their own disputes. When I questioned the kids about whether the teachers were available to settle property boundary disputes and the like, they unanimously agreed that the teachers were no help at all. "They just tell us to work it out," one complained. Another agreed that "the teachers just do what they always do, ask us how we'll figure it out ourselves." Indeed, the children agreed that they did not often seek assistance from the teachers since any major dispute could result in the entire class being told they could not play in the woods for a week while tempers cooled.

Of course, the children are not playing in a state of nature, as the nineteenth-century miners were. The threat of a trip to the principal's office exists for those who attempt to attack others on the playground. Punching another student is not the only way to use violence, however. In my school days the successful school bullies were the masters of applying force in ways unnoticeable to the teachers. One of the things that struck me most about "the woods" was the absence of any evidence of such behavior.

Exchange

In the first gold rushes, miners frequently made rules forbidding sale of claims in an attempt to discourage "speculation." These rules rarely lasted more than a few months as both the new arrivals and original appropriators quickly realized the mutual benefits that trade made possible. Because children often tend to have absolutist ideas about property (at least when it comes to sharing with siblings), I was curious to see how the children dealt with issues surrounding potential exchange of property rights.

Using pine cones as currency, the children developed a cash economy. One could sell goods (items found in the woods), natural resources (kids dug for stones), and labor (owners frequently hired "sweepers" to clean their houses). Alternatively, while pine cones were relatively scarce commodities, they could be directly harvested by investing time in a search. Property rights in houses were freely alienable and changed hands fairly often. Groups of children who played together might break up and some seek new homes; newcomers might join the game or players might decide to switch to soccer and "cash out." Like the gold miners, the children intuitively understood the concept of comparative advantage.

In addition, the overall game rewarded entrepreneurial activity. Children who thought of new uses for the property were able to accumulate significant pine-cone stashes. One group built a "golf course" and charged to play; many others sold particular items and rented rooms.

Interestingly the children resisted destabilizing their currency and society by importing outside pine cones. The Cleveland area has many trees and parks and pine cones are readily available with much less effort than "sweeping" another's house in the woods, yet no one seemed to consider importing pine cones as an alternative source of income. When I walked in areas thick with pine cones with my daughter and her friends, they resisted my suggestion to gather any of the "money" lying on the ground.

Origins

The establishment of houses in the woods is a longstanding game, handed down from class to class. Much as the experienced gold miners known as "old Californians" transmitted miners' law throughout the western United States mineral rushes, the fifth graders hand down the oral tradition of the rules for play in the woods. Thus it is easy to see how the tradition has perpetuated itself.

I should stress, however, that this is not the "Ayn Rand Learning Center" made famous in an episode of the Simpsons. The Montessori system does not include any significant economics content (at least through the fifth grade) and certainly no study of Austrian economics. No U.S. history is taught before the middle school, so the children have not studied the gold rush. Even the fifth graders are barely through ancient civilizations and so unlikely to have devoted much time to studying the developments of markets or trade. Thus they haven't learned market solutions or property rights from a textbook.

They might have learned these lessons at home but these children are also not, as far as I can tell, drawn from libertarian homes that emphasize such things. For example, as a rough proxy of the political climate, in 1996 Bill Clinton overwhelmingly won a straw poll against Bob Dole and Ross Perot in my daughter's lower elementary class (Harry Browne didn't even make the ballot). Thus they are no more likely than any other group of suburban fourth-grade and fifth-grade kids to have spent much time pondering markets and property rights outside school.

I think there are two explanations for the emergence of a private-property, market-based spontaneous order among my daughter and her classmates. First, the Montessori curriculum puts a heavy emphasis on children learning to solve their own problems. As noted above, the teachers do not intervene to resolve disputes among children other than to restrict the use of force and direct the children toward means of settlement. Appeals to outside authority are thus unavailable except where a child attempts to use force. Since no one controls the game, the children were forced to develop mechanisms that respected the autonomy of the other children and made peaceful interactions possible. Whenever the first fourth and fifth graders hit on such a solution, its advantages would have become immediately apparent.

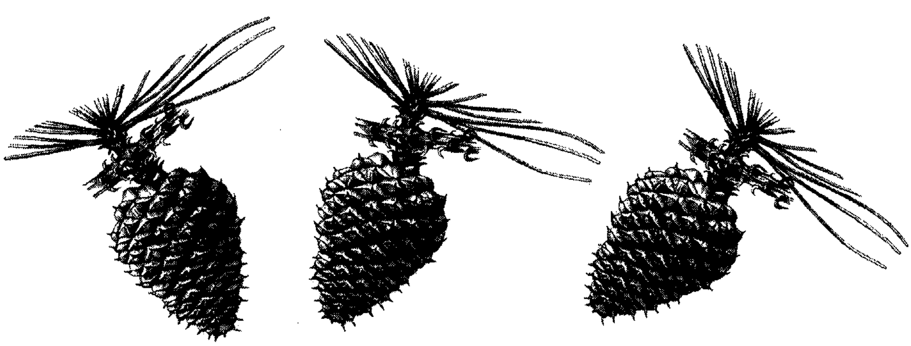
Second, and more important, markets and property rights are natural in a way that authoritarian structures are not. The freedom such solutions provide is just what many children desire (and plenty of adults too!). My daughter and her classmates intuitively know how to facilitate the development of their own spontaneous order that enables them to play the games they want to play while accommodating their classmates' desires to play differently. These children have discovered how to coexist in an environment of diverse interests.

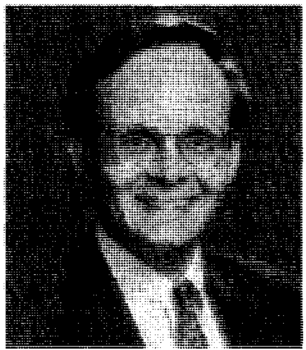
Learning from Kids

There are obviously huge differences between the nineteenth-century American gold rushes and my children's elementary school. Nonetheless the systems of rules and property rights that evolved in both have significant features in common: a reliance on private property rights and market exchange, a limited set of rules facilitating individuals acting in their own interest, and limited resort to outside sources for rule enforcement. It is no accident that these features appear in such a diverse set of social orders. It is precisely because they are so easily generalizable that market-based systems of property rights can accommodate both elementary schoolchildren's games and a gold rush.

The rule of law takes effort to establish, of course. The nineteenth-century miners had to rely on their own resources to set it up. The children can rely on the "night watchman" state provided by the teachers and administration to prevent violence. What is striking is how little intervention was needed to establish peace and good order among both the thousands of mostly single young men who flocked to the gold fields and the fourth and fifth graders described here. It is hard to imagine groups less likely to fall naturally into an orderly society on their own than gold miners and schoolchildren. That they both accomplished it so easily speaks well for our chances to do so on a larger scale.

Many adults could learn quite a bit from the children in my daughter's class. The students found their way to a means of allocating private property rights in a desirable area of the playground that gives each the freedom to play as he or she sees fit without impinging on the rights of others. If more adults imitated such behavior in their lives, we would be much closer to a society of free and responsible individuals. □





States, Economic Freedom, and Wealth Creation

Montesquieu once observed that "Countries are well cultivated, not as they are fertile, but as they are free." The *1999 Index of Economic Freedom*, published by the Heritage Foundation and the *Wall Street Journal*, examined 161 countries and came to the same conclusion: "Countries that have the most economic freedom also tend to have higher rates of long-term economic growth and are more prosperous than those that have less economic freedom." Unequivocally, the numbers show that "countries with the lowest levels of economic freedom also have the lowest standards of living."

One would expect that within a country the same pattern would be evident. Indeed it is, and now we have a comprehensive analysis that proves it: *Economic Freedom in America's 50 States* by economists John Byars, Robert McCormick, and Bruce Yandle. Commissioned by the State Policy Network, an association of some three dozen state-based free-market think tanks, the report argues that "states with relatively more economic freedom enjoy higher rates of growth . . . because individuals in those states are allowed to keep more of their income, and thus the marketplace can more efficiently determine the allocation of resources."

There are profound lessons here for state governments. Their actions and policies *do* make a difference in the material welfare of their citizens. People respond to incentives and disincentives, and they tend to migrate, taking their skills and capital with them, to those locales where those skills and capital are relatively safe from the depredations of high taxes and regulation. Governors and state legislators who want to accumulate power and centralize resources while proclaiming a desire to spur growth are trying to have their cake and eat it too.

Economic Freedom Defined

From the start, the report assumes a definition of "economic freedom" that comports with the ideas of classical-liberal thinkers. The individual is a sovereign entity that the state respects by minimizing its intrusions and providing for a common defense. Economic freedom is expanded when governments limit "encroachments on opportunities for individuals to engage in voluntary exchange." It is contracted when states interfere with voluntary exchange through an array of costly impositions.

Every state provides its own "bundle" of costs and benefits. The tax burden may be low in a state at the same time the regulatory burden is high. A state may have low tax and regulatory burdens that are at least partially offset by a judicial system that encourages frivolous lawsuits or bestows abnormally large damage awards that overcompensate harmed parties and thereby exposes individuals to higher risks of property confiscation and redistribution. A relatively high level of wel-

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fare spending indicates a state is engaged in more income redistribution than others, a violation of economic freedom, and this may offset an otherwise friendly regulatory environment. In any event, the report agglomerates all this information in about as scientific a fashion as is possible.

It assembles data on more than 200 indicators, grouping the resulting measurements under five key categories: fiscal, regulatory, judicial, government size, and welfare spending. Each state is then assigned a rank, from 1 to 50. Idaho turned in the best score as the state with the greatest degree of economic freedom, while New York came in dead last. The five states with the most economic freedom (Idaho, Virginia, Utah, Wyoming, and South Dakota) boasted growth in personal income from 1990 to 1997 that was a spectacular 59 percent higher on average than the five states with the lowest levels of economic freedom (New York, Rhode Island, New Jersey, Massachusetts, and Connecticut).

Just as the human traffic around the world tends to move from the less free to the more free countries, migration patterns within the United States show similar movement. The report confirms that "people are moving into states with high levels of freedom and out of states with low freedom." Birth rates are not markedly different from state to state, so changes in population are heavily influenced by the movement of people. The difference in population growth between the top and bottom of the freedom scale is especially dramatic: Idaho—the freest state—saw its population soar by 16.8 percent from 1990 to 1997, while New York—the least free state—barely held its own with a paltry growth rate of just 0.8 percent.

Per capita personal income in Idaho in 1996 was a low $19,539 when compared to New York's $28,732—a fact which by itself might suggest a conclusion diametrically opposite of the report's general finding. Having lived in Idaho in the mid-1980s, however, I can certify that $19,539 goes a lot further than the same amount of income in a high-cost-of-living state like New York. Indeed, Byars and colleagues show that residents of New York pay twice the state and local taxes than residents of Idaho: $3,858 versus $1,955.

You're also more likely to be working if you live in Idaho rather than in New York. The unemployment rate in Idaho was 3.7 percent below the national average in 1996, while New York's was 15 percent above. In the 1990s, both per capita income and gross state product boomed in Idaho at almost twice the respective rates of New York.

Business Incentives

The strong, positive correlation between economic freedom and economic growth that the report demonstrates has implications for the states in an increasingly controversial area of policy: "incentive" packages designed to lure businesses. Almost every state is now engaged in a tit-for-tat war of selective tax abatements and direct subsidies. For example: To attract a new factory for Ohio and prevent it from locating in neighboring Michigan, Ohio politicians may offer to forgive several years of taxes due and even give the company millions of dollars for job training and infrastructure.

The report does not directly address this form of competition among the states, but its bottom line certainly points in one particular direction. If states want to cultivate growth and prosperity, they should focus on the forest and the trees will take care of themselves. To the extent that these incentives are targeted at a few at the expense of the many, they rearrange wealth and politicize it—which works against an improvement in overall economic freedom. State governments would be better advised to reduce burdens on everyone and foster a policy of "a fair field and no favor." Economic freedom, not political redistribution, is what makes a state—and indeed, a nation—prosper.

Byars, McCormick, and Yandle have done us a favor by proving beyond a shadow of a doubt what we all should have instinctively known. Freedom works, and more of it works even better. □

THE FREEMAN Ideas On Liberty

The End of Liberty

by Stephan F. Gohmann

Have you checked the coins in your pocket lately? If you see a shiny coin with the image of a man on a galloping horse, be advised that it's not an arcade token but a real U.S. quarter dollar. This new coin is the first of 50 state commemorative quarters to be released over the next decade by the U.S. Mint, which is allowing each state to design the back of the quarter for its own version. The Delaware horseman is Caesar Rodney, a Revolutionary War general who rode all night from Dover to Philadelphia to cast a crucial vote in an effort to assure unanimous support for independence by the 13 original colonies.

The minting of "Caesar" on a U.S. coin symbolizes something that at least some members of the Second Congress worked to avoid. A major disagreement during debate on establishment of the mint was over the image to engrave on coins—a political leader or a symbol of Liberty. Although Liberty won, a cursory check of the coins in your pockets will make it clear that this victory, like others of the founding fathers, was short lived. Not one currently circulating coin bears an image of "Lady Liberty" or anything similar; instead, the images are of politicians.

One contention of those members of Congress who were against the practice of placing a politician's image on a coin was that it would seem emblematic of a monarch. Ironically, with this new Delaware quarter, Americans now have a Caesar on their coins!

Prior to 1909, Americans came into contact with an image of Liberty every time they touched a coin. Since then, that daily association has diminished, and in 1947, when Benjamin Franklin's visage ended the reign of the "Walking Liberty" half dollar, the government eliminated all incidental contact with Liberty. The Liberty half dollar supplanted by Franklin (without his permission), was the last U.S. coin in circulation to be minted with her image. While current coins bear the inscription "Liberty," they no longer contain her image. The sole exceptions are patriotic-seeming coins intended to be sold to collectors, such as silver dollars and gold and platinum coins of higher denominations. It is time to bring Liberty back!

Although many may argue that what appears on our coins is of little importance,

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the image of Liberty gives a daily reminder of what the founders believed when the country began. That Liberty has been replaced on every coin by a politician (with the current exception of the dollar) is an indicator of how the ideology of government leaders has changed. The Second Congress showed reverence for liberty and limited government. Today's coins, with the image of politicians, show reverence for government and its leaders.

A Brief History of Liberty

On December 21, 1791, the Senate had the first reading of "a bill establishing a mint and regulating the coins of the United States." The bill contained a section pertaining to emblems to be placed on the coins. On one side of the coin was to be "an impression or representation of the head of the President of the United States for the time being, with an inscription which shall express the initial first letter of his Christian or first name and his surname at length . . . and upon the reverse . . . shall be the figure or representation of an eagle."[1] Apparently, there were senators who opposed having the President's image on the coin because on the second reading an amendment was proposed. The amendment said that the coin should include an engraving of two hands united surrounded by circles equal to the number of states in the Union at the time of coinage. On the reverse was to be a representation of the female figure of justice holding balanced scales, with the inscription, "To all their due." This amendment was defeated on January 12, 1792, and the bill passed the Senate with its original wording intact.[2]

When the bill reached the House of Representatives, an amendment was put forth to strike the requirement of the President's image in favor of some emblem of Liberty. In support of the motion, Representative John Page said "it had been the practice in Monarchies to exhibit the figures or heads of their kings upon their coins either to hand down in the ignorant ages in which this practice was introduced, a kind of chronological account of their Kings, or to show to whom the coin belonged." He further argued that the money of the United States is "not the money of the President. I am certain it will be more agreeable to the citizens of the United States to see the head of Liberty on their coin than the head of Presidents. However well pleased they might be with the head of the great man now their President, they may have no great reason to be pleased with some of his successors."[3] Page obviously had great foresight.

In rebuttal, Representative Samuel Livermore suggested that the head of the President would make a good emblem of liberty. After debate, the amendment was split in two. The first part striking the words "or representation of the head of the President" passed 26 to 22. The second part calling for an emblem of Liberty passed 42 to 6. The Senate, however, disagreed with this amendment and moved that the House should recede from its position.

When the Senate's response was sent back to the House, Livermore argued in support of the Senate saying that it would flatter the President at no expense to the country. This notion was rebutted by Representative John Francis Mercer, who had been Washington's aide-de-camp. He pointed out that rulers such as Nero and Caligula had also had their images on coins, so it might not necessarily be an honor. Representative Egbert Benson felt uneasy leaving the representation of Liberty up to the judgment of an artist and ridiculed the idea that the people would be enslaved by their president and his image on a coin.

John Page again defended Liberty arguing that "as long as the people were sensible of the blessings of liberty, and had their eyes open to watch encroachments, they would not be enslaved; but if they should ever shut them, or become inattentive to their interests and the true principles of a free Government, they, like other nations, might lose their liberties; that it was the duty of the members of that House to keep the eyes of their constituents open and to watch over their liberties."[4] He argued further that he did not want to treat the president as a monarch and wanted to give few incentives to those who wished to be president. Page feared that certain ambitious individuals would hope to make a name for themselves by becoming president and then having their names handed down through history through their image on coins. Given how almost every modern president has been conscious of the legacy he would leave, Page again seemed to be unusually insightful.

The question that the House recede from its amendment was defeated 32 to 24. Then the Senate backed down, and the bill passed both houses. Liberty became the emblem for all United States coins.

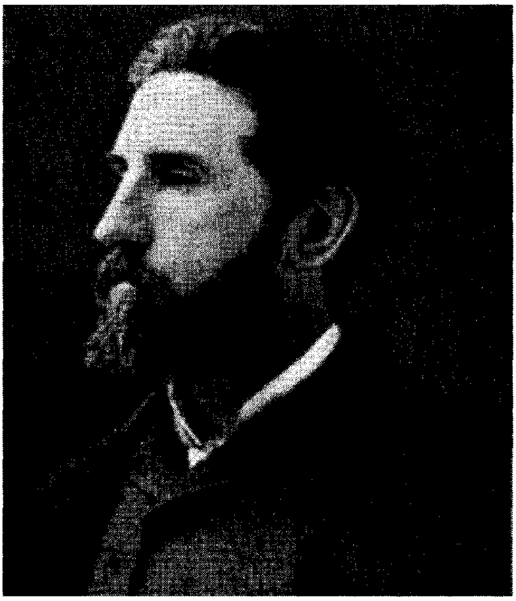
All was well for Liberty on our coins until 1890 when a bill passed Congress foreshadowing the beginning of the end. The Mint had often redesigned coins, but almost always included the figure of Liberty. The 1890 act allowed the director of the Mint, with concurrence from the secretary of the treasury, to redesign any coin as long as it then remained unchanged for at least 25 years. The director had great discretion regarding the emblem of Liberty.

Over the next half of a century, Lady Liberty would disappear from our coins. Liberty was removed first from the penny, and then from the nickel, quarter, dime, and half dollar.

TR and the Coins

One of President Theodore Roosevelt's pet projects was the design of the U.S. coins. Some coins minted during his presidency are thought to feature the most beautiful representations of Liberty. Roosevelt commissioned Augustus Saint-Gaudens to design a coin with Liberty in the classical Greek and Roman design. One of Saint-Gaudens's students, Adolph Weinman, was responsible for creating the Mercury dime, which is an image of Liberty in Mercury's headdress.[5] However in 1909, President Roosevelt wished to issue a coin to commemorate Lincoln's 100th birthday. The Lincoln penny would replace the Indian-head cent. But the image on that penny was not an actual Indian; it was the head of Liberty in Indian headdress. The minting of the Lincoln cent breached the intent of the Second Congress. Liberty was replaced by the image of a president who many would argue usurped constitutional powers held by the people and the states.

The five-cent piece was initially a half dime. Liberty appeared on the silver half dime from its first minting in 1794 until 1873.



Augustus Saint-Gaudens (1848–1907)
Sculptor and designer of classic coins.

The nickel five-cent piece, established by the Act of May 16, 1866, did not initially have a representation of Liberty. It had a shield on one side and a "5" surrounded by 13 stars on the obverse. In 1883, these nickels were replaced by a Liberty-head nickel that was minted until 1913. In that year, Liberty was replaced by the Indian-head or buffalo nickel. Twenty-five years later, the Jefferson nickel replaced the buffalo nickel, again contrary to the intent of the Second Congress.

The Washington quarter was issued in 1932 to commemorate the 200th anniversary of his birth. The standing Liberty quarter had been subject to considerable criticism due in part to the initial design that showed Liberty with one breast exposed. Lady Liberty was replaced with the word "liberty" imprinted next to the image of President Washington, the President whose image Congress explicitly debated against placing on coins.

The dime was first minted in 1796 and contained a representation of Liberty until 1945. The change to the Franklin Roosevelt dime was made by the director of the Mint, Nellie Tayloe Ross, shortly after Roosevelt's death, at the urging of Representative Clyde Doyle. In his letter he said that using Roosevelt's likeness would please the American people and would increase the circulation of the coin.

Half dollar (Kennedy type), 1964: Lady Liberty disappeared from coins in the 1940s.

He favored putting Liberty on the other side, but that did not occur.[6] The wings on Liberty's headdress on the old Mercury dime represented liberty of thought. How ironic that this dime was replaced in 1946 by one bearing the likeness of the great champion of big government.

In 1948 Nellie Tayloe Ross again removed Liberty from a coin. This time the Walking Liberty half dollar was replaced by one with the image of Benjamin Franklin. Fifteen years later, Franklin's image was replaced by that of John F. Kennedy. The Kennedy half dollar had to be legislated since the Franklin had been minted for only 15 years and not the required 25. Weeks after Kennedy's death, President Lyndon Johnson sent a letter to Congress requesting that the half dollar bear the likeness of President Kennedy. Congress wanted to act quickly so that the new 50-cent dies would be ready in time for the new year. Representative William Moorhead of Pennsylvania used the precedent of the coinage of the Roosevelt dime to argue for the immediate change to the Kennedy half dollar. Representative Durward Hall from Missouri opposed the bill, arguing that the House was acting too quickly "under the guise of mass psychological hysteria."[7] Hysteria won out. The bill passed the House 352 to 6 and shortly thereafter passed the Senate.

Liberty has not appeared on a circulating coin for 52 years. Most of the population of the United States was not alive when the last Liberty coin was minted.

So what does this history tell us? Our coins originally were emblematic of liberty. Now they are emblematic of strong centralized government and reverence for its past leaders. One reason we don't have Lady Liberty on our coins may be found in words spoken by John Page during the debate on the mint: "it was the duty of the members of that House to keep the eyes of their constituents open and to watch over their liberties." By removing the image of Liberty from our coins, perhaps federal authorities hoped to reduce any possibility that the American people would realize that their liberties were slipping away. □

1. *Annals of Congress*, Second Congress, Senate, January 1792, p. 71.
2. Ibid.
3. *Annals of Congress*, Second Congress, March 24, 1792, p. 484.
4. Ibid., p. 488.
5. See Ted Schwarz, *Beginner's Guide to Coin Collecting* (Garden City, N.Y.: Doubleday Dolphin Books, 1980).
6. *Congressional Record*, 1945, pp. A2207–2208.
7. *Congressional Record*, 1963, p. 248225.

THE
FREEMAN
Ideas On Liberty

Einstein's Brain and the Egalitarian Mind

by Steven Yates

Late last spring a team of neuroscientists based at McMaster University in Ontario, Canada, released the first detailed study of Albert Einstein's brain, which had been preserved since his death in 1955. Einstein was sympathetic to the idea of having his brain studied by scientists after his death.

The team, led by Dr. Sandra F. Witelson, concluded that Einstein's superior mathematical and scientific abilities resulted from certain features of his brain not shared by people of average intelligence. Their results were published in the June 19, 1999, issue of the British medical journal *The Lancet* under the title "The Exceptional Brain of Albert Einstein."

The area of the human brain thought to be the seat of mathematical, visual, and spatial reasoning is known as the inferior parietal region. It is found at ear height in the part of the brain known as the cerebrum. What Witelson and her team found was that Einstein's inferior parietal lobes were 15 percent wider than those of a control group of 91 "normal" brains. In Einstein's brain, a cleft known as the Sylvian fissure diverted from its usual structure. Apparently, the change occurred when Einstein was in his infancy. It did not permit Einstein's brain to develop what is called a sulcus, a groove that normally runs through this part of the brain. The neuroscientists theorized that the absence of this groove may have allowed far more neurons—brain cells that facilitate thinking and communicating—to develop and exchange information. As a result, they reasoned, Einstein developed into the mathematical genius who revolutionized modern physics beginning in 1905 with his paper on special relativity.

Unique Structure

Not all scientists are ready to endorse these findings. Many are cautious because of the superficial similarity between the Witelson study and old studies that tried to correlate brain size or weight with intelligence. Einstein's brain, however, was not exceptional in size or weight. Einstein's intelligence may have resulted from the unique structural property of his parietal lobes. Witelson and her colleagues, it is worth noting, do not consider their results conclusive. They welcome further investigation, recommending electronic imaging of the active brains of today's brilliant physicists and mathematicians to learn if theirs, too, have structural features similar to Einstein's.

It seems possible, though, that a remark Ayn Rand once made will turn out to be right and some people simply do have better brains than others—better in that because of unique structural properties their owners have superior mental capabilities. (See "An Untitled Letter" in Rand's *Philosophy: Who Needs It.*) According to the egalitarian mind, all human

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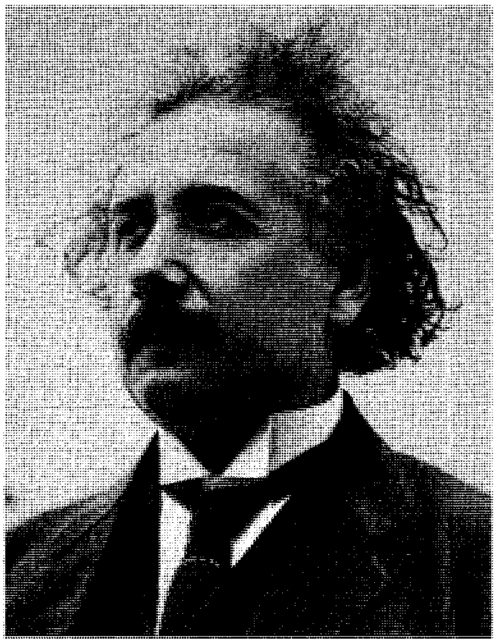
beings ought to be social and economic equals, and it is fundamentally unjust for a select few to soar ahead of the pack. The idea of superior intellect, egalitarians have often averred, is just a cover for the exploitation of the many by the few. They tend to sympathize with the idea that intelligence is either a "social construction" or exclusively a product of environment and upbringing. Either one can be changed by the right governmental-educational tinkering.

The rapidly advancing neurosciences may provide decisive refutations of all this. If the Witelson discoveries are right, then one's intellectual capacity is rooted in the structure of one's brain. People's brains are not all the same, and this is a fruit of nature, not a social, political, or educational arrangement.

The point is, left to themselves, a select few—an elite of talent and ability—always soars ahead. This has been true in science, art, political thinking, literature, philosophy, and every other human endeavor of note. There are leaders, and there are followers. If the leaders have structurally better brains, then no kind of government tinkering will change this. All the latter can do is suppress a person's natural inclinations, which is what political systems implemented along egalitarian lines have always done. To see what an egalitarian America would look like, watch the movie *Harrison Bergeron*, based on a Kurt Vonnegut short story. It portrays a society led by "Handicapper Generals" who "equalize" those born with superior brains.

Of course, no one can know in advance who will soar ahead. We aren't in a position to scan children's brains and find out. Not only would such a procedure be vulnerable to abuse, we do not know if it would do any good. We simply don't know enough about the brain to know what to look for. Even if Einstein's unusual parietal lobes explain his superior scientific mind, we do not know what explains excellence in other endeavors. And assuming brain structure to be a factor in superior intelligence, Witelson's team does not claim it to be the only factor. Obviously,



CORBIS/Bettmann

Albert Einstein (1879–1955)

an immediate environment (including especially a strong family unit) that both permits and encourages the exercise of one's mind and independent thought is important too. The plain truth is, beyond these commonsensical judgments, there is a lot we just don't know. The human brain is the most complicated object we have ever studied, and we are not even close to understanding how it generates intelligence.

Our ignorance is why no educational system ought to force students into a single mold, as though they were products on an assembly line. The best educational systems have always been those that allow students maximum freedom to develop at their own pace, having created environments conducive to learning. A free society will encourage education along these lines, and then leave it alone. There is no telling what educational forms might develop, and no way to predict what advances in learning might result.

In the meantime, it might be useful to remember Murray Rothbard's characterization of egalitarianism as a "revolt against nature." □

Is the Constitution Antiquated?

by Wendy McElroy

Article I of the U.S. Constitution addresses the legislative powers that are vested in—held exclusively by—the Congress. One of these powers is the right to "grant Letters of Marque and Reprisal" (Section 8, paragraph 11). Further, Section 10, paragraph 1, of this Article reads:

> No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility.

Paragraph 1 is an example of what many consider to be antiquated language in the Constitution, particularly with reference to the terms "Letters of Marque and Reprisal" and "Bill of Attainder." Yet many terms considered to be antiquated not only have relevance to our modern day, but they also offer a window into the attitudes and historical events that created the United States. Only by understanding their context is it possible to understand the issues to which the Constitution speaks—then, and now.

Letters of Marque

A letter of marque—or letter of reprisal—is the means by which a government authorizes a civilian to arm a private ship in order to attack and plunder the merchant ships of an enemy nation during war. This is the meaning the term had acquired by the eighteenth century. In earlier use, it referred to the means by which a government righted a private wrong against one of its citizens. For example, if an English trader had his goods stolen in Holland and could not receive satisfaction through the Dutch legal system, the English government might grant him a letter of marque. He was then authorized to seize any Dutch ship to regain the value of the goods stolen from him. By 1700, however, the letter of marque had become an instrument of state by which government could expand its naval power during war.

Private parties who met certain requirements, such as the posting of a security bond, could arm what was called a "private ship of war" and legally plunder enemy merchant ships. Such authorized parties were called privateers by their own government and pirates by the enemy. After being adjudged as "lawful prize" by a court, the seized goods became the property of the privateer. This was his payment. Thus, the government was able to disrupt the commerce of an enemy nation without spending money.

Letters of marque assumed importance in American history as a response to the Prohibitory Act passed by Great Britain in 1775. By this Act, the rebellious colonies were stripped of protection by the English crown. Trade between the colonies and British merchants was forbidden; the seizure and plunder

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of American ships was encouraged. In turn, the Continental Congress issued letters of marque and reprisal that empowered colonial privateers to loot British merchant ships.

The "Instructions to the captains and commanders of private armed vessels which shall have commissions of letters of marque and reprisal," issued by Congress on May 2, 1780, offer a sense of the restrictions placed on privateers. The primary restriction limited attacks to vessels owned by traders of the enemy nation. The private ships of war were "to pay a sacred regard to the rights of neutral powers." The purpose of this restriction was partly to conform with international law and partly to avoid turning neutral nations into hostile ones. The privateer was ordered to "bring such ships . . . to some convenient port" where an Admiralty court could judge whether the plunder was lawful. Privateers were not to "kill or maim,—or, by torture or otherwise, cruelly, inhumanly, and contrary to common practice of civilized nations in war, treat any person or persons surprised in the ship."

On April 16, 1856, most of the major maritime powers signed an international agreement called the Declaration Respecting Maritime Law—more popularly known as the Declaration of Paris—which abolished privateering. The United States declined to sign on the grounds that its navy was so small that letters of marque were required to bolster it during war. Without the letters the United States would be at a disadvantage versus European nations with large standing navies.

During the Spanish-American War (1898), Spain and America—neither of which was a party to the Declaration of Paris—agreed to eschew privateering. It was not until the Hague Conferences at the dawn of the twentieth century, however, that the United States officially renounced the use of letters of marque and reprisal. Thus, the term is antiquated in that it no longer applies to an activity in practice.

Bill of Attainder

The term "Bill of Attainder" occurs not only in Section 10 of Article I (prohibiting the States), but also in Section 9, paragraph 3, "No Bill of Attainder or ex post facto Law shall be passed" (prohibiting the Congress).

In his book *The Supreme Court: How It Was, How It Is*, Chief Justice William H. Rehnquist offers this definition: "A bill of attainder was a legislative act that singled out one or more persons and imposed punishment on them, without benefit of trial" (p. 166). The prohibition against bills of attainder was to prevent anyone from being tried by the legislature rather than by the judiciary. Rehnquist explains that the phrase refers to a "precise legal term which had a meaning under English law at the time the Constitution was adopted."

In English common law, when a person was condemned to death or deemed unfit to live (for example, condemned as an outlaw), he was labeled "attaint"—tainted or corrupted in his blood—and his land was forfeited to the crown. Because the blood was corrupted, a man whose "outlawry" was sufficiently egregious could neither inherit land nor transmit it to his children. Parliament began to use bills of attainder in 1459 to exercise judicial authority. The method became infamous during the reign of the Tudor monarchs—especially Henry VIII—who blatantly used it to punish political dissenters, many of whom could be found legally guilty in no other manner.

Because bills of attainder had been used in colonial America, the framers of the Constitution were well aware of this abuse. Thus, Article II, Section 3, reads, "The Congress shall have power to declare the punishment of treason, but no attainder of treason shall work corruption of blood, or forfeiture except during the life of the person attainted."

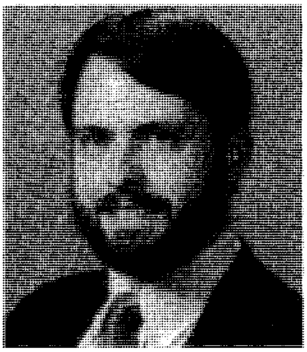
Even the exigencies of the Civil War did not entirely remove the American suspicion of bills of attainder. On July 17, 1862, a wartime Congress passed the Confiscation Act directed at citizens of the Confederacy. The intention of the Act was to "suppress insurrection, to punish treason and rebellion, to seize and confiscate the property of rebels." But the term of confiscation was specified to be for the life span of the offender, with his children carrying no taint of blood and thus able to inherit.

Although "bill of attainder" may seem to be as antiquated a term as "letters of marque," some political commentators believe that recent asset-forfeiture laws constitute bills of attainder under another name. These laws allow authorities to seize the property of people who have neither been tried nor convicted of crimes. For example, by power of legislation alone, authorities may confiscate homes, boats, and cars in which drugs are found.

Organizations such as the Institute for Justice believe that such seizure without trial is a violation of constitutional and civil rights. The Bill of Attainder Project (www.isc-durant.com/tom/billofattainder/) is attempting to have the phrase defined in law as "A law or legal device which outlaws people, suspends their civil rights, confiscates their property, punishes or puts people to death without a trial."

The debate over asset forfeiture raises an intriguing point. Although the specific form of an abuse mentioned in the Constitution may no longer exist, the abuse may have merely assumed another shape.

In sculpting the Constitution—and especially in using certain terms repeatedly—the framers were addressing real political abuses they had witnessed firsthand. Those specific forms of the abuse may no longer exist, but the appetite of some human beings for power and plunder seems to remain unchanged through time. It is necessary to look beyond the quaintness of any specific term and ask, what current legal practice corresponds, in its essence, with one that is prohibited by the Constitution? □



Emotive Policymaking

We live in an age of paradox. Media saturation following events like the murders at Columbine High School makes it appear that violence surrounds us. Yet the crime rate has been falling and school shootings remain extremely rare. In contrast, the serious violence that pervades some inner-city schools never makes the news.

Moreover, tragedies like Columbine almost always launch a spate of counterproductive policy initiatives—such as gun control. Although inadequate morals rather than inadequate laws led to the Columbine murders, activists, interest groups, and politicians immediately dusted off their old proposals to launch anew.

The temptation to ban firearms is understandable. Anything seems reasonable in an attempt to save even a few people who die by bullet every year. Yet private possession of weapons does not automatically lead to their misuse: heavily armed societies like Israel and Switzerland have only a fraction of our violent crime. America's problem is the willingness to misuse guns, not the availability of guns.

That is evident even from the U.S. experience. Civil libertarian Don Kates points out that the number of firearms almost doubled between 1973 and 1992, while the murder rate fell. The facts, he observes, are "completely inconsistent with the shibboleth that doubling the number of guns, especially hand-guns, would increase homicide rates."

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Many Guns

Anyway, it is too late to try to disarm a society where 240 million guns are in private hands. Only the exceedingly law-abiding and extremely docile would give up their weapons. Thus, only totalitarian controls could eliminate private gun ownership. And even police-state measures wouldn't be enough. Otherwise there would be no illicit drug trade today.

Nor is disarmament a reasonable goal. It is easy to belittle the use of firearms for hunting or target-shooting, yet the right to engage in such activities is the bedrock of a free society. Sportsmen rarely misuse their weapons; those who don't should not be punished for the sins of the few who do.

Using guns for self-defense is even more important. There is no more fundamental right, especially in a world in which the police offer only imperfect protection, at best. John R. Lott, Jr., formerly of the University of Chicago, figures that guns are used five times as often to prevent as to commit crimes.

Nor should one desire a world in which only state officials possess weapons. Although a standing army has replaced the militia as America's main defense against foreign foes, the nation's founders rightly distrusted giving government a monopoly on deadly force. Tyranny may seem exceedingly unlikely, but disarming average citizens makes it more rather than less likely to occur. That's why the right to bear arms is enshrined in the Bill of Rights.

Of course, Americans should hesitate to respond to even outrageous government abuses with violence. Once loosed, the dogs of revolution cannot be easily controlled. But the government murder (what else can it be called?) of the Branch Davidians at Waco and Randy Weaver's family at Ruby Ridge certainly demonstrates that state authorities cannot be trusted.

Nevertheless, as predictable as the tides, Columbine led to a new campaign to regulate firearms. Proposals included background checks at gun shows, trigger locks, limits on the number of guns that can be purchased, a ban on concealable firearms, and increasing the legal age to buy firearms. Even some past critics of gun controls have flipped in the face of the public relations onslaught.

This sophisticated campaign has been run as if guns were getting easier to buy. To the contrary, argues Lott, "Gun availability has never been as restricted as it is now." As recently as 30 years ago there were few restrictions on gun ownership, even by juveniles. Since then the number of words in federal gun laws has quadrupled, and state and local regulations have mushroomed.

It is hard to find any evidence that this growing body of rules has had any impact on crime. Writes Lott: "Not one academic study has shown that waiting periods and background checks have reduced crime or youth violence." So much for the vaunted Brady law.

There is no reason to believe that the plethora of new proposals would have any better effect. Indeed, none would have stopped the Columbine massacre. As Lott points out, the killers "violated at least 17 state and federal weapons-control laws." A couple more on the books would have made no difference.

But new rules could make crime more likely by disarming potential victims and "citizen cops." Research by Lott suggests that allowing people to carry concealed weapons lowers the violent crime rate. Indeed, private individuals with guns ended two recent school shootings. As noted, there is no evidence that waiting periods lower crime rates. Such restrictions do, however, prevent people from buying guns to protect themselves from imminent danger. Proposals to ban possession of weapons by 18-to-21-year-olds would be equally perverse. The federal government already bars anyone under 21 from buying a gun, but responsible adults between 18 and 21 should not be denied firearms: they are the most likely to be victims of violence. Moreover, John Lott has found that their use of concealed weapons also reduces crime.

In fact, kids who receive weapons from their parents are far less likely than their peers to misuse guns later in life. Interestingly, they are also far less likely to use drugs or otherwise end up delinquent.

Trigger locks would save few lives. A minuscule number of children die in gun accidents, fewer than the number who die in fires they started with lighters, riding their bikes, or even drowning in water buckets. But trigger locks would hinder people from defending themselves in an emergency. (They might also cause some gun owners to be overconfident, and thus less careful about keeping their weapons out of the hands of their kids.) Individual owners can best balance the one risk, if they have small children, against the other, if they live in a dangerous neighborhood.

Licensed dealers already must conduct background checks, including at gun shows. Private individuals need not, but there is no evidence that potential criminals flock to these very public gatherings to consummate illegal deals. Indeed, fewer than 1 percent of convicted felons obtained guns at shows; the Justice Department found that just 2 percent of guns used in crime came from gun shows.

The strongest response to gun crimes is to punish the criminal. Use of a firearm should automatically increase the sentence. Those who knowingly sell guns to criminals or juveniles should be likewise punished.

Legislators should pause before passing any new gun-control measures. Tragedies like Columbine too often trigger policymaking by emotion. In this case, seeking to "just do something" is worse than doing nothing. It is likely to make us all less safe. □

THE FREEMAN
Ideas On Liberty

Let's Not Promote Dependency

by Daniel T. Oliver

Despite the good news that national welfare rolls have declined nearly 40 percent over the last five years and that recent federal and state reforms appear to be at least partly responsible for this decline, the debate over welfare reform is going nowhere.

Welfare-state liberals argue that if government programs are significantly cut (which to date has not happened, as measured by federal welfare appropriations), charity will not be able to make up the difference.[1] Independent Sector, a Washington, D.C.-based coalition of government-funded social-service organizations, believes that "charities cannot come close to filling the gap for proposed cuts in the funding of social programs."[2] Conservatives, on the other hand, argue that charities, churches, neighborhood associations, and other voluntary institutions can assume most if not all responsibilities for the needy now carried out by government.

Yet both arguments overlook an important point: welfare and charity are both forms of dependency. Why would we want to "fill the gap" by replacing one form of dependency—welfare—with another—charity?

Henry Ford, one of the greatest entrepreneurs and philanthropists of this century, once remarked that "the recipients of charity are usually destroyed—for once you give a man something for nothing, you set him trying to get someone else to give him something for nothing."[3] Octavia Hill, a nineteenth-century British landlady and housing reformer who was famous in her day for her work with low-income tenants, similarly criticized what she called "foolish almsgiving": "the lavish and sudden rush of ill-considered gifts . . . is deadly. It is the cause of a steady deterioration of character pitiable to watch."[4]

Both the welfare-state liberal and conservative arguments fail to recognize that in an ideal society, there would be no welfare or charity. Ideally, every adult would be able-bodied and self-supporting. No individual or family would suffer the misfortunes of a house fire or devastating natural disaster. No one would engage in self-destructive behavior such as excessive gambling or drinking.

Obviously, such a world will never exist, but it is the kind of world we should nonetheless strive to approximate, however imperfectly. The question, then, is not how to fill the gap but how to reduce dependency.

What Causes Dependency?

There are really only two reasons why people come to rely on welfare or charity—misfortune and foolishness: people are either victims of circumstances beyond their control, or they willingly engage in self-destructive behaviors. Each of these causes of dependency needs to be examined.

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By definition, a misfortune is an event beyond one's control. But in a free society where people are free to exercise their ingenuity, experiment with new technologies, and create better products to serve customers, many misfortunes that have long plagued mankind are lessened if not eliminated altogether.

Because of weather radar and satellite images, we can now track and predict the likely course of hurricanes, giving those in their paths time to board up their homes and businesses and move inland to safety. Ships no longer sail into storms and sink, as they did for centuries. Advances in construction have made homes and other buildings more hurricane-proof and earthquake-proof, saving both lives and property.

In this century alone, the life expectancy of Americans has risen nearly 30 years, thanks largely to biomedical research that has discovered cures for scores of diseases that are no longer part of our everyday vocabulary.[5] These diseases once killed husbands and fathers, sometimes leaving their wives and children in poverty. Thus, one way to reduce misfortunes that result in dependency is to ensure that free markets, free inquiry, and entrepreneurship are allowed to work their magic.

The other cause of dependency is self-destructive behavior. When those whose problems are of their own making receive welfare and charity, they are insulated from the natural consequences of their behavior. Rather than suffering the effects of idleness, excessive drinking, and other forms of irresponsibility, recipients are handed a "crutch" (free food and shelter, help with paying utilities) that allows them to persist in their folly. Thus, the "learning experience" that would occur in the absence of welfare or charity—"I have to stop lounging around and find a job," "I have to stop gambling"—is postponed and may never occur.

"Free-Lunch" Charity

Generations ago, most charity workers understood this problem. They knew that "helping" those who were unwilling to help themselves simply allowed self-destructive behavior to continue, and that often the most compassionate course of action was to allow such persons to suffer, perhaps until their suffering became so great that they would be motivated to change. Octavia Hill sometimes had to evict alcoholics and other tenants who refused to work or pay rent, arguing that "the fact of having to move may be a lesson [and] if other landlords did the same, it would certainly stop much evil."[6]

Henry Ford (1867–1947)

But Hill also understood that charity *could* promote independence if recipients had to give something in return. When her tenants suffered the misfortune of losing a job, she had them clean and repair her many properties in lieu of paying rent. This reinforced the value of work and allowed recipients to keep their dignity until their fortunes improved. Similarly, when Henry Ford in the early 1930s heard that the town of Inkster (a suburb of Detroit) had been particularly hard hit by the Great Depression, he hired its residents to work in his automobile plants and paid others to clean the streets, grow crops, and crush slabs of concrete from demolished buildings for use in paving streets and roads. As he explained, "I do not believe in giving folks things. I do believe in giving them a chance to make things for themselves."[7]

Unfortunately, too many charities today treat charity as a kind of free lunch. As one literal example, over the last 20 years soup kitchens and other food charities have distributed roughly 10 percent more food each year. Reliance on food charities has increased during both economic upturns and downturns—even though inflation-adjusted food prices have been falling for decades. The main reason for this growing dependency is simple: better-off Americans are donating increasing amounts of food to charities, and since all food has a limited shelf life, it must be quickly distributed.[8]

A recent national study by Second Harvest, the nation's largest network of food banks, found that while nearly 40 percent of food-charity clients are unemployed, only 22 percent of food charities offer employment training and only 9 percent offer actual jobs. Moreover, while 60 percent of clients say they would like information on how to better budget their money (poor budgeting appears to be a major reason for reliance on food charities), only one food charity in five offers budget and credit counseling.[9]

The Task Ahead

Many charities must re-examine their methods to ensure that they are not promoting dependency. Individuals, foundations, and businesses that give to charity must also take a closer look at the organizations they support to ensure that they promote independence. And advocates of a free society must work to eliminate welfare programs. Welfare has promoted dependency in the same way that "bad" charity has and, more fundamentally, it is based on coercion. Welfare is the antithesis of charity and is incompatible with a free society.

Perhaps the most basic rule that could do wonders to improve charity today is, Don't give away anything for free.[10] Welfare rolls have dropped significantly in the last few years as states and the federal government have required recipients to work. It is likely that charity rolls would similarly decline if more charities made demands on recipients to find work, sober up, and the like.

Because misfortune and foolishness will always exist, there will always be a need for charity. But this need is without doubt far less than is commonly believed because bad charity has encouraged many people to become dependent. If all charities begin to follow the example of Henry Ford and Octavia Hill—and give nothing for free—many more Americans will be able to share in the American Dream. □

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1. The seeming paradox of declining welfare caseloads and rising welfare expenditures is largely explained by the fact that federal and state governments are spending more per welfare recipient on job training and placement as well as on transportation, day care, and other "workfare" expenses. Heritage Foundation welfare analyst Robert Rector calculates that in 1992, 75 federal welfare programs cost $304 billion. But under recent budget agreements, they will cost $538 billion by 2002. Major reasons for the increase include expanded health-care coverage for low-income children, higher Supplemental Security Income, food stamp, and Medicaid benefits, and new workfare grants. "Welfare Fares Well in Budget," *Investor's Business Daily*, May 21, 1997.

2. "Statement by Sara E. Melendez," Independent Sector Web site, www.indepsec.org.

3. Henry Ford with Samuel Crowther, *Today and Tomorrow* (Cambridge, Mass.: Productivity Press, 1930), p. 179.

4. Quoted in Robert Whelan, ed., *Octavia Hill and the Social Housing Debate: Essays and Lectures by Octavia Hill* (London: Institute of Economic Affairs, 1998), pp. 93, 116.

5. Americans for Medical Progress (Alexandria, Va.), 1991 annual report, pp. 1, 2, and American Council on Science and Health (New York, N.Y.), "America's Health: A Century of Progress."

6. Quoted in Whelan, p. 118.

7. See Martin Morse Wooster, *The Great Philanthropists and the Problem of "Donor Intent"* (Washington, D.C.: Capital Research Center, 1998), p. 20.

8. Robert Lerner and Althea Nagai, "Feeding the Hungry: Should Food Charities Fear Welfare Reform," *Alternatives in Philanthropy* (Washington, D.C.: Capital Research Center, January 1998).

9. Second Harvest, *Hunger 1997: The Faces & Facts* (Chicago: VanAmburg Group, Inc., 1998).

10. In *Overcoming Welfare: Expecting More from the Poor and from Ourselves* (New York: Basic Books, 1998), James L. Payne examines this rule at length. See also Marvin Olasky, *The Tragedy of American Compassion* (Washington, D.C.: Regnery, 1992), for an examination of this and other rules for effectively helping the needy.

THE FREEMAN (Ideas On Liberty)

Big Brother Wants to Read Your E-mail

by Aeon J. Skoble

Some people concerned about privacy violations on the Internet object that many Web site operators collect and use information about visitors for demographic research and, yes, advertising. Although "anonymizer" services are available, the simplest way to preserve one's privacy from such operators is simply to refrain from visiting their sites. After all, no one forces you to buy books and CDs online. If you want anonymity, go to a store and pay cash.

A more serious and unavoidable matter is the government's newest scheme for invading everyone's online privacy. In late July, the Clinton administration unveiled a new plan to use the FBI to monitor all Internet traffic, both on military and nonmilitary networks, under the guise of protecting the nation from terrorists who might use the Net for nefarious purposes. According to a draft of the plan, a sophisticated monitoring system would be put in place to constantly track all computer activity, looking for "suspicious patterns." This would help keep tabs on the activities of the usual suspects: drug traffickers, child molesters, and terrorists.

Of course, while that sounds like a reasonable precaution, the potential for abuse is both grave and apparent. The government could monitor political dissidents as easily as it could monitor actual criminals. Any system that enables the authorities to track anyone enables them to track everyone. All electronic commerce and banking, all Web visits, and all e-mail communication would be potentially available for surveillance. This would include the retrieval of passwords for remote log-in. The director of the plan, Jeffrey Hunker of the National Security Council, claims he will make an effort to protect privacy rights. It is not unreasonable to wonder if this is actually a real priority for him.

Two Threats

There are two distinct threats to individual liberties here. First, with this powerful surveillance tool, government's snooping power would grow astronomically. Unlike with wiretaps, Big Brother wouldn't even need a court order to check up on anyone it wanted to investigate. Second, besides government abuse, we would have to worry about the tool being used by others who could illicitly get access to the information either through bribery or hacking.

Predictably, the government claims that it is not interested in eavesdropping, but only searching for patterns that might indicate illegal activity. But what does that mean? You can get support for pretty much anything if you invoke the specter of child molesters or drug dealers or terrorists. But when the authorities have the power to track child porn, they have the power to track anything. It's a very short step to their reading our mail, investigating our medical records, and tracking commercial

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and financial transactions. Of course, their answer to concerns of this sort is that if you are not doing anything illegal, you have nothing to worry about. But this is wrongheaded for two reasons.

First, they are the ones who decide what is illegal. Right now, dealing in heroin is illegal. It wasn't that long ago that beer was illegal also. It is well within the realm of the possible that they might decide that e-mail about libertarianism is illegal. After all, in the government's eyes, anyone writing angry messages about Waco might be the next Tim McVeigh.

Second, the very notion that only criminals should be worried about surveillance is contrary to the spirit of the Bill of Rights and the presumption of innocence. Why even bother with search warrants? If you have nothing to hide, you shouldn't object to the police looking around. That is the attitude of oppressive regimes everywhere, but should not be the guiding principle of law enforcement in a free society. We have the right to be secure in our persons, houses, papers, and effects against unreasonable searches. This surely includes our e-mail messages and Web activity. This new plan is a dangerous threat to individual liberty and should not be taken lightly, nor dismissed as hacker paranoia. This affects nearly all of us now. □

THE FREEMAN (Ideas On Liberty)

Just a Cigar

by Jacob Sullum

In July the Federal Trade Commission recommended that Congress require warning labels on cigars. One of the warnings suggested by the FTC nicely illustrates the artful evasiveness of public health officials who seek to shape people's behavior rather than inform them: "Cigars are not a safe alternative to cigarettes."

By denying a claim that no one has made, this admonition avoids the question of just how risky cigars are. Public health officials who are alarmed by the recent increase in cigar consumption prefer to avoid that question, because the evidence clearly shows that the typical cigar smoker faces hazards far less serious than the typical cigarette smoker does. In their campaign to scare people away from cigars, tobacco's opponents have deliberately obfuscated that point, with consequences that can be seen in press coverage of this issue.

Two years ago, the *New York Times* claimed that cigars pose "higher risks" than cigarettes. Last year it reported that "smoking cigars can be just as deadly as smoking cigarettes." In June it said "the disease risks are not as high as they are for cigarette smokers because cigar smokers usually do not inhale the smoke."

Are cigars getting safer? No, but reporters may be getting smarter. Once easily misled by the scare tactics of public health officials and anti-smoking activists, the mainstream press is starting to acknowledge something that medical studies have been finding for decades: Although cigars are not a *safe* alternative to cigarettes, they are a *safer* alternative.

This fact was clear from the data compiled by the National Cancer Institute (NCI) in its 1998 monograph on cigars. Overall, the NCI reported, daily cigar smokers get oral and esophageal cancers almost as often as cigarette smokers. But they face much lower risks of lung cancer, coronary heart disease, and chronic obstructive lung disease—the three main smoking-related causes of death. The upshot can be seen in mortality figures. In a 1985 American Cancer Society study cited by the NCI, men who smoked a cigar or two a day were only 2 percent more likely to die during a 12-year period than nonsmokers, a difference that was not statistically significant. By contrast, the mortality rate was 69 percent higher for men who smoked a pack of cigarettes a day.

The only really bad news for cigar smokers in the NCI report applied to a small minority. The NCI emphasized that the risk from cigars increases with the frequency of smoking and the degree of inhalation. Cigar smokers who inhale deeply face measurably higher risks of heart disease and emphysema (though still not as high as those faced by cigarette smokers), and the risk of lung cancer for a five-cigar-a-day smoker who inhales approaches the risk for a pack-a-day cigarette smoker. That sort of cigar smoker is quite unusual, however. "As

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many as three-quarters of cigar smokers smoke only occasionally," the NCI noted, and "the majority of cigar smokers do not inhale." Since the available data apply only to people who smoke at least one cigar a day, "the health risks of occasional cigar smokers . . . are not known."

No Measurable Risk

In other words, there is no evidence that smoking cigars in moderation—with moderation defined by the way most cigar smokers actually behave—poses a measurable health risk. But this point was lost on most reporters. Indeed, many news organizations erroneously reported that the NCI had debunked the "myth" that cigars are safer than cigarettes. The headline in the *San Francisco Chronicle* read, "Cancer Institute's Warning on Cigars: Just As Bad As Cigarettes." An Associated Press story said the NCI report was "intended to equate dangers posed by the two products." The article began, "Smoking cigars can be just as deadly as smoking cigarettes." This is like saying that riding a bicycle "can be just as deadly" as riding a motorcycle. It's true in the sense that both activities can result in fatal accidents. But that does not mean they are equally dangerous.

Still, it's easy to see how journalists got the wrong impression. Calling the increase in cigar smoking since 1993 "disturbing" and "alarming," the NCI report downplayed the differences between cigars and cigarettes. "Cigars are not safe alternatives to cigarettes," said NCI Director Richard Klausner. The issue, of course, was not whether smoking cigars is completely risk-free but whether, on average, it is less risky than smoking cigarettes—something no reasonable person could deny after looking at the evidence.

Before the NCI report came out, reporters were primed to expect that it would show cigars are as dangerous as cigarettes, if not more so. Consider how Michael Eriksen, director of the Office on Smoking and Health at the U.S. Centers for Disease Control and Prevention, described the hazards of cigars in a May 1997 *New York Times* story: "Tobacco is tobacco is tobacco." In February 1998, the NCI's Donald Shopland told *USA Today*, "You're smoking a whole pack of cigarettes" when you smoke a cigar. That same month, the addiction specialist Jack Henningfield, who contributed to the NCI report, told *The Wall Street Journal* "it will help explode some of the myths about cigars," including the idea "that they are relatively safe." Around the time the monograph came out, the California Department of Health Services started running a TV spot likening one cigar to *70* cigarettes.

The press may be starting to see through such misleading comparisons. The clear difference in risk between cigars and cigarettes was confirmed once again in a study published by *The New England Journal of Medicine* in June. But this time, reporters paid closer attention.

In the study, researchers led by Carlos Iribarren, an epidemiologist with the Kaiser Permanente Medical Care Program in California, tracked about 18,000 men—1,546 cigar smokers and 16,228 nonsmokers—from 1971 through 1995. Overall, the cigar smokers were about twice as likely to develop cancers of the mouth, throat, and lungs; 45 percent more likely to develop chronic obstructive lung disease; and 27 percent more likely to develop coronary heart disease.

As Iribarren and his colleagues noted, these risks are modest compared to those seen in cigarette smokers. Depending upon the study, cigarette smokers are four to 12 times as likely as nonsmokers to develop mouth and throat cancers; eight to 24 times as likely to develop lung cancer; nine to 25 times as likely to develop chronic obstructive lung disease; and 1.5 to three times as likely to develop coronary heart disease.

Furthermore, smoking-related diseases were concentrated among the heaviest cigar smokers in the Kaiser Permanente study. For those smoking fewer than five cigars a day—76 percent of the sample—only the difference in heart disease risk (20 percent) was statistically significant. Iribarren et al. did not ask the subjects about inhalation, which has been linked to higher risks in other studies, and they did not consider men who smoke a few cigars a month—the typical pattern, according to the NCI report—as a separate category.

More Accurate Coverage

Given the news media's track record in this area, I expected reporters to hype the hazards found by the Kaiser Permanente study and ignore the differences between cigars and cigarettes. But for the most part, the coverage was much more accurate and responsible (though less conspicuous) than the stories that followed the NCI report, probably because the researchers themselves made it clear that cigars are not nearly so hazardous as cigarettes.

The Associated Press, whose story was picked up by several major newspapers, put the hazards of cigars in perspective, noting that "the risks aren't as high as they are for cigarette smokers." The *Washington Post*, which only last year said it was "probably a misconception" that "cigars are healthier than cigarettes because smoke is not inhaled to the same degree," this time correctly cited that factor as the most likely explanation for the comparatively low risks found among cigar smokers.

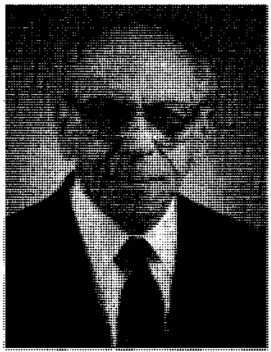
My favorite story ran in *The Hartford Courant* under the appropriately reassuring headline, "Cigars' Dangers Relatively Low/ Moderate Users Face Only Slightly More Health Risks Than Nonsmokers." The article quoted a local cardiologist who said: "If someone tells me they're smoking one cigar a day, it would be hard for me to jump up and down and say you're killing yourself and be intellectually honest. You are increasing your risk a little bit."

Some reporters still don't get it. "New findings give more weight to warnings that cigars can be at least as hazardous as cigarettes," United Press International declared. If UPI's science correspondent often leaps to such conclusions, she might do well in the long jump, but not in reading comprehension.

Unlike the UPI reporter, FTC Chairman Robert Pitofsky, who wants Congress to ban broadcast ads for cigars as well as require warning labels, seems to have taken a second, more careful look at last year's NCI report. In an April 1998 comment to the *Washington Post*, he misinterpreted the monograph as saying that "regular cigar smoking is roughly as dangerous as cigarette smoking." By contrast, when the FTC issued its recommendations in July 1999, he said, "We now know, based on the findings of the National Cancer Institute, that cigars, like other tobacco products, pose serious health risks."

The significance of Pitofsky's backpedaling did not register with everyone. According to the lead of an AP story on the FTC's recommendations, "Federal regulators say they want to correct misperceptions that cigars are less dangerous than cigarettes."

To be fair, it's not surprising that reporters continue to make such mistakes, since public health officials are still pushing the false equation between cigars and cigarettes. Surgeon General David Satcher says the absence of federal warning labels (almost all cigars already carry California health warnings) "implies cigars are different and don't carry the same risk." They are, and they don't. ☐



Is Mental Illness a Disease?

"You can know the name of a bird in all the languages of the world, but when you're finished, you'll know absolutely nothing whatever about the bird. . . . So let's look at the bird and see what it's *doing*—that's what counts. I learned very early the difference between knowing the name of something and knowing something."

—Richard Feynman

Tipper Gore says that "One of the most widely believed and most damaging myths is that mental illness is not a physical disease. Nothing could be further from the truth." Similarly, the National Alliance for the Mentally Ill (NAMI), the most influential mental health lobby in the nation, states: "Mental diseases are brain disorders." Are these assertions true? And if they are, what are their logical and practical implications?

I say that "mental illnesses" are not diseases, despite the fact that medical and legal authorities call them "diseases," that they are treated with drugs, that those receiving these drugs are called "patients," and that the professionals treating them are called "physicians." Why do I say this? Because the established scientific criterion for disease is a derangement in the structure or function of *cells, tissues, and organs*—a criterion mental illnesses fail to meet, as they can be neither detected nor diagnosed by examining cells, tissues, or organs.

Rather, mental illnesses are identified by certain behaviors, and what concerns Mrs. Gore, NAMI, and others is not the theoretical question of what counts as a disease, but the practical problems posed by these *behaviors*. In fact, whether a person who has a disease feels well or ill, accepts or denies that he is ill, consults a doctor or not, benefits from or is harmed by drugs are all issues important to the *practice of medicine* but not to the *definition of disease*. Likewise, whether a person obeys or breaks the law is irrelevant to the definition of disease. Disease is a physical concept and verifiable phenomenon. Accordingly, gastroenterologists study the abnormal states of the digestive system—not gluttony. Urologists study the abnormal states of the genito-urinary system—not prostitution. Neurologists study the abnormal states of the brain and nervous system—not murder or suicide.

What do psychiatrists study? Do they, as Nancy Andreasen, professor of psychiatry at the University of Iowa, puts it, study "the brain rather than the mind, . . . molecules and chemical transmitters rather than drives and fantasies"? Or do they, as Shakespeare put it, study the persons who suffer "the slings and arrows of outrageous fortune"? This is the

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crucial distinction masked by equating brain with mind. If "mental illness" means brain disease, then it is not a disease of the mind and psychiatry would be absorbed into neurology and disappear. But this is patently not the case. Psychiatrists regularly occupy themselves with personal conduct of social interest, such as homosexuality, aggression, racism, suicide, and murder.

Expanding "Disease"

It is an elementary principle of logic that one cannot prove a negative. One cannot prove the nonexistence of mental illnesses, just as one cannot prove the nonexistence of ghosts. One can only point out that a belief in mental illness as a disease of the brain is a negation of the distinction between persons as social beings and bodies as physical objects, in the same way that a belief in ghosts is the negation of the distinction between life as activity and death as the cessation of it. What happens when we negate the distinction between social beings and physical objects is that the concept of disease ceases to be limited to the dysfunction of cells, tissues, and organs and is expanded to include "dysfunctional" conduct, especially behavior people in authority find troublesome.

Interestingly, the pioneers of psychiatry understood this distinction, accepted that the scientific concept of disease was restricted to the malfunction of the body, and acknowledged that the term "mental illness" was a figure of speech. In 1845, the Viennese psychiatrist Ernst von Feuchtersleben (1806–1849) wrote: "The maladies of the spirit (*Geist*) . . . can be called diseases of the mind only *per analogiam.* They come not within the jurisdiction of the physician, but that of the teacher or clergyman, who again are called physicians of the mind only *per analogiam.*" And in his classic, *Lectures on Clinical Psychiatry* (1901), Emil Kraepelin (1856–1926) —who created the first modern classification of mental diseases—acknowledged: "It is true that, in the strictest terms, we cannot speak of the mind as becoming diseased." In short, a sick mind, like a sick economy, is a metaphor.

Mind Is Not Brain

Treating the metaphor as the thing itself—the metaphorization of disease, in our case—has led to the confusion of production with product, person with body, and mind with brain. Note that unlike the term "brain," the term "mind" implies agency, intentionality, and motivation. Accordingly, *behavior per se* that may result in disease is often categorized as a mental disease, but is never categorized as a medical disease. For example, excessive drinking is considered a mental disease, not a gastrointestinal disease—though cirrhosis of the liver is. A competent speaker of English may thus assert that schizophrenia has caused a person to kill an innocent bystander and excuse him of his deed, but he would never say that diabetes has either caused such lawless behavior or excuses it. Herein lies one of the most important philosophical-political consequences of the concept of mental illness: it removes, with one fell swoop, motivation from action, encompasses it within illness, and thus destroys the very possibility of separating disease from non-disease, since it offers the possibility that any intentionality or motivation is a potential "disease."

In 1924, the great Eugen Bleuler (1857–1939), the inventor of schizophrenia, declared: "Those who simulate insanity with some cleverness are nearly all psychopaths and some are actually insane." The idea that pretending to be ill is, itself, an illness became socially acceptable during World War II and has since become psychiatric dogma. Kurt Eissler (1908–1999), a world-famous psychoanalyst and psychiatrist, framed the doctrine thus: "It can be rightly claimed that malingering is *always the sign of a disease.*"

Behavior is not—and cannot be—a disease, except in psychiatry. Controlling behavior, with or without a person's consent is not—and cannot be—a treatment, except in psychiatry. And faking illness is not—and cannot be—an illness, except in psychiatry.

Paradoxically, the intellectual bankruptcy of the idea of mental illness is the pillar on which modern psychiatry—and the therapeutic state—rest. *Credo quia absurdum est.* □

THE FREEMAN
Ideas On Liberty

The Growing Abundance of Fossil Fuels

by Robert L. Bradley, Jr.

Only two decades ago nearly all academics, businessmen, oilmen, and policymakers agreed that the age of energy scarcity was upon us and that the depletion of fossil fuels was imminent. While some observers still cling to that view today, the intellectual tide has turned against doom and gloom on the energy front. Nearly all resource economists believe that fossil fuels will remain affordable in any reasonably foreseeable future.

Indeed, these fuels have become more abundant even in the face of record consumption. World oil reserves today are more than 15 times greater than they were when record keeping began in 1948; world gas reserves are almost four times greater than they were 30 years ago; world coal reserves have risen 75 percent in the last 20 years. Proven world reserves of oil, gas, and coal are officially estimated to be 45, 63, and 230 years of current consumption, respectively. Probable resources of oil, gas, and coal are officially forecast to be 114, 200, and 1,884 years of present usage, respectively.

Moreover, an array of unconventional fossil-fuel sources promises that, when crude oil, natural gas, and coal become scarcer (hence, more expensive) in the future, other fossil fuels may still be the best substitutes before synthetic substitutes come into play.

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Orimulsion

The most promising unconventional fossil fuel today is orimulsion, a tarlike substance that can be burned to make electricity or refined into petroleum. Orimulsion became the "fourth fossil fuel" in the mid-1980s when technological improvements made Venezuela's reserves commercially exploitable. Venezuela's reserve equivalent of 1.2 trillion barrels of oil exceeds the world's known reserves of crude oil, and other countries' more modest supplies of the natural bitumen add to the total.

With economic and environmental (post-scrubbing) characteristics superior to those of fuel oil and coal when used for electricity generation, orimulsion is an attractive conversion opportunity for facilities located near waterways with convenient access to Venezuelan shipping. While political opposition (in Florida, in particular) has slowed the introduction of orimulsion in the United States, it has already penetrated markets in Denmark and Lithuania and, to a lesser extent, Germany and Italy. India could soon join that list. Marketing issues aside, this here-and-now fuel source represents an abundant backstop fuel at worst and a significant extension of the petroleum age at best.

Synthetics and More

The significance of orimulsion for the electricity-generation market may be matched by technological breakthroughs commercializing the conversion of natural gas to synthetic-oil products. For remote gas fields, gas-to-liquids processing can replace the more expensive alternative of liquefaction. In mature markets with air quality concerns, such as in California, natural gas could become a key feedstock from which to distill the cleanest reformulated gasoline and reformulated diesel fuel yet.

A half dozen competing technologies have been developed, several by oil majors that are committing substantial investments relative to government support. The widespread adaptation of gas-to-oil technologies could commercialize up to 40 percent of the world's natural gas fields that hitherto have been uneconomic.

In addition to orimulsion and synthesized natural gas, tar sand, shale oil, and various replenishable crops also have great promise, however uneconomic they now are, given today's technology and best practices.

Michael Lynch of the Massachusetts Institute of Technology estimates that more than six trillion barrels of potentially recoverable conventional oil and another 15 trillion barrels of unconventional oil (excluding coal liquefaction) are identifiable today, an estimate that moves the day of reckoning for petroleum centuries into the future.

The gas resource base is similarly loaded with potential substitutions. Advances in coalbed methane and tight-sands gas technology show immediate potential, and synthetic substitutes from oil crops have long-run promise. If crude oil and natural gas are retired from the economic playing field, fossil fuels boast a strong bench of clean and abundant alternatives. Even the cautious Energy Information Administration of the U.S. Department of Energy concedes that "as technology brings the cost of producing an unconventional barrel of oil closer to that of a conventional barrel, it becomes reasonable to view oil as a viable energy source well into the twenty-second century."[1]

Today's reserve and resource estimates should be considered a minimum, not a maximum. By the end of the forecast period, reserves could be the same or higher depending on technological developments, capital availability, public policies, and commodity price levels.

Technological advances continue to substantially improve finding rates and individual well productivity. Offshore drilling was once confined to fields several hundred feet below the ocean, for instance, but it now reaches depths of several thousand feet. Designs are being considered for drilling beyond 12,000 feet.

Predictably, advances in production technology are driving down the cost of finding oil. In the early 1980s finding-costs for new crude oil reserves averaged between $11.50 and $12.50 per barrel in the United States and most areas of the world. In the mid-1990s they had fallen to around $7 per barrel despite 40 percent inflation in the interim. In the United States alone, finding-costs dropped 40 percent between 1992 and 1996. That is perhaps the best indicator that oil is growing more abundant, not scarcer.

Finally, the amount of energy needed to produce a unit of economic goods or services has been declining more or less steadily. New technologies and incremental gains in production and consumption efficiency make the services performed by energy cheaper even if the original resource has grown more (or less) expensive in its own right.

Understanding Abundance

How is the increasing abundance of fossil fuels squared with the obviously finite nature of those resources?

"To explain the price of oil, we must discard all assumptions of a fixed stock and an inevitable long-run rise and rule out nothing a priori," says M. A. Adelman of MIT. "Whether scarcity has been or is increasing is a question of fact. Development cost and reserve values are both measures of long-run scarcity. So is reserve value, which is driven by future revenues."[2]

Natural-resource economists have been

unable to find a "depletion signal" in the data. A comprehensive search in 1984 by two economists at Resources for the Future found "gaps among theory, methodology, and data" that prevented a clear delineation between depletion and the "noise" of technological change, regulatory change, and entrepreneurial expectations.[3]

A more recent search for the depletion signal by Richard O'Neill and colleagues concluded: "Care must be taken to avoid the seductiveness of conventional wisdom and wishful thinking. While the theory of exhaustible resources is seductive, the empirical evidence would be more like the bible story of the loaves and fishes. What matters is not exhaustible resource theories (true but practically dull) but getting supply to market (logistics) without disruption (geopolitics). While it is easy to see how political events may disrupt supply, it is hard to contrive an overall resource depletion effect on prices."[4]

The facts, however, are explainable. Says Adelman: "What we observe is the net result of two contrary forces: diminishing returns, as the industry moves from larger to smaller deposits and from better to poorer quality, versus increasing knowledge of science and technology generally, and of local government structures. So far, knowledge has won."[5]

Human ingenuity and financial wherewithal, two key ingredients in the supply brew, are not finite but expansive. The most binding resource constraint on fossil fuels is the "petrotechnicals" needed to locate and extract the energy. Congruent with Julian Simon's theory that the most scarce resource is human capital, wages in the energy industry can be expected to increase over time, while real prices for energy can be expected to fall under market conditions. Under political conditions such as those that existed during the 1970s, however, the record of energy prices can be quite different.

There is no reason to believe that energy per se (as opposed to particular energy sources) will grow less abundant (more expensive) in our lifetimes or for future generations. "Energy," as Paul Ballonoff has concluded, "is simply another technological product whose economics are subject to the ordinary market effects of supply and demand."[6]

Thus, a negative externality cannot be assigned to today's fossil-fuel consumption to account for intergenerational "depletion." A better case can be made that a positive intergenerational externality is created, since today's base of knowledge and application subsidizes tomorrow's resource base and consumption.

The implication for business decision-making and public-policy analysis is that "depletable" is not an operative concept for the world oil market, as it might be for an individual well, field, or geographical section. Like the economists' concept of "perfect competition," the concept of a nonrenewable resource is a heuristic, pedagogical device—an ideal type—not a principle that entrepreneurs can turn into profits and government officials can parlay into enlightened intervention. The time horizon is too short, and technological and economic change is too uncertain, discontinuous, and open-ended. □

1. Energy Information Administration, "International Energy Outlook 1998," pp. 3, 38.
2. M. A. Adelman, *The Genie Out of the Bottle: World Oil Since 1970* (Cambridge, Mass.: MIT Press, 1995), p. 22.
3. Douglas Bohi and Michael Toman, *Analyzing Nonrenewable Resource Supply* (Washington, D.C.: Resources for the Future, 1984), p. 139.
4. Richard O'Neill et al., "Shibboleths, Loaves and Fishes: Some Updated Musings on Future Oil and Natural Gas Markets," U.S. Federal Energy Regulatory Commission, Office of Economic Policy, discussion paper, December 31, 1996, p. 22.
5. M. A. Adelman, "Trends in the Price and Supply of Oil," in *The State of Humanity*, ed. Julian Simon (Cambridge, Mass.: Blackwell Publishers, 1995), p. 292.
6. Paul Ballonoff, *Energy: Ending the Never-Ending Crisis* (Washington, D.C.: Cato Institute, 1997), p. 21.

Economics

Comparative Advantage Continued

The concept of comparative advantage, which I began discussing last month, is a straightforward application of opportunity cost and is almost embarrassingly simple. Certainly people have no trouble understanding and recognizing the importance of this concept in their own personal lives. For example, if you were the best brain surgeon in town and also the best at shining shoes, you would not try to be both a brain surgeon and a shoe shiner. Compared to other shoe shiners, you would be at a tremendous disadvantage shining shoes because of the value of your time performing brain surgery.

People are very good at finding and pursuing their comparative advantages. This doesn't mean that people are always good at what they do. We have all seen people working at jobs they can't do well. It could be, of course, that they have made a mistake and will quickly move on to something they do better. But that clumsy waiter who keeps spilling hot soup on his customers may have a comparative advantage at being a waiter. He could be even worse at everything else. So just as you can be really good at something without having a comparative advantage in it, you can have a comparative advantage at something you don't do very well.

While people seem to understand comparative advantage when making personal choices, they often put this understanding on hold when accepting arguments against international trade. For example, last month I explained why the widely accepted argument that countries with low-paid workers will be able to outcompete us in all goods is wrong. I shall now consider a related, and widely accepted, argument against free trade, and explain the fallacy it contains by modifying the example in last month's column.

Being the Best May Not Be Good Enough

A common complaint by domestic producers is that foreign firms that suddenly begin outcompeting them must be selling below cost. They can often support their case by pointing out that the foreign firms were previously uncompetitive and have not improved their efficiency one bit. So how can these firms possibly be competitive now? It may seem strange that firms unable to compete earlier are suddenly able to without becoming more productive. But it is not strange at all. Foreign firms don't have to become more productive to acquire a comparative advantage over domestic firms.

Consider the table on the next page, which contains last month's example (ignore the number in parentheses for now). Americans have a comparative advantage only in car production even though they are absolutely more productive than Brazilians at producing both cars and computers. The opportunity cost of producing 100 cars is 666 computers in the

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United States and 1,000 computers in Brazil. But the other side of this coin is that Americans have a comparative *dis*advantage in producing computers, which means Brazilians have a comparative advantage in computer production. While it costs 150 cars to produce 1,000 computers in the United States, it costs only 100 cars in Brazil.

So, as explained last month, both countries are better off when Americans specialize in cars, Brazilians specialize in computers, and they trade with each other. Free trade moves resources into each country's comparative advantage, thereby increasing total output.

But assume that an entrepreneur develops a better way of manufacturing computers in the United States: it now requires only 1.5 units of productive resources to produce 1,000 computers. U.S. car manufacturers are just as productive absolutely as before, and no productivity improvements are made in Brazil. But now, the comparative advantage in the United States has shifted to computers, with the absolute advantage in cars becoming a comparative disadvantage. It now costs 1,333 computers to produce 100 cars in the United States as opposed to only 1,000 in Brazil. Under free trade U.S. computer manufacturers are able to outcompete car manufacturers for resources as consumers in both countries find it cheaper to buy computers from the United States and cars from Brazil. Both countries are now better off than before, since trade allows the benefit from more efficient computer production to be fully realized.

	U.S.	Brazil
100 cars	2 units of resources	4
1,000 computers	3 (1.5)	4

True, U.S. unemployment may increase temporarily, as workers in the declining car industry move to jobs in the expanding computer industry. And U.S. car manufacturing will lose money, an unmistakable incentive to move resources to more productive uses. So expect U.S. car manufacturers and their labor unions to complain that the competition putting them out of business cannot possibly be fair because they are still two times more productive than Brazilian car manufacturers. Obviously the Brazilians must be selling below cost—dumping cars in America. But Brazil does not have to sell cars below cost to outcompete U.S. car producers. Americans may be twice as productive manufacturing cars than Brazilians, but it is now 2.66 times more productive manufacturing computers. So the opportunity cost of producing cars in Brazil has become lower than in the United States. There is no legitimate complaint about Brazilian competition. In fact, the real competition is not coming from Brazil at all, but from other Americans. Brazil has done nothing new in our example. The competition facing U.S. car producers is coming from the more productive opportunity the U.S. computer industry is offering workers and resource owners. Car producers simply cannot afford to pay workers (and resource owners) enough to cover their increased opportunity cost given their comparative advantage in producing computers.

Self-Serving Claims

We can now see the self-serving silliness in the claim by industries having to lay off workers because of foreign imports that free trade will cause massive unemployment. If this were true, the opportunity cost of workers would be reduced by trade and they could be profitably re-employed at low cost by the declining industry. The problem declining industries have with free trade is that trade increases employment opportunities, not that it diminishes them.

Our discussion of international trade has ignored many real-world complexities. For example, we observe countries producing and importing the same product, as opposed to our example where countries import only what they don't produce. To explain how both producing and importing the same product is consistent with pursuing one's comparative advantage we will have to examine the concept of marginalism, which will be done in a subsequent column. But our discussion goes a long way to dispel common myths about the dangers of free trade. □

THE FREEMAN
Ideas On Liberty

Fist of Steel

by Dale R. DeBoer

Last year was bad for U.S. steel producers. Imports jumped to historic highs, and domestic prices fell. Corporate steel profits collapsed, and almost six percent of steelworkers lost their jobs. Crying foul, steel producers appealed for relief under U.S. international trade laws. The Clinton administration initiated an anti-dumping investigation against several countries, including Japan, Brazil, South Korea, and Russia. Early in 1999 Congress went further by pushing for quotas on steel imports. Together these efforts appear to be reducing the threat to U.S. steel interests: imports are falling. But at what cost to the U.S. economy as a whole?

The influx of steel imports into the United States is largely an outgrowth of the global economic turmoil of 1998. To understand this, consider the position of two fictional steel producers—Steel Amalgam in the United States and Mitsu Steel in Japan. In the early months of 1998 both plan their steel production, expecting a price of $100 per unit in the United States and 12,900 yen per unit in Japan. At the going exchange rate of 129 yen per dollar the price in both countries is comparable. Both producers begin making steel, incurring costs of $95 per unit here and 12,255 yen per unit in Japan ($95 per unit times 129 yen per dollar).

Unfortunately, demand for steel in Japan begins to decline because of its recession. Falling real output in Japan drives down the demand for steel. As the demand falls (following the logic of supply and demand) the price of steel in Japan begins to fall (by 5 to 7 percent at the wholesale level). At the same time the exchange rate between the Japanese yen and the U.S. dollar begins to change—increasing to 140 yen per dollar. All this makes it much more attractive to Mitsu Steel to sell its product here, where it can earn 14,000 yen per unit of steel ($100 per unit times 140 yen per dollar) rather than 11,977 to 12,255 yen per unit in Japan (reflecting the fall in prices there). So Mitsu Steel increases its sales to the United States, leading to the situation described above. Steel Amalgam sees the price here fall because of the increased supply from abroad—cutting profits. This forces Steel Amalgam to cut back on its current production, leading to layoffs.

Essentially this is what happened in 1998. Since the turmoil of 1998 involved many large steel-producing countries, the loss imposed on U.S. steel interests was large. Therefore, U.S. steel producers sought the protection offered by the trade laws.

Anti-Dumping Laws

Under U.S. law, dumping occurs (1) when a product is sold in the U.S. market at a lower price than in the producing country's market or (2) when a product is sold in the U.S. market at a price lower than the cost of production. For relief to be granted, one of these con-

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ditions must hold and it must be shown that harm resulted from the dumping. From the example, it should be clear how both types of dumping occurred. The yen price of steel here is 14,000 versus 12,000 in Japan. Further, Mitsu Steel incurred costs of 12,255 yen in producing the steel. At the time of production, this was equivalent to 95 dollars. When it sold the steel the sales price in Japan had fallen to 87 dollars (12,255 yen divided by 140 yen per dollar), leaving the dollar sales price less than the dollar cost of production. This satisfies the definition of dumping. Additionally, "harm" was done to the United States. The expansion of imports pushed steel prices down, damaging the profit position of U.S. steel firms and the employment of U.S. steelworkers. So the behavior of the foreign producers is legally actionable under American law.

Notice that the harm to the U.S. firms and workers is the same harm caused by any import—the only distinction in this case is that the influx of imports was sudden, because of rapidly changing conditions in foreign markets. The Japanese export of automobiles to the United States reduces sales of U.S. automobiles, caps the price that can be charged by U.S. automakers, and lowers employment in the U.S. automobile industry.

Should we therefore conclude that all imports harm the United States? Of course not; this discussion leaves out one important element: the benefit to the purchaser of an import. The benefits to the purchaser include getting an item at a lower price, being exposed to greater variety, and because of lower prices, being able to purchase more items. In the case of steel, the beneficiaries are U.S. firms that use steel to make other products (cars, for example) and their consumers.

The benefits of imports most likely do not end with the consumers, however. Competition from abroad spurs a competitive response from U.S. producers, who must become more efficient if they wish to maintain their market position. If they fail to respond, they go out of business. This is the harsh reality of a market economy. It is also a key to its great productivity.

Advocates of anti-dumping laws have a ready rejoinder. Regular imports are acceptable and do offer the advantages enumerated. But products that are dumped are different because dumping is predatory! Predatory behavior is directed at eliminating competition. By doing so, a producer gains an opportunity to earn long-term monopoly profits. Reality does not lend support to this claim. As every first-year student of economics knows, monopoly power and profits arise only if a barrier to entry into the market exists. Since viable steel firms currently operate in the United States, no barrier exists. Even if these firms close, their factories and tools will still exist. The workers currently employed by these firms will still possess their skills. Even if domestic production ends, the firm could easily reopen once a foreign firm began exercising its monopoly power. The only force that would prevent a reopening of a domestic firm is perpetual dumping. If the predation never ended, some other country would be permanently using its domestic resources to give the United States steel cheaper than it can be domestically produced. Rather than complaining we should be offering them thanks for the gift!

Two More Tries

The defense of anti-dumping laws does not end with claims of predatory behavior. A common plea invokes special circumstances, for example, that the industry affected is either an infant or senescent industry. An infant industry is said to be one that has not developed to where it can withstand the full rigors of international competition. If exposed to the wind of foreign competition it will die like a sapling exposed to a hurricane. A senescent industry is one currently in decline and saddled with old capital and dated technology. Like its infant relative, it cannot stand up to the forces of competition. Dumping would presumably drive it out of business.

A claim that the affected industry is either infant or senescent is prone to a common weakness. If an industry is not capable of competing in the international arena, granting the industry protection does not guarantee its survival or growth. An industry or a firm is not a biological entity that will grow and strengthen if provided proper nutrients and shelter. Rather an industry needs an inducement to improve.

In the absence of competitive pressure firms face no need to improve and are as likely to stagnate in their current noncompetitive position as to evolve into more efficient producers. This logic is more binding on a senescent industry than it is on an infant industry. A senescent industry has fallen from a competitive position to a noncompetitive position. This indicates that the industry does not possess the requisite competitive instinct demanded by a market economy. Justifying protection for such an industry requires making a heroic assumption that given protection the firms in the industry will change their past inefficient behavior. If a firm has not responded to competitive pressure in the past, it seems unlikely that it will become competitive in the absence of competition. Therefore, this line of reasoning likely only codifies the protection of inherently poor producers.

Another special circumstance used to justify anti-dumping protection is that the affected industry is a "strategic" industry. A strategic industry produces a product critical to the long-term health of the economy or society. For instance, the production of weapons of national defense is often considered strategic production. In times of conflict the continued existence of the nation could be threatened if the United States relied on importation of weaponry. This would be a very strong argument but for three concerns. First, how is an item with strategic value to be identified? The Japanese have relied on this argument for protection of their domestic agricultural industry ("We don't want to rely on imported grains during times of war!"). Through creative argument nearly anything can be turned into a product with strategic value ("We must protect television production because during times of war we will need the ability to produce screens for weapon-imaging systems!"). Before legitimating this argument, one must be careful to determine that the item in question has significant strategic importance.

Second, the strategic-interest argument only has force if domestic production is completely eliminated. This has not occurred with any industry for which a clearly defined strategic interest exists. Third, the industries where anti-dumping actions are most commonly taken (for example, textiles) clearly do not have significant strategic value.

It's Not Just Us

Anti-dumping laws in the United States appear to be a backdoor effort to gain protection for industries that do not like the effects of global competition. It is natural that they do not like this competition; they must work harder to make a profit and maintain market share. But the gains to everyone else are great. The excuse of dumping to promote protectionism attempts to justify disreputable policies. This is true not just for the United States but for foreign countries as well, though the United States, with 294 anti-dumping orders in force, followed by the European Union with 135, is the greatest exploiter of this justification. By disguising U.S. protectionism behind the veil of anti-dumping, America deprives itself of the short-term gains of foreign products and long-term gains of greater efficiency. □

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THE FREEMAN
Ideas On Liberty

Germany and the "Third Way"

by Norman Barry

At least two things exercise political and economic commentators on Europe: the meaning and policy significance of the "third way" and the current malaise in the German economy. There is close connection between these two issues, though it is not quite the one that modern statists have in mind. But it is easy to show that the relative decline of the German economic "miracle" is directly linked to its adoption of economic and social policies that are recommended for a future social democratic Europe.

Advocates of the third way in the United States and the United Kingdom have similar, although watered down, things in mind. The European Union is itself suffering from the false promise of the latest modest anti-capitalist medicine. Yet the German experience provides an almost laboratory experiment of the errors of "capitalism with a human face," the "social market economy," "social democracy," or any other version of the third way. It is not enough to condemn the third way's political economy merely because President Clinton supports it. There are much better intellectual reasons for rejecting this currently fashionable doctrine.

No Miracle

For most of the postwar period (West) Germany, outside of Switzerland, was the most successful economy in Europe. Her recovery from the ruins of war was truly spectacular. The tragic irony is that just as countries in the rest of Europe ignored the reasons for this success so they will misunderstand the explanation of her current travails. For her early economic record was the result of the deliberate, almost planned, adoption of a free-market economy, which was completely against the trend of the times. There was no *Wirtschaftswunder* (economic miracle), only the rigorous implementation of well-tested economic policies based on sound theory. Germany's problems today stem from the retreat from this over a 30-year period.

Germany is celebrating the 50th anniversary of the founding of the Republic but the real event to commemorate is the radical free-market economic program introduced by its postwar economics minister, and later chancellor, Ludwig Erhard, in 1948. At the time, the agony of Germany's postwar attempted adjustment to economic reality was exacerbated by the continuation of a ruinous system of wartime planning under the Allied Control Commission. Interventionists though the advisers to West Germany were, they all agreed that there had to be currency reform; the Reichsmark was worthless and little used for whatever exchange actually took place. But Erhard, chief official of the Administration for Economic Affairs for the British and American Occupation Zones, managed, by a superb piece of political chicanery, to engineer a wholesale reduction of price controls under the noses of his Keynesian advisers. An early

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critic was John Kenneth Galbraith, who began his long career of highly profitable private punditry and catastrophic public economic error in postwar Germany. He wrote an influential article that promised misery and poverty if Erhard's policy were to be continued. He was, of course, engaged in writing his book on the theory of price control at the time.

But Erhard pressed on with his economic liberalization. There was probably not a majority in favor of it, and a majority was only narrowly achieved in the elections of 1949, after the policy's prophylactic effects were visible to all but the most blinkered of central planners.

Liberalization was not popular with the political elites. Erhard was never very close to the Christian Democrats, many of whom remained wedded to a form of interventionism and control derived from Roman Catholic social teaching, and the Socialists remained formally Marxist until 1959. Still, the reasons for Germany's success were too obvious to ignore (though Britain remained oblivious to them until 1979), and the country was quickly won round. The Catholics managed to combine the market with religion, and the Socialists became, albeit for a short time, even more pro-capitalist than some of the Christian Democrats. A prominent Social Democrat member of the coalition governments in the 1960s and 1970s, Karl Schiller, actually resigned over a free-market issue. The Social Democratic party has now slipped back to its old socialist ways, and these have been reinforced by the usual contemporary fads, notably environmentalism (the present government is a coalition of Social Democrats and Greens), anti-Americanism, and careful and diluted, but not completely rejected, anticapitalism.

Seeds of Decline

The seeds of German decline were planted long ago. The intellectual error was by no means confined to the Social Democrats. All major political movements have been infected with the virus of the third way, with its illusion that there is a morally appealing midway point between capitalism and socialism and that we can indulge our social consciences with welfarism and heavy economic regulation without seriously corroding the market society. It is highly successful capitalist societies that are peculiarly vulnerable to these illusions; they have little resonance in Poland or the Czech Republic.

Their origins in Germany date back to the foundation of the Erhard system. There were two interconnected social visions that governed political and economic life in postwar West Germany: the idea of Ordo-liberalism—that is, the peculiarly German version of classical liberalism—and *die Soziale Marktwirtschaft* (social market economy). The values, policies, and personnel of the two intellectual movements overlapped. All German market theorists had some doubts about unregulated capitalism. Most particularly they thought there was a tendency for free contract to produce, quite spontaneously, a non-contract society through the emergence of monopolies and cartels. The German skeptics were encouraged by their own experience; the German economy had been badly cartelized in the early decades of the twentieth century (which ultimately enabled Hitler to run a "non-socialist" command economy). The Ordo-liberals thought that mistaken legal decisions had produced this outcome. In their *Wirtschaftsordnungspolitik*, the legal and political order of a free economy, the state was given the responsibility of preserving, artificially, the foundational rules of a market society, though they ought to have realized that free international trade is the most effective guarantor of a noncartelized economy. The Germans were very much influenced by American antitrust law.

Both "liberal" movements believed in some state welfare but it was much more pronounced in social market theory than in Ordo-liberalism. Alfred Müller-Armack, a member of Erhard's government, coined the deadly phrase "social market economy," and he actually believed in a new concept of the person—neither capitalist man nor socialist man—who would emerge from a properly and ethically organized market society. Erhard himself probably regarded the social market economy as a morally convenient mask behind which he could advance his genuine market reforms. But at least the German liberals thought that welfare policies should be *marktkonform*, that is, consistent with an efficient exchange system; they should not encourage the emergence of a dependency culture.

However, as the German system developed, it was the "social" element that began to predominate over the "market," and throughout the 1960s the country began to resemble a Scandinavian welfare state, to which its liberal theorists had originally been vehemently opposed. Many reforms were quite debilitating. Unemployment pay was, and is, close to the wage paid for work; sick leave is very generous; and more or less free education can last almost forever. And, as any traveler will tell you, most shops are closed on Saturday afternoon. Given the reduced attractions of work (and German nonwage labor costs are the highest in the world) is it any wonder that German unemployment is 11.5 percent? The original Bismarckian state pension scheme was foolishly extended and its unfunded foundations, in combination with a declining birth rate, promise to present the country with a horrific problem in about 20 years. Government spending, which was kept below 30 percent of GDP under Erhard, is now above 50 percent.

Social Consensus

One reason for West Germany's original success was its social consensus. There was none of the confrontational attitude between capital and labor that so disfigured Britain before Margaret Thatcher. Once trade unions had accepted the market system, they were anxious to cooperate in what became a common enterprise. But this benign industrial culture had its downside. It produced a certain insularity and a hostility to the takeover mechanism: nothing much should change, and nobody should lose his or her job. Fearing the concentration of industry, the Ordo-liberals themselves gave this attitude some intellectual justification. They and the postwar government set up a cartel office, which sedulously sought out any innovator who might get a fraction more than the permitted market share.

German companies have never been concerned about delivering shareholder value. Indeed, they have traditionally financed their investment by bank debt, giving the lie to American business ethicists who worry about the immorality of corporate raiders loading up American corporations with junk-bond debt. Those ethicists looked to Europe as an example of probity, but as it turned out, the "greed-driven" Anglo-Saxon model of corporate governance proved highly flexible and innovative.

What nobody realized in Europe was that the predator breaks up companies, spins off unwanted parts, fires layers of redundant managers, and produces leaner and fitter enterprises. Such restructuring has been the foundation of America's economic success since the 1980s. But in Germany's much-vaunted consensus, the raider is subject to opprobrium and ostracism, especially if he is a foreigner. With banks (which, unlike those in the United States, hold substantial equity stakes in German companies), trade unions, and local interests forming invincible coalitions against change, German managers are secure, as they were in 1997 when Krupp tried a reverse takeover of Thyssen in order to rationalize the steel industry. The stakeholder groups got together and turned a hostile bid into a tame merger, with guarantees of no unemployment. Even Italy seems to be ahead in adopting Anglo-Saxon methods of industrial reorganization. The computer company Olivetti has just completed a spectacular $60 billion takeover of Telecom Italia against a formidable array of stakeholders. The takeover strategy, and motivation to maximize shareholder value, is now spreading to Europe. But Germany is far behind.

Fear of Inflation

Of the classical-liberal principles that undoubtedly inspired West Germany in the early postwar period, only a belief in sound money survived the onslaught of social democracy. Of course, Germany's experience of runaway inflation in the 1920s made the country sociologically equipped to cope with the occasional pains of monetary rigor.

Keynesian demand-management policies were eschewed from the early days, for excellent microeconomic reasons. An independent central bank, the Bundesbank, resisted all political pressures to relax what was basically Chicago-style monetarism ("just watch the monetary aggregates").

But by the 1960s macroeconomics became fashionable, and successive governments became obsessed with tinkering with the aggregates; committees were set up and suggestions made by "wise men" for improving overall performance. But the Bundesbank retained its virtue (and the people their pride in the German mark) right up to reunification, when Helmut Kohl's government compelled the Bundesbank, for overtly political reasons, to sanction a catastrophic one-to-one currency swap, the East German mark for the Deutsche mark. The former was pretty much worthless, and this arrangement, plus the granting of partial West German welfare "rights" to the former East, undoubtedly made the union of the two countries more difficult than it need have been.

German monetary chastity clearly could not survive the seductive lure of reunification. The next question on the macroeconomic agenda is whether the Euro, the new currency for the continent, will provide a satisfactory surrogate for the beloved mark. The Bundesbank had established a reputation for incorruptibility precisely because of its proven probity: prior to reunification no politician could compete with it in the public's estimation. One of the first things the controversial leftist Social Democrat Oskar Lafontaine did in his brief period as minister of finance in the new Social Democratic government was to put pressure on the European Central Bank to relax its Bundesbank-type monetary rigor. That failed, but one wonders how that institution will survive a coalition of Spanish, Italian, French, and other politicians demanding inflationary employment policies.

With excessive social welfare and a sclerotic industrial economy, Germany is no longer the powerhouse it once was. An early Ordo-liberal, Wilhelm Röpke, once said that "like pure democracy, undiluted capitalism is intolerable." He was a pioneer of the idea of the third way, but even he would be distressed at what has happened to his country.* Perhaps the major problem with Ordo-liberalism was its neglect of public choice. Its adherents really did believe that once people had experienced the joys of the social market they would have less reason to rely on the familiar human motivations and on the historically validated legal and market constraints. Social-market theorists had an "elevated" view of human nature: When politicians and public officials were imbued with a sense of community and reinforced by the glue of solidarity, no one need worry about things like antisocial rent-seeking; moral hazard would not be a problem for enlightened people in a generous welfare system; and managers of industrial corporations would be disciplined without stockholder pressure and the threat of raiders.

But the more astute German commentators learned early on that there is no feasible third way. All economic proposals that run counter to the laws of economics are eventually defeated by these inexorable processes; they may be a little slower to operate than those of physics, but they are just as compelling. Germany has breached just about every one of them in the last 30 years. As Vaclav Klaus, the former Czech premier, put it: "the third way is the third world." □

**Editor's note*: See Richard Ebeling, "Wilhelm Röpke: A Centenary Appreciation," *The Freeman*, October 1999.

THE FREEMAN (Ideas On Liberty)
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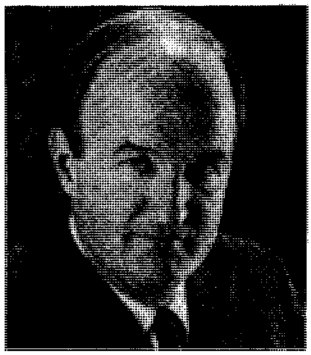

A Private-Sector Solution to Poverty

"The able bodied poor don't want or need charity. . . . All they need is financial capital."
—MUHAMMAD YUNUS

For years free-market economists have protested the waste and abuse of foreign aid programs, International Monetary Fund loans, and World Bank projects.[1] P.T. Bauer has been in the forefront as a dissenter against government development programs. For the past 50 years, he has argued forcefully that government assistance in developing nations only retards economic growth.[2]

But if IMF lending, foreign aid, and the World Bank are abolished, what should be done to alleviate poverty? Bauer and other classical liberals advocate reducing trade barriers; increasing foreign investment; establishing property rights, the rule of law, and a stable monetary policy; and encouraging free markets and limited government domestically.

Private-Sector Micro Lending

Yet market advocates have been surprisingly silent on a burgeoning private-sector success story known as "micro lending," the lending of extremely small amounts of money to self-employed entrepreneurs in the Third World by independent banks and institutions. The most famous of these micro-lenders is the Grameen Bank, founded by Muhammad Yunus in Bangladesh, the world's poorest country, in 1983. Yunus is an economics professor at Chittagong University in Bangladesh.

When I say "small loans," I mean minuscule. The Grameen Bank lends only $30 to $200 per borrower. Applicants don't have to read or write to qualify. No collateral or credit check is required. Amazingly, the Grameen Bank has made these micro loans to millions of poverty-stricken people in Bangladesh, $2.5 billion so far. These loans are not interest-free. The Grameen Bank is a for-profit private-sector self-help bank that charges 18 percent interest rates. The default rate? Less than 2 percent. This remarkable record is due to the requirement that borrowers must join small support groups. If anyone in the group defaults, no one else can borrow more.

The bank lends to entrepreneurs, overwhelmingly female, who need only a few dollars to buy supplies and tools. Borrowers might be makers of bamboo chairs, sellers of goat's milk, or drivers of rickshaws. By avoiding the outrageous rates charged by other moneylenders (often 20 percent a month), these people are finally able to break the cycle of poverty. Their small businesses grow, and some use

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their profits to build new homes or repair existing ones (often using a $300 Grameen house loan). Thousands of Grameen borrowers now own land, homes, and even cell phones. And they are no longer starving. Yunus has plans to issue private stock and eventually go public with his antipoverty program.

His bank has been so successful that other micro-lending institutions have sprung up throughout the world. The concept has gained credence everywhere, to the point that even the World Bank and other government agencies have gotten into the million-dollar microloans business.

Saying No to the World Bank

But Yunus won't have anything to do with the World Bank. In his new autobiography, *Banker to the Poor* (highly recommended), Yunus decries the World Bank: "We at the Grameen Bank have never wanted or accepted World Bank funding because we do not like the way the bank conducts business." Nor does he much like foreign aid: "Most rich nations use their foreign aid budgets mainly to employ their own people and to sell their own goods, with poverty reduction as an afterthought. . . . Aid-funding projects create massive bureaucracies, which quickly become corrupt and inefficient, incurring huge losses. . . . Aid money still goes to expand government spending, often acting against the interests of the market economy. . . . Foreign aid becomes a kind of charity for the powerful while the poor get poorer."[3] Peter Bauer couldn't have said it better.

From Marxism to Marketism

Yunus's statements are all the more amazing given that he grew up under the influence of Marxist economics. But after getting a Ph.D. in economics at Vanderbilt University he saw firsthand "how the market [in the United States] liberates the individual" and rejected socialism. "I do believe in the power of the global free-market economy and in using capitalist tools. . . . I also believe that providing unemployment benefits is not the best way to address poverty." Believing that "all human beings are potential entrepreneurs," Yunus is convinced that poverty can be eradicated by lending poor people the capital they need to engage in profitable businesses, not by giving them a government handout or engaging in population control.

His former Marxist colleagues call it a capitalist conspiracy. "What you are really doing," a communist professor told him, "is giving little bits of opium to the poor people. . . . Their revolutionary zeal cools down. Therefore, Grameen is the enemy of the revolution."[4] Precisely. □

1. The latest examples are Paul Craig Roberts and Karen LaFollette Araujo, *The Capitalist Revolution in Latin America* (New York: Oxford University Press, 1997) and James A. Dorn, Steve H. Hanke, and Alan A. Walters, eds., *The Revolution in Development Economics* (Washington, D.C.: Cato Institute, 1998).
2. See P. T. Bauer, *The Development Frontier* (Cambridge, Mass.: Harvard University Press, 1991), *Equality, the Third World and Economic Delusion* (Cambridge, Mass.: Harvard University Press, 1981), and *Dissent on Development* (Cambridge, Mass.: Harvard University Press, 1976).
3. Muhammad Yunus, *Banker for the Poor* (New York: PublicAffairs, 1999), pp. 145–46.
4. Ibid., pp. 203–205.

BOOKS

Market Education: The Unknown History

by Andrew J. Coulson

Transaction Publishers and the Social Philosophy and Policy Center • 1999 • 430 pages • $54.95 cloth; $24.95 paperback

Reviewed by George C. Leef

The most pernicious of all the widely held modern beliefs is that education must be provided by the state. "Education is an entitlement!" say nearly all politicians and members of the vast education establishment. Few challenge that assertion. The *inseparability* of school and state is almost as much a given as the separation of church and state.

In this book Andrew Coulson takes dead aim at that belief. Coulson, senior research associate at the Social Philosophy and Policy Center, is a computer software engineer who developed a strong interest in educational history and policy. *Market Education: The Unknown History* is the product of his research. It's a strong case for letting the free market work in education.

Coulson's historical overview of educational history is extremely beneficial. Government education is so widely assumed to be the only possibility that many will be surprised to learn there have been places and times when government kept out entirely. The author's contrast between Athens and Sparta in ancient Greece is illustrative.

In Athens, Coulson writes, "with the exception of two years of military training, the state played no role in schooling." That, of course, did not mean an uneducated populace. Just as Athenians managed to feed, clothe, and house themselves without any government action, so did they educate themselves. Parents paid monthly tuition for the education of their children at whichever of the numerous private schools they preferred. Schools could survive only by offering educational services parents found sufficiently valuable to pay for. Education was not an "entitlement," and wasn't "equal," but Coulson states that even the poorest families were consumers in the education market.

Education was not static in Athens. "Each step in the evolution of Athenian society was matched by a corresponding change or expansion in the offerings of educators," Coulson writes. No government planning agency existed to decide what subjects must be taught and who was permitted to teach them. The result of this laissez-faire approach was a civilization that far surpassed any other in the ancient world. Athens was the intellectual center of the Mediterranean, a wellspring of genius in science, mathematics, philosophy, literature, and more. All those brilliant thinkers working in a culture that esteemed learning—and not a government school to be found!

In contrast, Sparta established a government education monopoly to ensure the preservation of the collectivist/militarist philosophy of Lycurgus and later rulers. Children were regarded as property of the state, which used its education monopoly to breed obedient, warlike people ready to sacrifice themselves for the imagined glory of the state. Intellectual and artistic achievements of the Spartans? Virtually none, Coulson remarks, "apart from being a beacon to those advocating totalitarian systems of education."

The author's investigation into the history of education, both market-driven and state-dominated, proceeds on through Rome, the Middle Ages, the Islamic world (which initially followed the Athenian approach, with similarly magnificent results), and eventually to the last several centuries in England, France, Germany, and the United States. He uniformly finds that beneficial consequences have flowed from educational liberty and less desirable if not downright disastrous consequences from state control.

The largest part of the book is Coulson's examination of the American educational experience, and a fascinating study it is. We learn of the struggle of black parents in Boston in the mid-1800s to escape from segregated public schools, only to lose in a court decision that would become a precedent for the Supreme Court's infamous "separate but equal" doctrine. We learn of the early advocates of "public education," such as James G. Carter, who argued that we should emulate Sparta's educational model. We learn of the various failed educational fads that our education "experts" have embraced with terrible results for the human guinea pigs subjected to them. After reading Coulson's lengthy exposition, it is impossible to avoid the conclusion that abandoning the education marketplace in favor of government schooling is one of our greatest national blunders.

The last part of the book turns to the many proposals for education reform that are on the loose. Coulson is not very enthusiastic about any of the nostrums such as charter schools, vouchers, and private management. He does, however, praise the idea of privately funded scholarships to enable children to escape from the clutches of the public school system.

Sometimes Coulson drops his scholarly tone in favor of hyperbole, and sometimes he makes important assertions without apparent support. The lapses in the book, however, are microscopic compared to its powerful research and argumentation. If restoration of the free market in education is a matter of importance to you—and it should be—this is a book you don't want to be without. □

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China in the New Millennium: Market Reforms and Social Development

edited by James A. Dorn

Cato Institute • 1998 • 416 pages • $24.95 cloth; $15.95 paperback

Reviewed by Steven W. Mosher

In June 1997 the Cato Institute sponsored an academic conference in Shanghai, along with Fudan University's Center for American Studies. The government signed off on the event and, for the most part, the Chinese participants carefully avoided sensitive political topics. Not so the irrepressible Cato crowd.

James Dorn, Cato's vice president for academic affairs, reminded his listeners that "The continued success of China's journey to prosperity . . . will depend on whether [they] are willing to allow a true market system to develop, in which individuals can hold secure title to their property and are held accountable for their mistakes, or whether China remains a 'socialist market economy.' "

Edward Crane, Cato's president, made the connection with politics explicit. "There are two fundamental ways to order society: Voluntarily, through the private interaction of individuals, associations, religious organizations, businesses, and so on . . . or coercively, through state mandates . . . because it is in the nature of man to be free . . . society is better off—not just economically but spiritually—when politics plays as small a role as possible in societal affairs."

The Chinese participants (who did not have the advantage of holding either American citizenship or outbound plane tickets) were mostly silent. Professor Zhou Dun Ren stood alone among those who pointed out the connection between economic and political freedom, suggesting that China needed more of both. "The pointer on the roadmap of the 21st century is for China to go down the road of a true market economy. The more developed China is economically, following the free-market model, the more freedom and democracy will advance." Perhaps it is not surprising that Professor Zhou is the *former* deputy director of the Center for American Studies. In China, libertarian sentiments do not go unpunished.

The conference proceedings, published here, offer abundant evidence that China's steps away from rigid central planning and toward the free market have generated spectacular economic growth over the past 20 years. Per capita income has increased fourfold; exports have skyrocketed. Hundreds of millions of Chinese have been lifted out of dire poverty.

At the same time, China's increased material prosperity has had no discernible effect on the political system, which remains a self-perpetuating one-party dictatorship. Despite participant Mao Yushi's claim that "China's economic reforms and opening to the outside world have advanced both material progress and civil society," evidence of the latter remains scanty.

Kate Xiao Zhou argues that women in rural China have experienced a revolutionary change in their lives as their participation in the market has increased their personal autonomy and freedom. In "Market Development and the Rural Women's Revolution in Contemporary China," she writes that rural women by the millions "have participated in the development of markets, the rise of rural industry, and migration."

China's economic changes have weakened social controls for women, but it has gained them nothing in terms of political rights from the state. And the weakening of the mediating institutions of family and village, as the one-child policy demonstrates, may in some ways render women even more vulnerable to state exploitation. Zhou regrets that this "contemporary rural women's revolution," as she calls it, "has no organization, no leader, and no ideology," but it could hardly be otherwise. If it did, the Party would see it as a threat. It would be either co-opted or crushed, as the China Democracy Party was recently crushed.

Minxin Pei, assistant professor of politics at Princeton University, draws a connection between the economic liberalization and the thousands of semi-official associations that have sprung up over the past 15 years. Pei sees these associations, which include groups of private entrepreneurs, consumers, and village and township enterprises, as a nascent civil society. This may be too optimistic a reading. Many of these organizations represent preexisting Party and government organizations (the village and township organizations, for instance), and all are required to register their membership and goals with the government. Moreover, a recent government edict forbids the formation of new groups.

What is one to make of this increasing gap between China's material prosperity and the retro behavior of the Chinese Communist Party? Crane suggests that China is "at a crossroads, and that it must choose between political society and civil society—that is, between coercion and freedom as society's organizing principle." I believe that China's leaders *have* chosen—long ago—to organize on the principle of coercion. And there is no evidence I can see that they are wavering in this choice. Indeed, they seem convinced that a continuation of the present "socialist market economy" is their road to national power and personal wealth.

For all the talk about China's "nascent civil society," the People's Republic is at present governed by a single class. This kleptocracy uses its power—combined with the strength of Chinese family ties—to engage in a massive accumulation of wealth. Non-relatives—the vast majority of the Chinese people—can expect to be cheated.

Cato is to be congratulated for going to China and sounding a libertarian call to arms. The conference volume that resulted is worth reading. But there is no force in China today capable of taking the field against the vast Communist kleptocracy. □

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The Shadow University: The Betrayal of Liberty on America's Campuses

by Alan Charles Kors and Harvey A. Silverglate

The Free Press • 1998 • 415 pages • $27.50

Reviewed by Daniel Shapiro

Many books have discussed political indoctrination on American campuses, but none is as thorough and damning as this one. Alan Kors, a history professor at the University of Pennsylvania, and Harvey Silverglate, a criminal defense attorney and civil liberties litigator, present overwhelming evidence that the loss of liberty on campuses is far greater than most people realize. Speech codes, which punish students and faculty for offensive or "harassing" speech, are ubiquitous. Due process is the exception rather than the rule: secret judicial proceedings routinely deny accused faculty and students the right to be represented by legal counsel, to confront or call witnesses, and to have an impartial judge and appeals process. Most chilling of all, "sensitivity training," a.k.a. thought reform, tells students what to believe and labels them as "in denial" or as "oppressors" unless they profess the politically correct orthodoxy about race, gender, and so on.

Most people, even critics of political correctness, are unaware of this system because much of it happens outside the classroom. To see the destruction of liberty on American campuses one must also examine offices of student life, residential advisers, judicial systems, deans, freshmen orientation, and the promulgation of rules and regulations. These aspects of the university are inescapable for students (and increasingly for faculty), and punishment for violating its rules occurs behind closed doors. Hence the book's title: *The Shadow University*.

Kors and Silverglate rip the veil off this system, revealing far more cases than have hitherto been reported. Besides providing compelling narratives of various assaults on liberty, the authors also cogently explain the basic moral and constitutional principles of free speech and academic freedom, due process, and freedom of conscience, which are routinely violated throughout academia. A hallmark of their violation is the double standard: provocative speech (such as "born again bigot," "Uncle Tom") by the politically correct is protected, but those who appear to criticize feminism, affirmative action, or other reigning orthodoxies may be censored and/or re-educated.

I'll sketch only a few of the incredible cases: a (white) student at the University of Pennsylvania calls noisy (black) students "water buffaloes" and is charged with racial harassment; a professor at Dallas Baptist University criticizes feminist arguments, is charged with defamation, and is then fired, along with the dean who defended him; a student at Sarah Lawrence is sentenced to sensitivity training for "homophobia" for laughing at a remark made about a gay student; a Catholic residential adviser at Carnegie Mellon University is fired for refusing to wear a symbol in support of gay and lesbian students; freshmen orientation at Williams College requires everyone to gather in a dark auditorium where insults are hurled at them from all directions; a professor at Cornell University is found guilty of sexual harassment at a hearing that he is forbidden to attend or call witnesses, and where the head of the investigating committee says "we have to make the rules as we go along."

How did this arise? Bad ideology plus careerist administrators, answer the authors. The bad ideology is New Left theorist Herbert Marcuse's argument in his 1965 essay "Repressive Tolerance," that the marketplace of ideas masks repression of "progressive" ideas. To prevent the silencing of these ideas, "reactionary" ideas must be censored. This zero-sum view of freedom is followed by today's defenders of speech codes and other assaults on liberty. (However, the authors give no evidence that today's censors were influenced by Marcuse.) As for administrators, they perform their jobs in hopes of moving on to a more prestigious position, often at a new campus. To move on, their reign must be relatively untroubled, which means they aim to appease groups who can cause trouble: militant feminists, blacks, and gays. Sacrifice of other people's freedom doesn't matter.

I wish the authors had dug deeper on the careerism issue. They remark that colleges and universities have taken on many of the trappings of large corporations, minus the accountability, but they do not discuss whether re-establishing accountability requires that colleges become proprietary institutions.

Kors and Silverglate suggest two strategies for restoring liberty. First, litigate. Court challenges to university oppression frequently succeed. State universities are bound by the First Amendment and the requirements of due process; private universities are contractually bound to keep their promises of free inquiry and procedural fairness. Second, publicize oppression: Universities hate publicity. Publicity can shame the university into change, and/or arouse freedom-minded colleagues to revolt.

This is a great book, and that's not hyperbole. It is not an enjoyable topic, but one indispensable for anyone concerned with liberty in academia. I am in awe of the authors.

It must have taken enormous energy, intellectual focus, and a burning passion for justice to uncover this massive oppression on American campuses. All lovers of liberty are in their debt. □

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Principles for a Free Society: Reconciling Individual Liberty with the Common Good

by Richard A. Epstein

Perseus Books • 1998 • 372 pages • $30.00

Reviewed by William H. Peterson

Law and economics were once openly tied, as witness the title of John Stuart Mill's 1848 work, *Principles of Political Economy.* Or consider that Ludwig von Mises and F. A. Hayek both held doctorates from the University of Vienna not in economics but in *jurisprudence.*

Economics came into its own as a "pure" science, however, with the establishment of the American Economic Association (AEA) in 1885 and publication of Alfred Marshall's *Principles of Economics* in 1890. Has its independence been for the better? Economics has since become increasingly uncertain, mathematical, and state-oriented. But the relationship between state and society at home and abroad in the stormy twentieth century has been anything but calm and stable. The welfare state has arrived, and liberty retreats far more often than it advances.

As AEA cofounder and first president Richard T. Ely contended, a "new world is coming into existence," and "we must have a new economics to go along with it." The state should no longer be only an umpire, said Ely, but should become an agency "whose positive assistance is one of the indispensable conditions of human progress."

What is the proper role of the state? Was Ely correct in advocating a highly interventionist state? Or is it possible to reconcile laissez faire, private property, individual choice, and minimal government with the common good?

That reconciliation constitutes the broad mission of this book by Professor Richard A. Epstein of the University of Chicago Law School. Epstein is a constitutionalist, one who upholds natural law for its utilitarian value and asks for a return to our limited government roots. He is a meticulous thinker who approaches his job here by analyzing scores of law cases. His philosophy can be seen in his endorsement of this quotation from the *Edinburgh Review* in 1843: "Be assured that freedom of trade, freedom of thought, freedom of speech, and freedom of action, are but modifications of one great fundamental truth, and that all must be maintained or all risked; they stand and fall together."

Epstein believes that private property rights are vital in the quest for the common good and registers his approval of recent Supreme Court decisions that have moved in the direction of greater protection for property owners against the grabbiness of government. For example, in *Dolan v. City of Tigard* (1994), the city had maintained that it had the right to compel Mrs. Florence Dolan, the owner of a plumbing-supply store, to dedicate land for a bicycle path without any compensation. The Supreme Court disagreed, with Chief Justice William Rehnquist writing, "We see no reason why the takings clause of the Fifth Amendment, as much a part of the Bill of Rights as the First Amendment or Fourth Amendment, should be relegated to the status of a poor relation."

Epstein is also skeptical of government regulation that is supposed to improve the working of the market for consumers. He takes a dim view of the antitrust suit against Microsoft, arguing that while it may be beneficial to Microsoft's competitors, it ill-serves the legions of Internet consumers who continue to enjoy the competition and downward drift in prices. Epstein fears that use of state coercion to compel Microsoft to vary its product offerings along government-acceptable (that is, competitor-acceptable) lines mocks true competition and risks stifling the sort of innovations that sparked the Information Revolution in the first place.

On the whole, the book offers a splendid defense of laissez faire, but Epstein's Chicago

School utilitarianism sometimes leads him into questionable positions. He accepts, for example, some "forced exchanges" such as public highways and utilities. In granting the state some right to coerce in selected pragmatic cases, Epstein seems to open windows of opportunity for both inefficiency and political hanky-panky. Debates between Epstein and the Rothbardian free marketers over the advisability of permitting government to make people participate in forced exchanges would be intellectual events to savor.

But do not allow this reservation to deter you from reading *Principles for a Free Society.* Epstein's focus is on the need to preserve and indeed to expand freedom, not on the rare instances where he concludes that government coercion is justified. His strong argument that freedom and the common good can be reconciled is one that we must make again and again. □

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Driving Forces: The Automobile, Its Enemies, and the Politics of Mobility

by James Dunn

Brookings Institution • 1998 • $44.95 cloth; $18.95 paperback

Reviewed by John Semmens

Over the last two generations a battle between the automobile and its enemies has raged in most urban regions. Aligned against the automobile is an elite composed of self-appointed visionaries who believe they have the answer to how urbanized man should live. On the other side we have the masses of common people and the commercial interests that have catered to man's preference for the automobile.

The battle is over. The auto has won. Because it empowers the individual to go where he wants to go when he wants to go, the auto provides a freedom and quality of service that public transit systems cannot match. The author refutes all the key anti-automobile arguments. For example, in response to the claim that General Motors conspired to drive the streetcar out of business, Dunn points out that streetcars went out of business around the globe, not by any nefarious deeds of General Motors, but by the superior performance of the automobile. In Los Angeles the auto was embraced as a means of escape from the "corrupt" streetcar monopoly.

In response to the argument that the Interstate Highway Act and Highway Trust Fund gave autos an unfair advantage, Dunn points out that the federal highway trust fund is self-sustaining from taxes and fees levied on highway users. This stands in contrast to federal aid to transit in which users pay a minor share of the costs. Dunn compares transit's and autos' shares of passenger travel (1 and 99 percent respectively) with their shares of government expenditures (25 and 75 percent). Transit would seem to have the unfair advantage.

In response to the argument that American cities should imitate European cities, Dunn asserts that Europe is imitating America. Despite heavy gasoline taxes, huge subsidies for public transit, and more densely developed urban land use, auto ownership has been growing faster in Europe than in the United States.

Public transit has been declining for very good reasons. Foremost among them is that public transit's attractiveness is inversely correlated to personal income. When people are poor, public transit may be the best transportation they can get. As people prosper, they want to move up to a higher quality of transportation. It is economic growth that dooms public transit to a dwindling share of urban travel. Short of driving the majority of urban populations into poverty, there is no public policy that is likely to revive public transit.

Dunn acknowledges that traffic congestion and air pollution are serious negative byproducts of the automobile. The cure, though, is not to waste billions of dollars on attempts to resuscitate moribund public transit systems in the vain hope that this will provide some relief. Instead, he recommends that public policy focus on more cost-effective solutions.

He calls his program "Auto Plus." The key is to make auto transportation work more effectively and with fewer negative social impacts. Along those lines, he suggests electronic road pricing, technological fixes for vehicle emissions, and vouchers for the transit dependent. Transit agencies, rather than jealously protecting faltering bus and train monopolies, should become "mobility managers," says Dunn. As such, transit officials would promote rather than suppress competition from "jitney vans." And instead of attempting to hold on to the urban poor as a captive clientele, they would be supportive of ways to help the poor obtain cars.

There is one aspect of Dunn's prescription that may cause some consternation among highway advocates. He recommends ending the "trust fund" concept. In fact, he goes even further by suggesting that higher taxes on cars and trucks could be a productive source of revenue for general government purposes. Let's not turn efficient transportation into a cash cow for federal boondoggles elsewhere.

Whether one agrees with Dunn's prescribed remedies or not, his emphasis on hardheaded realism is a better foundation for policy debate than the notions of those who wish that things were different, that people could be induced to give up their prized mobility, or that the clock could be turned back to a time when life was "simpler." □

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President Grant Reconsidered

by Frank J. Scaturro

University Press of America • 1998 • 152 pages
$34.50 cloth; $16.95 paperback

Reviewed by Burton Folsom

In almost all polls of U.S. presidents, Ulysses S. Grant ranks near the bottom. Professor Thomas Bailey of Stanford, in a typical evaluation, writes, "Grant was an ignorant and confused President, and his eight long years in blunderland are generally regarded as a national disgrace."

Frank Scaturro, an attorney with a strong interest in this subject, comes forth in *President Grant Reconsidered* to make the case that Grant was a much better president than historians say. He contends that modern historians have taken their cue on Grant from his intellectual contemporaries, who often despised him because he wouldn't appoint them to office. Henry Adams, for example, wrote that Grant "had no right to exist. He should have been extinct for ages. . . . The progress of evolution from President Washington to President Grant was alone evidence enough to upset Darwin."

Scaturro challenges this hyperbole and argues that Grant's presidency (1869–1877) was a positive one in U.S. history. He sees Grant as a forceful and honest president, who said, "I don't lie myself, and I won't have any one lie for me." He used the veto 93 times—more than any of his predecessors—and supported vigorously the rights of newly freed blacks. Frederick Douglass wrote, "To [Grant] more than to any other man the [N]egro owes his enfranchisement and the Indian a humane policy. In the matter of the protection of the freedman from violence his moral courage surpassed that of his party."

Scaturro argues that the amount of corruption in Grant's administration is greatly overstated. Of Grant's 25 cabinet appointments, only one, Secretary of War William Belknap, left in disgrace. A few others had charges made against them, but none was proven. The spoils system operated under Grant, as it had with previous presidents, but Scaturro observes that Grant introduced improvements in the civil service system. In the case of the New York customs house, the author insists that it operated more honestly under Grant than under previous presidents. Finally, Scaturro maintains that Grant's handling of Reconstruction was competent.

The major arguments that Scaturro makes are useful, but he is a strong partisan and sometimes overstates his case. For example, he says it is unfair to blame Grant for the Whiskey Ring and the Credit Mobilier scandals because they started before he became president. Those are valid points. But then he wants to give full credit to Grant for resolving the *Alabama* claims with England, when in fact those negotiations also began before Grant became president. (The United States had claimed damages from England caused by Confederate cruisers built and aided by British interests.) England's eventual agreement to pay damages stemmed from the German victory in the Franco-Prussian War—it did not want to risk an alliance between the United States and Germany. Grant's administration had almost nothing to do with it.

Scaturro also omits some points favorable to Grant that should have been included. Grant reduced the national debt during his presidency and ended the federal income tax. He also favored a sound currency. Within two weeks after Grant became president, he signed the Public Credit Act, which pushed the United States to redeem its greenbacks in coin as soon as possible. Five years later, he vetoed an inflationary bill that would have increased the greenback supply by more than 10 percent.

Grant was far from a consistent advocate of limited government. Before he assumed the presidency, as well as afterward, he supported the system of federal subsidies for the Union Pacific and Northern Pacific Railroads. The resulting corruption led to the Credit Mobilier scandal and increased government regulation. Grant also tried to annex Santo Domingo and expand the American empire abroad.

Scaturro's book helps offset the traditional historical bias against Grant. From a classical-liberal standpoint, it exaggerates Grant's achievements, but it is still a useful corrective. In some ways, Grant's low ratings in presidential polls are inevitable, the result of prejudices held by many historians. As historian Ari Hoogenboom once noted, "The historian is usually liberal, more often than not a Democrat. . . . The post-Civil War era stands for all the historian opposes." If Grant had unveiled a huge program of land and income redistribution, he might have won over the historians, but that would have destroyed our heritage of liberty and sent us reeling on a statist course long before the "great" presidents of the twentieth century did so. □

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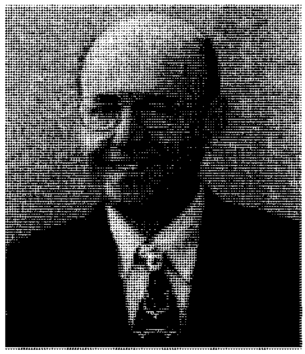

The AFL-CIO: Renaissance or Irrelevance?

To hear the AFL-CIO tell it, the union movement has reversed its decline and is at the dawn of a renaissance. But among all the puffery, three reported claims are especially suspect: (1) employers routinely harass workers who want to organize; (2) in 1998 the number of union members increased by 101,000; and (3) on average workers represented by unions now make 34 percent more than union-free workers. Perhaps most troubling of all are reports that clergy and civic leaders have announced coalitions with unions to promote improved living standards and a heightened "sense of community."

Worker Harassment

In reality, the decline of the union movement in the private sector continues unabated, and it has nothing to do with employers harassing workers who want to unionize. The principal reason for the unions' plight is that fewer and fewer workers are interested in organizing. In a recent paper for the National Bureau of Economic Research, Henry Farber and Alan Krueger concluded that the demand for unionization among private-sector workers has declined and continues to decline. Workers' bargaining power in employment contracts depends on the quantity and quality of alternative employment alternatives they have. Deregulation and globalization of competition have significantly increased those alternatives in both dimensions. In this environment most workers think the costs of unionization—union-imposed initiation fees, fines, assessments and dues, increased strife between workers and management, lost productivity, and lost working time due to strikes—far outweigh the benefits.

The unions' claim that employers prevent unionization by harassment of workers simply doesn't make sense. First, such practices are already illegal; and second, intense competition for qualified workers prevents employers from mistreating workers. In a 1998 study of the reasons for the continuing decline of unions in the private sector, the Employment Policy Foundation found that only 0.35 percent of the decline could be attributed to managerial opposition activities involving "unfair labor practices" as defined in the National Labor Relations Act. Astute private-sector employers are less likely to harass workers than to try to avoid the burdens of unionization by treating their employees well.

New Members

The 101,000 additional dues payers captured by unions in 1998 were all in the government sector. In 1998 government employee membership increased by 158,000 while private employee membership fell by 57,000. The unions' market share in government employment rose from 37.2 to 37.5 percent, while in the private sector it fell from 9.7 to 9.4 percent. In terms of market share, govern-

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ment employment has provided the unions with the only good news they have had since 1953.

This is easy to explain. Government employers don't resist unionization. In fact they encourage it. They and the unions sit on the same side of the bargaining table. Both seek to pick the pockets of taxpayers. The much ballyhooed February 23 win by the Service Employees International Union of the right to represent 74,000 home-care health workers in Los Angeles is a case in point. Those workers are employees of Los Angeles County, and any union-imposed increases in costs will simply be passed forward to the county's hapless taxpayers. In the competitive private sector, union-imposed cost increases cannot be passed forward because customers go elsewhere.

Union Wage Premium

The unions' claim of a 34 percent wage premium over union-free workers is overblown. According to the Bureau of Labor Statistics, in 1998 the median weekly wage paid to union-free private-sector workers was 79.6 percent of that paid to comparable workers who were represented by unions. That figure compares wages only. When total compensation packages are taken into account the union-free to union ratio is 85 percent. Moreover, union representation is not the sole source of the apparent union advantage. The BLS explains that "The difference reflects a variety of influences in addition to coverage by a collective bargaining agreement, including variations in the distributions of union members and nonunion employees by occupation, industry, firm size, or geographic region." In services, union-free wages were 90.1 percent of wages paid to workers represented by unions. In finance, insurance, and real estate the figure was 104.3 percent. Moreover, the ratio of union-free wages to union wages has been steadily increasing. This is another reason for the decline in the demand for unionization.

Statistics will usually overstate the effect of unions on wages. The comparison that should be made is wages paid union-represented workers versus wages those same workers would have received without union representation. Of course that comparison cannot be made. As a second best, wages paid to union-represented workers are compared to wages paid to comparable union-free workers. But this comparison always involves what economists call a spillover effect. Unions are able to get above-market wages for workers they represent only by restricting the supply of workers on those jobs. When the workers who are shut out of those jobs seek employment elsewhere, they spill into the union-free market, depressing wages.

Unions argue that statistics are just as likely to understate their effects on wages because of what they call the threat effect. Employers may raise union-free wages just to avoid unionization—a form of preventive labor relations. However, there is an upper limit to what an employer is willing to pay for labor. That limit, called a demand price, is based on labor productivity and the prices that customers are willing to pay for the goods and services produced with those labor services. In a competitive labor market any margins between demand prices and wages actually paid will be very slim. There will be little room for threat-based wage increases.

Justice?

Clergy and civic leaders ought to pause before they sign on to the unions' agenda. Unions cannot raise living standards for anyone except their members. The workers who end up with lower wages because of the spillover effect certainly will not have higher living standards.

Clergy and civic leaders also ought to consider the unions' well-documented history of getting their way through violence and intimidation before they blindly accept the notion that unions foster a "sense of community." Organizations whose survival depends on government-granted rights of coercion rather than their ability to engage others on the basis of voluntary exchange are bereft of merit. They deserve the scorn of everyone who seeks genuine justice for all rather than special privileges for a few. □